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

(incorporated in Hong Kong with limited liability)

Stock Code: 1266

GLOBAL OFFERING

Sole Sponsor and Sole Global Coordinator

J.P.Morgan

Joint Bookrunners and Joint Lead Managers

J.P.Morgan citi Kim Eng 建银国际 CCB International 農銀國際 ABC INTERNATIONAL

IMPORTANT: *If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.*

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

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GLOBAL OFFERING

Number of Offer Shares under the Global Offering	**:**	**500,000,000 Shares, comprising 400,000,000 New Shares to be offered by the Company and 100,000,000 Sale Shares to be offered by the Selling Shareholder (subject to the Over-allotment Option)**
Number of International Offer Shares	**:**	**450,000,000 Shares (subject to adjustment and the Over-allotment Option)**
Number of Hong Kong Offer Shares	**:**	**50,000,000 Shares (subject to adjustment)**
Maximum Offer Price	**:**	**HK$3.36 per Offer Share payable in full on application and subject to refund on final pricing, plus brokerage of 1%, Hong Kong Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.003%**
Nominal value	**:**	**HK$0.10 per Share**
Stock code	**:**	**1266**

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Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in "Appendix VII — Documents Delivered to the Registrar of Companies and Available for Inspection", has been registered by the Registrar of Companies in Hong Kong as required by section 38D of the Hong Kong Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any of the other documents referred to above.

See "Risk Factors" starting on page 38 in this prospectus for a discussion of certain risks that you should consider in connection with an investment in the Shares.

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us (for ourselves and on behalf of the Selling Shareholder) on the Price Determination Date which is expected to be on or before Friday, 17 February 2012 and, in any event, not later than Tuesday, 21 February 2012. The Offer Price will not be more than HK$3.36 and is currently expected not to be less than HK$2.65 per Offer Share. If, for any reason, the Offer Price is not agreed by Tuesday, 21 February 2012 between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may reduce the indicative Offer Price range and/or the number of Hong Kong Offer Shares stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In the case of such reduction, notice of the reduction in the indicative Offer Price range and/or the number of Hong Kong Offer Shares will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), and will be posted on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and to the website of our Company (www.xiwangsteel.com) as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. Further details are set out in the sections entitled "Structure of the Global Offering" starting on page 259 and "How to Apply for Hong Kong Offer Shares" starting on page 266 in this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Sole Global Coordinator (for itself and on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. (Hong Kong time) on the day that trading in the Offer Shares commences on the Hong Kong Stock Exchange. Such grounds are set out in the section entitled "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination" on page 251 of this prospectus.

The Offer Shares have not been and will not be registered under the US Securities Act and may not be offered or sold, pledged or transferred within the United States or to, or for the account or benefit of, US persons, except that the Offer Shares may be offered, sold or delivered to QIBs in reliance on Rule 144A or other exemption(s) from registration under the US Securities Act or outside the United States in reliance on Regulation S under the US Securities Act.

13 February 2012

Latest time to complete electronic applications under **HK eIPO White Form** service through the designated website **www.hkeipo.hk**[3]	11.30 a.m. on Thursday, 16 February 2012
Application lists open[2]	11:45 a.m. on Thursday, 16 February 2012
Latest time for lodging **WHITE** and **YELLOW** Application Forms	12:00 noon on Thursday, 16 February 2012
Latest time to complete payment of **HK eIPO White Form** applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Thursday, 16 February 2012
Latest time to give **electronic application instructions** to HKSCC[4]	12:00 noon on Thursday, 16 February 2012
Application lists close[2]	12:00 noon on Thursday, 16 February 2012
Expected Price Determination Date[5]	Friday, 17 February 2012
Announcement of — the Offer Price; — the level of applications in the Hong Kong Public Offering; — the level of indications of interest in the International Offering; and — the basis of allotment of the Hong Kong Offer Shares to be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on or before	Wednesday, 22 February 2012
Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels, including the websites of the Hong Kong Stock Exchange at **www.hkexnews.hk** and our Company at **www.xiwangsteel.com** (see paragraph headed "Publication of Results" in the section headed "How to Apply for Hong Kong Offer Shares") from	Wednesday, 22 February 2012
Results of allocations in the Hong Kong Public Offering will be available at **www.tricor.com.hk/ipo/result** with a "search by ID" function	Wednesday, 22 February 2012
Despatch of Share certificates or deposit of the Share certificates into CCASS on or before[6]	Wednesday, 22 February 2012
Despatch of **HK eIPO White Form** e-Auto Refund payment instructions/refund cheques on or before[6]	Wednesday, 22 February 2012
Dealings in the Shares on the Main Board to commence on	Thursday, 23 February 2012

1. All times and dates refer to Hong Kong local time and dates except otherwise stated. Details of the structure of the Global Offering, including its conditions, are set forth in the section headed "Structure of the Global Offering" in this prospectus.

2. If there is a "**black**" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 16 February 2012, the application lists will not open or close on that day. Further information is set forth in the section headed "How to Apply for Hong Kong Offer Shares — Effect of bad weather on the opening of the application lists" in this prospectus.

3. You will not be permitted to submit your application through the designated website at **www.hkeipo.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

4. Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed "How to Apply for Hong Kong Offer Shares — Applying by giving electronic application instructions to HKSCC" in this prospectus.

5. The Price Determination Date is expected to be on or around Friday, 17 February 2012 (Hong Kong time) and, in any event, not later than Tuesday, 21 February 2012 (Hong Kong time). If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and our Company by Tuesday, 21 February 2012, the Global Offering will not proceed and will lapse.

6. Applicants who apply for 1,000,000 Hong Kong Offer Shares or more and have indicated in the Application Forms that they wish to collect any refund cheque(s) (where applicable) and share certificates (where applicable) in person and have provided all information required by their Application Forms, may collect their refund cheques (where applicable) and share certificates (where applicable) in person from the Hong Kong Share Registrar, Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong between 9:00 a.m. and 1:00 p.m. on Wednesday, 22 February 2012 or on the date notified by the Company as the date of despatch of refund cheques/share certificates. Applicants being individuals who opt for collection in person must not authorise any other person to make their collection on their behalf. Applicants being corporations that opt for collection in person must attend by their authorised representatives bearing letters of authorisation from their corporations stamped with the corporation's chop. Both individuals and authorised representatives, as the case may be, must produce at the time of collection evidence of identity acceptable to the Hong Kong Share Registrar. Uncollected share certificates and refund cheques will be despatched by ordinary post at the applicants' own risk to the address specified in the relevant Application Forms shortly thereafter. Further information is set out in "How to Apply for Hong Kong Offer Shares".

Share certificates are expected to be issued on Wednesday, 22 February 2012 but will only become valid if the Global Offering becomes unconditional and neither of the Underwriting Agreements is terminated in accordance with its terms before 8:00 a.m. on the Listing Date, which is expected to be Thursday, 23 February 2012.

You should read carefully the sections entitled "Underwriting", "How to Apply for Hong Kong Offer Shares" and "Structure of the Global Offering" for details relating to the structure of the Global Offering, how to apply for Hong Kong Offer Shares and the expected timetable, including, among other things, conditions, effect of bad weather and the despatch of refund cheques and share certificates.

Prospective investors of the Offer Shares should note that the Underwriters are entitled to terminate their obligations under the Underwriting Agreements by notice in writing to our Company given by the Sole Global Coordinator (on behalf of the Underwriters), upon the occurrence of any of the events set forth in the section headed "Underwriting — Grounds for Termination" in this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the day trading in our Shares commences on the Hong Kong Stock Exchange.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information not given or representation not made in this prospectus must not be relied on by you as having been authorised by us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the Joint Lead Managers, any of the Underwriters, any of their respective directors, officers or representatives, or any other person or party involved in the Global Offering.

CONTENTS

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in our Shares.

There are risks associated with any investment. Some of the particular risks in investing in our Shares are set forth in the section entitled "Risk Factors" in this prospectus. You should read that section carefully before you decide to invest in our Shares.

OVERVIEW

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

As an EAF-based integrated steel manufacturer, we operate an integrated production process from steel smelting to secondary metallurgy, continuous casting and steel rolling. Since the commencement of our EAFs' operation, we have been able to manufacture both ordinary and special steel, which significantly reduced our reliance upon third parties for the supply of ordinary steel billets. Ordinary steel billets are raw material critical to our rolling production of our ordinary steel products. As of 30 September 2011, we had an aggregate designed annual EAFs smelting capacity of approximately 1.0 million tonnes, and an aggregate designed annual rolling capacity of 1.6 million tonnes. We have been focusing on enhancing the operating efficiency of our EAFs and rolling production lines through constant technical improvements. As a result, our EAFs and rolling lines were generally operated at more than 100% of their utilization rate as of the Latest Practicable Date, which reduced our unit production cost.

During the Track Record Period, we have derived the majority of our revenue from selling our steel products to the customers, primarily distributors, based in Shandong Province. We typically require most of our customers to pay full purchase prices for our products in advance. At the same time, we typically make prepayments to our suppliers for some of our raw materials, such as steel billets, molten iron and pig iron, which accounted for a majority of our cost of sales during the Track Record Period. During the Track Record Period, we were able to finance a portion of our working capital, including our prepayments to our suppliers, from the proceeds of advance payments made by our customers.

Our Products and Customers

Steel products are generally grouped into three main categories: carbon steel, alloy steel and stainless steel. In China, steel products are also commonly categorized into ordinary steel and special steel products. Special steel products comprise high-quality carbon steel, alloy steel and stainless steel products, while ordinary steel products comprise all other steel products. We manufacture and sell both ordinary steel and special steel products.

Ordinary steel. Our ordinary steel products, which include rebars and wire rods, are used primarily in construction and infrastructure projects. We began to produce ordinary steel products in 2004. Sales of ordinary steel products accounted for 97.8%, 99.0%, 91.5% and 57.3% of our revenue for the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, respectively. During the Track Record Period, we sold our ordinary steel products primarily in Shandong Province through our distributors. For the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, we sold steel products to 252, 293, 114 and 188 distributors, respectively, and the revenue attributable to the sales to distributors accounted for 99.3%, 97.6%, 87.7% and 88.7% of our total revenue, respectively. One of our largest customers, Xinboda Material Industry and Trade Co., Ltd. (新博大物資工貿有限公司), engages in the trading of construction materials and has long-term relationships with the leading steel manufacturers in Shandong Province. As of the Latest Practicable Date, this customer had purchased our products for more than three years.

Special steel. Our special steel products currently comprise quality carbon structural steel, alloy structural steel, bearing steel and steel welding wire products, which are used in a wide variety of applications, including production of seamless steel pipes, bearings, gearings, machines parts and steel welding wires. We began to produce steel billets after we commenced the operation of our first EAF in 2009, and began to produce and sell special steel products in June 2010. Sales of special steel products accounted for 7.8% and 41.7% of our revenue for the year ended 31 December 2010 and the nine months ended 30 September 2011, respectively. We began to diversify and broaden our customer base after we commenced the sales of our special steel products in June 2010. The majority of our special steel end-user customers are downstream steel pipe manufacturers. As we continue to increase our special steel production capacity and improve our product mix by producing more high quality and high value-added special steel products, we expect to increase our direct sales to certain end-user customers in the following industries: (1) accessory parts manufacturers in the machinery industry; (2) marine equipment and component manufacturers in the equipment industry; and (3) bearing manufacturers in the automobile industry.

While we historically focused our sales efforts on customers in Shandong Province, see "— Our Location," we have extended and plan to further extend our customer base to include customers located in our neighbouring provinces, such as Jiangsu Province, Hebei Province and Henan Province. For example, we have established a business relationship with Hebei Hengtai Ruixin Bearing Steel Manufacturing Co., Ltd. (河北恒泰瑞欣軸承製造有限公司), which is a leading manufacturer of bearing steel in China.

In line with the general practice in our industry, we typically require most of our customers, including distributors, to pay full purchase prices for our products in advance. During the Track Record Period, our Shandong Province based customers, who have long-term contracts with us, maintained sufficient balance in their advance payment accounts with us to cover their anticipated purchases for approximately seven days according to their business needs. Our customers based outside of Shandong Province, who have long-term contracts with us, representing a small portion of our customers, maintained sufficient balance in their advance payment accounts with us to cover approximately 30 days of their anticipated purchases. During the Track Record Period, we were able to fund a portion of our working capital needs through these advances from our customers. For the years ended 31 December 2008, 2009 and 2010, and the nine months ended 30 September 2011, 99.6%, 99.9%, 99.4% and 98.8% of our revenue was attributable to the sales to those customers who have made advance payment to us, respectively.

Raw Materials and Suppliers

The primary raw materials used in our EAFs to produce steel billets are steel scraps, molten iron and pig iron. We also add alloys to achieve the desired chemical composition for special steel billets. We purchase steel scraps, molten iron, pig iron and alloys from third party suppliers. The raw materials used by our rolling lines to produce steel products are ordinary steel and special steel billets. Prior to the installation and operation of our EAFs, we had purchased all of the steel billets from third party suppliers to meet our production requirements. When we started operation of our first EAF in 2009, we gained the ability to produce all special steel billets and a portion of ordinary steel billets internally, which reduced our reliance on third parties for the supply of steel billets. With the installation and operation of our second EAF in 2011, we were able to satisfy more than half of the steel billet requirements for the production of our finished steel products during the nine months ended 30 September 2011. For the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, we purchased 100%, 95.5%, 60.8% and 44.4% of our total steel billet requirements, respectively, from third party suppliers, and produced our remaining steel billet requirements in-house.

We have established strong business relationships with some of our raw material suppliers, including both steel billet and steel scrap suppliers. None of our suppliers were our customers, or vice versa, during the Track Record Period. We have procured steel scraps from China Recycling Development Company Limited (中國再生資源開發有限公司) since 2009. China Recycling is one of the largest state-owned steel scrap recycling companies in China with a facility located within 200 kilometers from our production facilities. In 2010, our procurement of steel scraps from China Recycling accounted for 36.3% of our total procurement cost of steel scraps. On 1 January 2011, we entered into a long-term steel scrap purchase agreement with China Recycling. For more information regarding this steel scrap purchase agreement, see "Our Business — Our Competitive Strengths — Strong capability in building customer and supplier relationships." In addition, one of our largest suppliers of steel billets, Zibo Hongda Steel Co., Ltd. (淄博宏達鋼鐵有限公司), which is a Shandong Province based company and controlled by Nanjinzhao Group Co., Ltd. (南金兆集團有限公司), a Top 500 China Enterprise recognized by China Enterprise Confederation in 2010, had supplied steel billets to us for more than six years as of the Latest Practicable Date.

In line with the general practice in our industry, we typically make prepayments to our suppliers for steel billets, molten iron and pig iron, which accounted for a majority of our cost of sales during the Track Record Period. The prepayments we made to our suppliers typically covered approximately 30 days of purchases during the Track Record Period. For the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, the purchases from our suppliers to whom we made prepayments accounted for 95.1%, 91.5%, 71.7% and 69.0% of our total purchases of raw materials in terms of value, respectively. For our purchases of steel scrap, coal and ancillary metals, we typically settle the purchase amounts in the form of account payables, including trade and bills payables. The bills payables are secured by the pledged deposits. The trade payables are non-interest bearing and are normally settled on 30-day terms.

Manufacturing Technologies and Facilities

We operate an integrated production process from steel smelting to secondary metallurgy, continuous casting and steel rolling. Our steel production facilities currently consist of (1) two EAFs with an aggregate designed annual steel billet production capacity of approximately 1.0 million tonnes, (2) two bar rolling lines with an aggregate designed annual rolling capacity of approximately 1.0 million tonnes, and (3) a wire rolling line with an aggregate designed annual rolling capacity of approximately 0.6 million tonnes. In November 2011, our large bar rolling line commenced operations, which refers to the time we started to feed raw materials into large bar rolling line and started to record production. We expect it to commence commercial production in February 2012. Our large bar rolling line will focus on manufacturing large bar special steel products, including bearing steel bars and gear steel bars, which are widely used in the manufacturing of machinery, equipment and automobiles. We expect that, with this large bar rolling line commencing commercial production, our aggregate designed annual rolling capacity is expected to reach approximately 2.1 million tonnes in February 2012.

Compared to the blast oxygen furnace, or BOF-based, steel production process, which processes iron ores into steel products, the EAF-based steel production process starts with steel scraps, molten iron and pig iron and turns them into steel billets in a flexible and efficient way, which are then processed into various steel products. EAFs represent a more advanced steel manufacturing technology in terms of production quality, production efficiency and energy savings. During the Track Record Period, our EAF smelting facility enabled us to produce steel billets in-house, offered us the flexibility to customize the chemical composition of special steel billets according to customers' needs, and created a market entry barrier due to the high capital investment and significant operational expertise required for the operation of the EAF. In June 2011, we were recognized by the Shan Dong Economic and Information Technology Committee in its 12th Five-Year Development Plan as one of the leading special steel producers in Shandong Province in respect of special steel products such as alloy structural steel and bearing steel.

Our Location

In order to reduce the transportation cost for the delivery of raw materials and finished steel products, steel producers normally locate their production facilities close to their raw material suppliers and customers, or within easy access to economical transportation facilities. Our location is one of our key competitive strengths. We operate our production facilities in Zouping County, Shandong Province with convenient access to railways, highways and waterways, which facilitate efficient transportation of raw materials to us from our suppliers and delivery of products from us to our customers. Historically, we have focused our sales efforts on customers based in Shandong Province as there is a strong demand for our products in this province. For example, one of the largest steel markets in Northern China is located in Tai'an in Shandong Province, approximately 120 kilometers from our production facilities. In addition, there is a large demand for steel billets in Liaocheng in Shandong Province, a well-known steel pipe production base located approximately 200 kilometers from our production facilities. In 2008, three of our top five customers were based in Shandong Province, and in 2009, 2010 and the nine months ended 30 September 2011, all of our top five customers were based in Shandong Province. As stated above, we have extended and plan to further extend our customer base to include customers located in our neighboring provinces, such as Jiangsu Province, Hebei Province and Henan Province.

We believe Shandong Province has an abundant and convenient supply of steel billets and steel scraps, the principal raw materials used in our steel manufacturing process. Due to the proximity to our suppliers, we were able to minimize our transportation costs during the Track Record Period. For example, Zibo Hongda Steel Co., Ltd. (淄博宏達鋼鐵有限公司), which is a Shandong Province based company and controlled by Nanjinzhao Group Co., Ltd. (南金兆集團有限公司), a Top 500 China Enterprise recognized by China Enterprise Confederation in 2010, had supplied steel billets to us for more than six years as of the Latest Practicable Date and was one of our largest suppliers during the Track

Record Period. In addition, we have expanded and plan to further expand our supplier base to include suppliers located in neighbouring provinces. For example, one of our three supplementary steel scrap purchasing centers is located in Cangzhou in Hebei Province, a neighbour province, which is within a range of 300 kilometers from our production facilities.

Recent Developments in the Steel Industries

The recent global economic turmoil attributable to the increasing global impact of the European debt crisis and the concerns over a slowing growth in demand for steel products in China's property construction and infrastructure sectors in connection with China's adoption of real estate tightening policy have weakened the demand for steel in general. As a result, the steel price in China has decreased since September 2011 under the aggregate impact of changes in national and international economic environment. In addition, seasonality has impact, to certain extent, on steel price as well. Industrial and construction activities typically slow down before the Chinese New Year, which will lead to a decrease in demand for steel products and in turn a decrease in steel prices. Because the 2012 Chinese New Year occurred in January 2012 which is earlier than usual years, the steel price near year end of 2011 was adversely affected. The steel price in China had decreased around 10% in September and October 2011. However, the decreasing trend of steel price has been slowed down in November and December 2011, showing signs of stabilisation.

Due to the weakened demand for steel and decreases in steel price in China, the sales volume and the average selling price of our steel products have decreased since September 2011. Such decrease has adversely affected our total revenue. However, as the decrease in the average selling price of our steel products has been accompanied by the decrease in our raw material costs, our gross profit margin have not been significantly affected in general.

Our Financial Performance

While the steel industry in China is very competitive, we achieved significant revenue and earnings growth and improved our profitability during the Track Record Period. For the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, we had revenue of RMB3,858.3 million, RMB3,776.9 million, RMB5,387.3 million and RMB6,350.4 million, respectively, representing a compound annual growth rate, or CAGR, of 18.2% from 2008 to 2010. Our gross profits for the same periods were RMB125.6 million, RMB246.5 million, RMB601.0 million and RMB1,004.2 million, respectively, representing a CAGR of 118.7% from 2008 to 2010. Our gross profit margin increased from 3.3% in 2008 to 6.5%, 11.2% and 15.8% in 2009, 2010 and the nine months ended 30 September 2011, respectively. Our net profits for the same periods were RMB79.7 million, RMB198.9 million, RMB492.8 million and RMB701.8 million, respectively, representing a CAGR of 148.6% from 2008 to 2010. Our net profit margin increased from 2.1% in 2008 to 5.3%, 9.1% and 11.1% in 2009, 2010 and the nine months ended 30 September 2011, respectively.

The table below sets forth the breakdown of our gross profit margin by products during the Track Record Period:

	Year ended 31 December						Nine months ended 30 September			
	2008		2009		2010		2010		2011	
	% of total revenues	Gross profit margin	% of total revenues	Gross profit margin	% of total revenues	Gross profit margin	% of total revenues	Gross profit margin	% of total revenues	Gross profit margin
Ordinary Steel										
Rebars	97.8%	2.8%	76.4%	4.7%	39.8%	5.1%	41.5%	5.3%	19.6%	9.2%
Wire rods	–	–	22.6%	11.3%	51.7%	15.9%	51.6%	14.6%	37.7%	13.2%
Weighted average gross profit margin	**97.8%**	**2.8%**	**99.0%**	**6.2%**	**91.5%**	**11.2%**	**93.1%**	**10.4%**	**57.3%**	**11.8%**
Special Steel										
Quality carbon steel	–	–	–	–	6.1%	5.2%	5.2%	0.1%	36.4%	19.7%
Alloy structural steel	–	–	–	–	1.1%	6.7%	0.5%	0.4%	1.8%	22.0%
Bearing steel	–	–	–	–	0.0%	0.6%	–	–	3.2%	24.9%
Steel welding wire	–	–	–	–	0.6%	19.4%	0.6%	18.2%	0.3%	20.3%
Weighted average gross profit margin	**–**	**–**	**–**	**–**	**7.8%**	**6.5%**	**6.3%**	**1.9%**	**41.7%**	**20.2%**
By-products	1.8%	19.7%	0.8%	40.0%	0.7%	50.4%	0.6%	65.4%	1.0%	62.2%
Metal construction services[1]	0.4%	30.7%	0.2%	45.3%	–	–	–	–	–	–
Total gross profit margin	**100.0%**	**3.3%**	**100.0%**	**6.5%**	**100.0%**	**11.2%**	**100.0%**	**10.2%**	**100.0%**	**15.8%**

(1) In June 2009, in anticipation of the proposed listing of the Group's steel manufacturing business, the Group decided to transfer any business not specifically relating to steel manufacturing out of Xiwang Metal. As a result, the Group disposed of the metal construction business of Xiwang Metal to Xiwang Steel Structure at a consideration of RMB26,050,000 on 26 June 2009.

Our gross profit margin was 3.3%, 6.5%, 11.2% and 15.8%, respectively, for the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011. The key factors affecting our gross profit margin during the Track Record Period were the change of our product mix and the improvement in our cost structure achieved through our in-house production of steel billets. By increasing the proportion of high value-added products in the product mix, we were able to improve our profit margin. For example, the percentage of revenue generated by high margin wire rods increased from 22.6% in 2009 to 51.7% in 2010. The percentage of revenue generated by high margin special steel products increased from 7.8% in 2010 to 41.7% in the nine months ended 30 September 2011. In addition, with the commencement of operations of our first EAF in 2009 and our second EAF in 2011, we were able to produce steel billets in-house, thus reducing our reliance on third parties for steel billet supply and improving the unit cost of our production.

In addition to the key factors mentioned above, we enjoyed a favorable electricity price under a five-year contract with Binzhou Electricity Supply Company which we entered into in February 2011. In addition, in the early stage of our development, we relied upon interest-free inter-company borrowings to fund our capital expenditures and working capitals. We also capitalised interest expenses under our ongoing construction projects. These factors also positively affected our net profit margin.

We have also achieved high return on equity during the Track Record Period as a result of the combination of our strong profitability and our small equity base. We had a small equity base because we substantially relied on inter-company loans to finance our capital investment in our early stage of development. Part of our shareholder loan was interest free, which helped us achieve a higher return on equity and lower gearing ratio, but to an insignificant degree. As of the Latest Practicable Date, we did not have any outstanding shareholder loans.

Our Directors are of the view that, in this competitive industry where the prices of steel products may decrease, our customers may reduce their demand for our products or our customers may refuse to make prepayments, any of which may adversely affect our profit margin. For more information, see "Risk Factors — Risks Relating to Our Business — Any decrease in the selling prices of our steel products may have a material adverse effect upon our profit margin" and "Risk Factors — Risks Relating to Our Business — Any change in the practice of advance payments from customers to us may adversely affect our financial position and our net profit margin." Given the intensity of competition in the steel industry, our Directors believe that we need to continue to maintain and improve our cost efficiency, and continue to identify and develop high gross margin products in order to maintain our profit margin.

The following table sets forth, with respect to each of our steel product types, the sales revenue, revenue as a percentage of our total steel revenue, actual sales volume and average selling price for the Track Record Period:

	Sales revenue (RMB in millions)	Percentage of total steel revenue (%)	Actual sales volume (tonnes)	Average selling price per tonne (RMB)
2008				
Ordinary Steel				
Rebars	3,773.7	100.0%	984,000	3,835.1
Wire rods	–	–	–	–
Total Ordinary Steel	3,773.7	100.0%	984,000	3,835.1
2009				
Ordinary Steel				
Rebars	2,886.9	77.2%	967,978	2,982.4
Wire rods	852.4	22.8%	260,709	3,269.5
Total Ordinary Steel	3,739.3	100.0%	1,228,687	3,043.3
2010				
Ordinary Steel				
Rebars	2,143.9	40.1%	623,443	3,438.8
Wire rods	2,784.6	52.1%	734,792	3,789.6
Subtotal Ordinary Steel	4,928.5	92.2%	1,358,235	3,628.6
Special Steel				
Quality carbon steel	324.9	6.1%	90,123	3,604.6
Alloy structural steel	60.4	1.1%	15,728	3,839.5
Bearing steel	1.9	0.0%	438	4,474.9
Steel welding wire	32.8	0.6%	8,452	3,884.1
Subtotal Special Steel	420.0	7.8%	114,741	3,660.7
Total Steel	5,348.5	100.0%	1,472,976	3,631.1
Nine months ended 30 September 2011				
Ordinary Steel				
Rebars	1,245.6	19.8%	301,294	4,134.1
Wire rods	2,396.3	38.1%	536,418	4,467.2
Subtotal Ordinary Steel	3,641.9	57.9%	837,712	4,347.4
Special Steel				
Quality carbon steel	2,308.2	36.7%	513,192	4,497.8
Alloy structural steel	116.7	1.9%	25,317	4,611.4
Bearing steel	206.1	3.3%	41,926	4,914.9
Steel welding wire	17.3	0.2%	3,881	4,449.9
Subtotal Special Steel	2,648.3	42.1%	584,316	4,532.3
Total Steel	6,290.2	100.0%	1,422,028	4,423.4

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths will enable us to sustain our rapid growth and continue to compete effectively:

- Largest designed EAF capacity in Shandong Province with a focus on special steel production
- Operational efficiency and competitive cost advantage
- Strong capability in building customer and supplier relationships
- Strategic location close to an abundant supply of raw materials and to end markets with high growth potential
- Experienced management and technical teams, and results-driven corporate culture

OUR BUSINESS STRATEGIES

Our goal is to maintain our position as one of the leading steel producers with integrated EAF-based production facilities and to meet the increasing demand for our products while maintaining and enhancing our profit margin. We intend to achieve these objectives by adopting the following strategies:

- Improve product mix by increasing production of high value-added special steel products
- Increase direct sales to end users
- Strengthen our market positioning in the Shandong Province market and enter additional markets in eastern China
- Increase training opportunities and attract industry specialists

SUMMARY HISTORICAL FINANCIAL INFORMATION

The following summary historical consolidated income statement for the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, and the summary historical consolidated balance sheet as of 31 December 2008, 2009 and 2010 and 30 September 2011 have been derived from the Accountants' Report issued by Ernst & Young, Certified Public Accountants, Hong Kong and included in Appendix I to this prospectus. You should read the summary historical financial information below in conjunction with our consolidated financial statements included in "Appendix I — Accountants' Report," which have been prepared in accordance with HKFRSs.

Summary Consolidated Income Statements

	Year ended 31 December						Nine months ended 30 September			
	2008		2009		2010		2010		2011	
							(unaudited)			
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except for percentages)									
Revenue	3,858,329	100.0%	3,776,933	100.0%	5,387,340	100.0%	3,836,630	100.0%	6,350,387	100.0%
Cost of sales	(3,732,691)	96.7%	(3,530,462)	93.5%	(4,786,344)	88.8%	(3,443,552)	89.8%	(5,346,154)	84.2%
Gross profit	125,638	3.3%	246,471	6.5%	600,996	11.2%	393,078	10.2%	1,004,233	15.8%
Other income and gains	23,782	0.6%	23,701	0.6%	45,066	0.8%	31,210	0.8%	11,144	0.2%
Selling and distribution costs	(2,844)	0.1%	(4,479)	0.1%	(4,307)	0.1%	(3,012)	0.1%	(4,183)	0.1%
Administrative expenses	(9,089)	0.2%	(13,753)	0.3%	(19,469)	0.4%	(14,019)	0.4%	(40,439)	0.6%
Other expenses	(927)	0.0%	(422)	0.0%	(1,053)	0.0%	(983)	0.0%	(230)	0.0%
Finance costs	(31,178)	0.8%	(13,342)	0.4%	(24,814)	0.5%	(16,704)	0.4%	(48,930)	0.8%
Profit before tax	105,382	2.8%	238,176	6.3%	596,419	11.0%	389,570	10.2%	921,595	14.5%
Income tax expense	(25,661)	0.7%	(39,282)	1.0%	(103,611)	1.9%	(65,025)	1.7%	(219,842)	3.5%
Profit for the year/period	79,721	2.1%	198,894	5.3%	492,808	9.1%	324,545	8.5%	701,753	11.1%
Attributable to:										
Owners of the parent	43,469	1.1%	194,096	5.1%	492,808	9.1%	324,545	8.5%	701,753	11.1%
Non-controlling interests	36,252	1.0%	4,798	0.2%	–	–	–	–	–	–
	79,721	2.1%	198,894	5.3%	492,808	9.1%	324,545	8.5%	701,753	11.1%

Summary Consolidated Statements of Financial Position

	As of 31 December			As of 30 September
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS				
Property, plant and equipment	594,531	1,563,151	2,138,647	3,080,690
Prepaid land lease payments	4,487	–	155,680	92,477
Deferred tax assets	1,001	–	–	1,797
Total non-current assets	600,019	1,563,151	2,294,327	3,174,964
CURRENT ASSETS				
Inventories	259,693	367,726	306,790	613,134
Trade and bills receivables	6,502	23,764	57,135	69,411
Prepayments, deposits and other receivables	252,383	306,142	192,650	569,317
Due from fellow subsidiaries	10,178	7,131	10,990	–
Pledged deposits	30,000	1,560,868	210,000	296,551
Cash and cash equivalents	49,480	25,600	72,528	38,596
Total current assets	608,236	2,291,231	850,093	1,587,009
CURRENT LIABILITIES				
Trade and bills payables	79,973	1,720,097	206,394	676,603
Receipts in advance, other payables and accruals	387,424	733,041	510,090	539,216
Interest-bearing bank and other borrowings	243,855	570,190	941,200	664,453
Due to the ultimate holding company	55,559	319,554	384,189	–
Due to the immediate holding company	108,380	120,626	132,332	–
Due to fellow subsidiaries	57,754	3,417	67,895	–
Due to a related party	42,553	21,980	–	–
Income tax payable	19,820	15,153	53,812	74,326
Total current liabilities	995,318	3,504,058	2,295,912	1,954,598
NET CURRENT LIABILITIES	(387,082)	(1,212,827)	(1,445,819)	(367,589)
TOTAL ASSETS LESS CURRENT LIABILITIES	212,937	350,324	848,508	2,807,375

	As of 31 December			As of 30 September
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT LIABILITIES				
Interest-bearing bank and other borrowings	35,180	–	–	1,100,000
Deferred tax liability	–	–	–	22,233
Total non-current liabilities	35,180	–	–	1,122,233
Net assets	177,757	350,324	848,508	1,685,142
EQUITY				
Equity attributable to owners of the Parent				
Share capital	–	–	–	133,392
Reserves	78,526	350,324	848,508	1,551,750
	78,526	350,324	848,508	1,685,142
Non-controlling interests	99,231	–	–	–
Total equity	177,757	350,324	848,508	1,685,142

PROFIT ESTIMATE FOR THE YEAR ENDED 31 DECEMBER 2011

Estimated consolidated profit attributable to owners of the parent for the year ended 31 December 2011(1) and (3)	Unaudited pro forma estimated earnings per Share based on estimated profit attributable to owners of the parent for the year ended 31 December 2011(2) and (3)
Not less than RMB907.9 million (approximately HK$1,111.8 million)	Not less than RMB0.45 (approximately HK$0.56)

Notes:

(1) The bases on which the above profit estimate has been prepared are set out in Appendix III to this prospectus. The Directors have prepared the estimated consolidated profit attributable to owners of the parent for the year ended 31 December 2011 based on the audited consolidated results of the Group for the nine months ended 30 September 2011 and the unaudited consolidated management accounts of the Group for three months ended 31 December 2011. The estimate has been prepared on the basis of accounting policies consistent in all material respects with those presently adopted by the Group as set out in note 4 of section II of the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

(2) The calculation of unaudited pro forma estimated earnings per Share is based on the estimated consolidated profit attributable to the owners of the parent for the year ended 31 December 2011 and on the basis that 2,000,000,000 Shares were in issue during the entire year and assuming that the Global Offering had been completed on 1 January 2011. The calculation takes no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option or any Shares which may be allotted and issued or repurchased by the Company pursuant to the Issue Mandate or the Repurchase Mandate as described in the section headed "Share Capital" in this prospectus.

(3) For the purpose of this unaudited pro forma estimated earnings per Share, the estimated consolidated profit attributable to owners of the parent for the year ended 31 December 2011 and the unaudited pro forma estimated earnings per Share are converted into Hong Kong dollars at an exchange rate of RMB0.8166 to HK$1.00. No representation is made that the Renminbi amounts have been, could have been or may be converted into Hong Kong dollars, or vice versa, at that rate.

OFFER STATISTICS

All statistics in this table are based on the assumptions that the Over-allotment Option is not exercised.

	Based on the minimum indicative Offer Price of HK$2.65 per Share	Based on the maximum indicative Offer Price of HK$3.36 per Share
Market capitalisation of the Shares(1)	HK$5,300.0 million	HK$6,720.0 million
Estimated price/earnings multiple on pro forma fully diluted basis(2)	4.7 times	6.0 times
Unaudited pro forma adjusted net tangible asset value per Share(3)	HK$1.53	HK$1.67

Notes:

(1) The calculation of market capitalisation of Shares is based on 2,000,000,000 Shares expected to be issued and outstanding immediately following the Global Offering.

(2) The calculation of the estimated price/earnings multiple on a pro forma fully diluted basis is based on each indicative Offer Price and the unaudited pro forma estimated earnings per Share for the year ended 31 December 2011 as set out in the section headed "Financial information — profit estimate for the year ended 31 December 2011 in this prospectus.

(3) The unaudited pro forma adjusted net tangible asset value per Share is arrived at after the adjustments referred to in the section entitled "Financial Information — Unaudited Pro Forma Adjusted Net Tangible Assets" on page 247 of this prospectus and on the basis of 2,000,000,000 Shares in issue at the respective indicative Offer Prices of HK$2.65 per Share and HK$3.36 per Share.

DIVIDEND AND DIVIDEND POLICY

Since our incorporation, we have never declared or paid any dividends. After the completion of the Global Offering, we intend to pay annual dividend to all of our post-Global Offering Shareholders in a total amount of approximately 30% of the net profit attributable to owners of the parent of the year. We expect our dividend for the year 2011, which will be our first dividend, to be declared and paid after the completion of the Global Offering in a total amount of approximately 30% of our net profit attributable to owners of the parent generated in 2011. We plan to declare our dividend for the year 2011 when we announce our 2011 results, subject to the approvals of our board of directors and shareholders and the requirements set forth below.

Subject to the Companies Ordinance, we may declare final dividends in any currency to be paid to our Shareholders in a general meeting, but no dividend shall be declared in excess of the amount recommended by our Board of Directors. In deciding whether to recommend the payment of a final dividend to our Shareholders, our Board of Directors will take into account factors including the following:

- general business conditions;
- our financial condition and results of operations;
- capital requirements;
- future prospects;
- statutory and regulatory restrictions;
- contractual obligations;
- our shareholders' interests; and
- other factors our board of directors may deem relevant.

Our Board of Directors may also from time to time pay to our Shareholders such interim dividends as appear to be justified by our profits.

We may only distribute dividends out of our after-tax profit only after we have made allowance for the following:

- recovery of accumulated losses, if any;
- allocations to the statutory surplus reserve equivalent to 10% of our after-tax profit, as determined under PRC GAAP or HKFRSs, whichever is lower, until the accumulative amount of such reserve reaches 50% of our registered capital; and
- allocations, if any, to a discretionary surplus reserve that are approved by the shareholders in a shareholders' meeting.

Any distributable after-tax profits that are not distributed as dividend in a given year are retained and available for distribution in subsequent years. However, ordinarily we will not pay any dividends in a year in which we do not have any distributable after-tax profit.

We are a holding company incorporated in Hong Kong. Our ability to pay dividends depends substantially on the payment of dividends to us by our subsidiaries in China. In particular, our PRC subsidiaries may pay dividends only out of their accumulated distributable profits, if any, determined in accordance with their articles of association, and the accounting standards and regulations in China. Moreover, pursuant to relevant PRC laws and regulations applicable to our subsidiaries in the PRC, our PRC subsidiaries are required to set aside a certain amount of their accumulated after-tax profit each year, if any, to fund statutory reserves. These reserves are not distributable as cash dividends. Furthermore, if any of our subsidiaries incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other payments to us.

LIQUIDITY AND CAPITAL RESOURCES

We intend to continue to rely on existing financial resources, including banking facilities and other internal resources, the estimated net proceeds of the Global Offering and cash generated from operations to fund our future business development. See "Future Plans and Use of Proceeds" in this prospectus. We may also increase our financial resources in line with our future development or for other purposes, when appropriate. Our ability to obtain adequate financing to satisfy the requirements of our business development or debt service may be limited by our financial condition and the results of business operations, as well as the liquidity of international and domestic financial markets. Failure to achieve timely extension or refinancing of our short-term debt may result in our inability to meet our obligations in connection with trade and bills payables, debt service and/or other liabilities when they become due and payable. See "Risk Factors — Risks Relating to Our Business — We had net current liabilities as of 31 December 2008, 2009 and 2010 and 30 September 2011, which exposes us to certain liquidity risks." in this prospectus.

As of 30 November 2011, our current assets amounted to RMB2,125.4 million and our current liabilities amounted to RMB2,517.6 million, respectively. As a result, we had net current liabilities in the amount of RMB392.2 million as of 30 November 2011. Our net current liabilities partly resulted from the significant investments we made to expand our production capacity. As of 30 November 2011, we had ten short-term borrowings outstanding, with principal amounts ranging from RMB20.0 million to RMB186.7 million and the interest rates within the range from 5.85% to 10.25% per annum. Seven of these short-term borrowings were in the form of letters of credit and were fully secured by pledged deposits, while the remaining three were chattel mortgages secured by steel billets and guaranteed by an independent third party, Qixing Group Co., Ltd. None of the ten short-term borrowings were borrowings from our related parties. We do not have any unutilised banking facilities as of 30 November 2011. Our Directors believe that after taking into account the estimated net proceeds from the Global Offering and the internally generated funds available to us, we have sufficient working capital for our working capital requirements for at least the next 12 months from the date of this prospectus. See "Financial Information — Working Capital" in this prospectus for more details about our working capital.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK$1,127.7 million after deducting the underwriting fees and expenses payable by us in the Global Offering, assuming no Over-allotment Option is exercised and an Offer Price of HK$3.01 per Share, being the mid-point of the indicative Offer Price range of HK$2.65 to HK$3.36 per Share in this prospectus.

We intend to use the net proceeds we will receive from this offering for the following purposes:

- approximately 75%, or approximately HK$845.8 million, will be used to construct an high-duty alloy pipe production line;

- approximately 20%, or approximately HK$225.5 million, will be used towards the unpaid construction costs incurred in connection with installing our second EAF and the remaining construction costs for installing our large bar rolling line; and

- approximately 5%, or approximately HK$56.4 million, will be used towards our working capital and other general corporate purposes.

In the event that the Over-allotment Option is exercised in full, we estimate that we will receive additional net proceeds from the sale of these additional Offer Shares of approximately HK$225.8 million, after deducting the underwriting commissions and other estimated offering expenses payable by us and assuming the same initial public Offer Price as stated above. We intend to apply the additional net proceeds to the above uses in the proportions stated above.

In the event that the Offer Price is set at the low end of the proposed Offer Price range and the Over-allotment Option is not exercised at all, our Company will receive net proceeds of approximately HK$989.0 million. Under such circumstances, the net proceeds allocated to remaining construction cost for installing our second EAF and large bar rolling line will be reduced and there will be no allocation for working capital. In the event that the Offer Price is set at the low-end of the proposed Offer Price range and the Over-allotment Option is exercised in full, our Company will receive net proceeds of approximately HK$1,187.8 million. The additional net proceeds of approximately HK$198.8 million (when compared to the net proceeds to our Company with the Offer Price being determined at the low end of the stated range and assuming the Over-allotment Option is not exercised) will also be used for the construction of the high-duty alloy pipe production line.

To the extent that the net proceeds of the Global Offering are not immediately used for the purposes described above, they will be placed on deposit with banks or other financial institutions or held in other treasury instruments.

IMPACT OF PRC REGULATIONS ON OUR BUSINESS AND EXPANSION PLAN

The Chinese government has adopted a series of tightening policies to curb overcapacities of operations in the steel industry with high energy consumption and high pollution. The Chinese government also promotes the transformation of the steel industry by eliminating outdated steel factories and encouraging the development of new low consumption and low emission production techniques for the manufacture of products with high technology and high added value. Such products include special steel to be used in bearings and gears, and steel with heat-, cold- and corrosion-resistant properties.

Our expansion plan focuses on the construction of a high-duty alloy pipe production line to produce special steel pipes with high corrosion and heat resistance. The expected capital expenditure for this line is approximately RMB1.06 billion and RMB0.18 billion for 2012 and 2013, respectively. We expect this line to commence commercial production by October 2013. The planned production capacity of this line is 500,000 tonnes. For 2012, we expect to incur capital expenditure in the amount of RMB99.5 million to pay off the balance of the construction cost of our large bar rolling line and an additional RMB173.1 million to pay off the balance of the construction cost of our second EAF. The expansion plan (i) is expected to be in line with the development direction and general guidance stated in the Development Policy for the Iron and Steel Industry (鋼鐵產業發展政策) and Blueprint for the Adjustment and Revitalization of the Steel Industry (鋼鐵產業調整和振興規劃), (ii) should meet the technical qualification and requirement specified in Rules and Qualifications for Production and Operation of Steel Industry (鋼鐵行業生產經營規範條件) and the Decision of the State Council on Reforming the Investment System (國務院關於投資體制改革的決定), (iii) is subject to the environmental impact assessment and obtaining the environmental protection authorities' letter of consent, and (iv) is subject to obtaining the planning permit and construction permit before the construction commences where construction of buildings is included in the project.

According to the Twelfth Five-Year Developing Plans for Steel Industry of Shandong Province (山東省鋼鐵工業"十二五"發展規劃) ("Twelfth Five-Year Developing Plans") dated 2 June 2011, our PRC subsidiaries are listed as key enterprises in manufacturing and developing the special steel. These key enterprises listed in the Twelfth Five-Year Developing Plans will be supported by the governments at all levels, especially with respect to the financing (such as issuing bonds and stocks listing), technology innovation and reorganisation. Our expansion plan is in accordance with the directions and goals of the steel industry polices outlined in the Twelfth Five-Year Developing Plans. Based on the above, our PRC legal advisers, Jingtian & Gongcheng, expect that there will be no legal impediments for us to obtain all the approvals to construct the alloy pipe production line. Based on the above and the expected net proceeds from the Global Offering, our Directors are of the view that this expansion plan is feasible and reasonable and were not aware of any operational, legal and regulatory constraints or changes in demand and supply as of the Latest Practicable Date which may affect the implementation of this expansion plan.

RISK FACTORS

There are certain risks relating to an investment in our Shares. These risks can be categorized into: (i) risks relating to our business; (ii) risks relating to our industry; (iii) risks relating to conducting operations in China; and (iv) risks relating to the Global Offering. A detailed discussion of the risk factors is set forth in the section entitled "Risk Factors."

Risks Relating to Our Business

- Our profit margin and other financial results may be adversely affected by increases in the price of raw materials.
- Any increase in our electricity cost and/or transportation cost may adversely affect our profit margin and other financial results.
- Any decrease in the selling prices of our steel products may have a material adverse effect upon our profit margin.
- We are a new entrant to the special steel industry, and our plan to diversify our product mix and to enlarge our presence in the special steel market might not be successful.
- Our net profit margin may be adversely affected if we cannot capitalise our interest expenses.
- We received interest-free inter-company borrowings from a related company during the Track Record Period, which contributed to our high net profit margin. We expect to borrow from banks rather than from related parties going forward, and our net profit margin may be adversely affected.
- Any change in the practice of advance payments from customers to us may adversely affect our financial position and our net profit margin.
- If we fail to improve our production capacity to increase our production volume and our operational efficiency to further optimise our unit production cost, we may not be able to maintain and/or increase our profit margin.
- We may have difficulty managing our future growth.
- We may encounter difficulties in implementing our expansion plans in new geographic regions outside of Shandong Province.
- The construction of our new bar production line to produce large steel bar products may face cost overruns and delays and is subject to regulatory approvals.
- We rely on the continued patronage of our principal customers for our recurring income, and therefore the loss of any of our principal customers could adversely affect our revenue.
- Our steel business may be materially and adversely affected by interruptions in the supply of electricity, transportation problems, equipment breakdowns, or natural disasters.

- We rely on our major suppliers.

- The steel industry is capital intensive and if we are not able to obtain the capital resources required to continue to upgrade our facilities, our results of operations and growth prospects may be adversely affected.

- We had net current liabilities as of 31 December 2008, 2009 and 2010 and 30 September 2011, which exposes us to certain liquidity risks.

- Any changes to certain tax treatments applicable to us may have a material adverse effect to our operating results.

- Our business operations are largely dependent on our key management and skilled personnel and could be affected by the loss of their services.

- Our Controlling Shareholders have substantial influence over our Company and their interests may not be aligned with interests of our other shareholders.

- Our continued growth depends on our research and development capabilities to continue develop new products and improve our production efficiency, and on the success of our new products.

- We rely on a single production site, and any interruptions in the operations of our facilities situated on this site would prevent us from producing steel and generating any revenue.

- We may be subject to liability in connection with industrial accidents at our production facilities.

- We may suffer certain losses not covered by insurance.

- Any failure to maintain an effective quality control system at our manufacturing facilities could have a material adverse effect to our business and operations.

- We are subject to product liability risks which could harm our reputation and materially and adversely affect our business, financial conditions and results of operations.

- We face certain risks relating to the real properties we lease.

Risks Relating to Our Industry

- Our operations in China require various governmental approvals, permits and licenses. Failure to acquire or maintain any of these approvals, permits or licenses may materially and adversely affect our operations.

- Our steel business is affected by the market conditions of the steel industry.

- Our business and prospects depend on the performance of the steel consuming industries in China.

- Intensified competition among domestic and foreign steel makers may saturate the market and adversely affect our profit margin and other financial results.

- Costs of environmental and workplace safety compliance may adversely affect our business operation and financial results.

- Demand for our steel products may decrease if substitutes for steel become available and more economical.

Risks Relating to Conducting Operations in China

- Interference by the PRC government in the development of China's steel industry may result in restrictions on or disruptions to our business.

- The economic, political and social conditions in China, as well as government policies, laws and regulations, could affect our business.

- The PRC legal system has inherent uncertainties that could limit the legal protections available to us and may cause difficulties in the enforcement of judgments in China.

- It may be difficult to effect service of process upon us or our Directors or executive officers who reside in China or to enforce any judgments obtained from non-PRC courts against them in China.

- Labour laws in China may adversely affect our results of operations.

- If we are unable to offset increased labour costs, our business could be materially and adversely affected and we cannot assure you that we will not experience strikes by our labour force in the future.

- PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds we receive from the Global Offering to make loans or additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

- We may be treated as a resident enterprise for PRC tax purposes following the effectiveness of the New Enterprise Income Tax Law on 1 January 2008, which may subject us to PRC income tax for any dividends we receive from our subsidiaries and withholding tax for any dividends payable by us to our foreign investors and gain on the sale of our Shares.

Risks Relating to the Global Offering

- There has been no prior public market for our Shares.
- The market price of our Shares may be volatile, which could result in substantial losses for investors purchasing Shares in the Global Offering.
- Purchasers of Shares will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.
- The Offer Price may not be indicative of prices that will prevail in the trading market, and the market price of Shares may be volatile.
- We may not be able to pay any dividends on our Shares.

In this prospectus, unless the context otherwise requires, the following expressions have the following meanings:

"AFIA International"	AFIA International Company, a company incorporated in The Kingdom of Saudi Arabia, an independent third party
"AFIA Xiwang International"	AFIA Xiwang International Limited (阿飛亞西王國際有限公司), a company established in Hong Kong with limited liability on 11 July 2006 and a former shareholder of Xiwang Metal. The Company was deregistered on 11 February 2011
"Application Form(s)"	**WHITE** application form(s), **YELLOW** application form(s) and **GREEN** application form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering
"Articles of Association" or "Articles"	the articles of association of our Company, adopted on 30 January 2012, and as amended from time to time, a summary of which is set out in Appendix V to this prospectus
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"BFTECB"	Binzhou Foreign Trade and Economic Cooperation Bureau (濱州市對外貿易經濟合作局), a local governmental entity which has been integrated into Binzhou Municipal Bureau of Commerce (濱州市商務局) since August 2010
"Binzhou Electricity Supply Company"	Shandong Electricity Group Binzhou Electricity Supply Company (山東電力集團濱州供電公司), a local state-owned power company
"Board" or "Board of Directors"	the board of Directors
"BSE"	Badische Stahl Engineering GmbH, based in Kehl, Germany, an engineering and consulting group that supplies technical equipment and engineering services to steel and rolling mills across the world. It is affiliated to Badische Stahlwerke GmbH
"BSW"	Badische Stahlwerke GmbH, based in Kehl, Germany
"Business Day"	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
"Capital Increase"	the increase in registered capital of Xiwang Metal from US$8 million to US$10 million, which increase was contributed by AFIA Xiwang International as to US$830,000 and by Xiwang Investment as to US$1,170,000 after the Xiwang Metal Transfer

“CCASS”	The Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant, who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“China” or “PRC”	the People’s Republic of China excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“China Recycling”	China Recycling Development Co., Ltd. (中國再生資源開發有限公司), a steel scrap recycling company in China and an independent third party
“CISA”	China Iron and Steel Association
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended and supplemented or otherwise modified from time to time
“Company” and “our Company”	Xiwang Special Steel Company Limited (西王特鋼有限公司), a company incorporated in Hong Kong with limited liability on 6 August 2007 and formerly known as Ocean Prosper International Limited (海盛國際有限公司)
“Connected Persons”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholders”	Xiwang Investment, Xiwang Holdings, Mr. Yong Wang and the Individual Investors
“CPA”	associate member of the Hong Kong Institute of Certified Public Accountants
“CRU”	CRU Strategies Limited, a specialised London-based market research provider and an independent third party
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the PRC securities markets
“Director(s)”	the director(s) of our Company as of the date of this prospectus

"EIT Law"	the PRC Enterprise Income Tax Law promulgated on 16 March 2007 which became effective on 1 January 2008
"FCCA"	fellow member of the Association of Chartered Certified Accountants
"First Six-month Period"	the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date falling six months after the Listing Date
"GDP"	gross domestic product
"Global Offering"	the Hong Kong Public Offering and the International Offering
"Group", "our Group", "we", "our" and "us"	our Company and its subsidiaries or, where the context so requires in respect of the period before our Company became the holding company of our present subsidiaries, the present subsidiaries of our Company and the businesses carried on by such subsidiaries or (as the case may be) their predecessors
"HK$" on "HK dollars" and "cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"HK eIPO White Form"	the application for Hong Kong Offer Shares to be issued in the applicant's own name by submitting applications online through the designated website of HK eIPO White Form at **www.hkeipo.hk**
"HK eIPO White Form Service Provider"	the HK eIPO White Form service provider designated by our Company, as specified on the designated website at **www.hkeipo.hk**
"HKFRSs"	The Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
"HKIAC"	Hong Kong International Arbitration Centre
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Offer Shares"	the 50,000,000 Shares being initially offered by our Company for subscription under the Hong Kong Public Offering at the Offer Price (subject to adjustment as described in the section headed ''Structure of the Global Offering'' in this prospectus)

"Hong Kong Public Offering"	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong for cash at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.003% and the Hong Kong Stock Exchange trading fee of 0.005%), on and subject to and in accordance with the terms and conditions described in this prospectus and in the Application Forms relating thereto
"Hong Kong Share Registrar"	Tricor Investor Services Limited (卓佳證券登記有限公司), located at 26th Floor Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Hong Kong Underwriters"	the underwriters of the Hong Kong Public Offering whose names are listed in the section entitled "Underwriting — Hong Kong Underwriters" in this prospectus
"Hong Kong Underwriting Agreement"	the underwriting agreement dated 10 February 2012 relating to the Hong Kong Public Offering entered into among us, the Controlling Shareholders and the Hong Kong Underwriters
"Indemnifiers"	each Controlling Shareholder
"Individual Investors"	the following 25 individuals: Hengfang Liu (劉恒芳), Lijiang Ning (寧立江), Minghe Wang (王明鶴), Gang Wang (王剛), Dong Wang (王棟), Liang Wang (王亮), Jianxin Wang (王建新), Fangming Wang (王方明), Tao Wang (王濤) (not the same individual as our Director Mr. Tao Wang), Chuanwu Wang (王傳武), Wei Li (李偉), Jiqiang Liu (劉紀強), Chenglong Wang (王呈龍), Huiyi Wang (王會議), Chengjun Wang (王呈軍), Benfang Han (韓本芳), Chuanyu Wang (王傳玉), Xiaoguang He (賀曉光), Mingshi Wang (王明詩), Yingchun Zhai (翟迎春), Yan Wang (王岩), Chenglin Wang (王呈林), Zhong Han (韓忠), Di Wang (王棣) and Xinhu Sun (孫新虎)
"International Offer Shares"	the 450,000,000 Shares being initially offered for subscription under the International Offering together, where relevant, with any additional Shares that may be issued pursuant to any exercise of the Over-allotment Option, subject to adjustment as described in the section headed "Structure of the Global Offering" in this prospectus

"International Offering"	the conditional placing of the International Offer Shares (a) in the United States to QIBs in reliance on Rule 144A under the U.S. Securities Act or another exemption from the registration requirement under the U.S. Securities Act, and (b) outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act, including to professional investors in Hong Kong, as further described in the section headed "Structure of the Global Offering" in this prospectus
"International Underwriters"	the underwriters, led by the Sole Global Coordinator, which are expected to enter into the International Underwriting Agreement to underwrite the International Offering
"International Underwriting Agreement"	the underwriting agreement relating to the International Offering and expected to be entered into among us, the Controlling Shareholders, the Selling Shareholder and the International Underwriters on or around 17 February 2012
"Joint Bookrunners"	J.P. Morgan Securities (Asia Pacific) Limited (for the Hong Kong Public Offering), J.P. Morgan Securities Ltd. (for the International Offering), Citigroup Global Markets Asia Limited, Kim Eng Securities (Hong Kong) Limited, CCB International Capital Limited and ABCI Securities Company Limited
"Joint Lead Managers"	J.P. Morgan Securities (Asia Pacific) Limited (for the Hong Kong Public Offering), J.P. Morgan Securities Ltd. (for the International Offering), Citigroup Global Markets Asia Limited, Kim Eng Securities (Hong Kong) Limited, CCB International Capital Limited and ABCI Securities Company Limited
"Latest Practicable Date"	9 February 2012, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
"Listing"	the listing of the Shares on the Main Board of the Hong Kong Stock Exchange
"Listing Committee"	the Listing Committee of the Hong Kong Stock Exchange
"Listing Date"	the date, expected to be on or about 23 February 2012, on which our Shares are first listed and from which dealings therein are permitted to take place on the Hong Kong Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Hong Kong Stock Exchange (as amended from time to time)
"Main Board"	the stock market operated by the Hong Kong Stock Exchange, which excludes the Growth Enterprise Market and the options market

"Memorandum and Articles" or "Memorandum and the Articles"	the memorandum of association and articles of association of our Company
"MIIT"	Ministry of Industry and Information Technology of the PRC
"New Shares"	the new Shares being offered for subscription at the Offer Price under the Global Offering
"NPC"	the National People's Congress (全國人民代表大會) of the PRC
"Offer Price"	the final price per Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.003% and the Hong Kong Stock Exchange trading fee of 0.005%) at which the Offer Shares are to be subscribed for and issued, or purchased and sold pursuant to the Global Offering, to be determined as further described in the section headed "Structure of the Global Offering — Pricing and Allocation" in this prospectus
"Offer Shares"	the Hong Kong Offer Shares and the International Offer Shares, with any additional Shares to be issued and sold pursuant to the exercise of the Over-allotment Option
"Over-allotment Option"	the option to be granted by our Company to the International Underwriters exercisable by the Stabilising Manager on behalf of the International Underwriters, pursuant to which our Company may be required to allot and issue up to 75,000,000 additional new Shares, representing 15% of the Shares initially available under the Global Offering at the Offer Price, to, among other things, cover over-allocations in the International Offering (if any) as further described in the section headed "Structure of the Global Offering" in this Prospectus; and/or the obligations of the Sole Global Coordinator to return securities borrowed under the Stock Borrowing Agreement
"PBOC"	the People's Bank of China (中國人民銀行), the central bank of the PRC
"PRC Company Law"	The Company Law of the PRC (中華人民共和國公司法), enacted by the Standing Committee of the NPC on 29 December 1993, which became effective on 1 July 1994, as amended, supplemented or otherwise modified from time to time. The latest revision was approved on 27 October 2005 and came into effect on 1 January 2006
"PRC GAAP"	the PRC Accounting Standards and Accounting Regulations for Business Enterprises and its supplementary regulations

"PRC Securities Law"	the Securities Law of the PRC (中華人民共和國證券法), enacted by the Standing Committee of the NPC on 29 December 1998 and which became effective on 1 July 1999, as amended and supplemented or otherwise modified from time to time. The latest revision was approved on 27 October 2005 and came into effect on 1 January 2006
"Premises"	the four parcels of land we are leasing from Xiwang Group at Handian Town, Zouping County, Shandong Province
"Price Determination Date"	the date, expected to be on or around 17 February 2012 but no later than 21 February 2012, on which the Offer Price is fixed for the purposes of the Global Offering
"prospectus"	this prospectus being issued in connection with the Hong Kong Public Offering
"QIBs"	"qualified institutional buyers" as defined in Rule 144A
"Regulation S"	Regulation S under the U.S. Securities Act
"Repurchase Mandate"	a general unconditional mandate to our Directors authorising them to exercise all the powers for and on behalf of our Company to repurchase our Shares pursuant to the written resolutions passed by our Shareholder on 30 January 2012
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"Rule 144A"	Rule 144A under the U.S. Securities Act
"SAFE"	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局), the PRC governmental agency responsible for matters relating to foreign exchange administrations
"Sale Shares"	the 100,000,000 Shares to be offered for sale by the Selling Shareholder at the Offer Price under the Global Offering
"Second Six-month Period"	the six-month period immediately following the First Six-month Period
"Selling Shareholder"	Xiwang Investment, which is selling the Sale Shares as part of the Global Offering
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended and, supplemented or otherwise modified, from time to time

"Shandong Xiwang Investment"	Shandong Xiwang Investment Company Limited (山東西王投資有限公司), a company established in the PRC with limited liability on 21 November 2003, which canceled its registration on 15 September 2010 and was a former shareholder of Xiwang Steel
"Shandong Xiwang Special Steel"	Shandong Xiwang Special Steel Company Limited (山東西王特鋼有限公司), a company established in the PRC with limited liability on 29 December 2007 and a subsidiary of the Company
"Shandong Xiwang Starch Co., Ltd."	Shandong Xiwang Starch Co., Ltd. (山東西王澱粉有限責任公司), a company established in the PRC with limited liability and an independent third party to the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Shares"	ordinary shares with a nominal value of HK$0.10 each in the capital of our Company, which are to be subscribed for and traded in Hong Kong dollars and listed on the Hong Kong Stock Exchange
"Shengtang Metal"	Zouping Shengtang Metal Material Trading Company Limited (鄒平盛唐金屬材料貿易有限公司), a company established in the PRC with limited liability on 14 August 2008, which changed its name into Zouping Tiandong Trading Company Limited (鄒平天東貿易有限公司) on 15 April 2011 and is an independent third party
"Shenzhen Stock Exchange"	the Shenzhen Stock Exchange (深圳證券交易所)
"SOE"	the state-owned enterprise, which represents a legal entity established or invested by a government to undertake commercial activities on behalf of an owner government
"Sole Global Coordinator"	J.P. Morgan Securities (Asia Pacific) Limited
"Sole Sponsor"	J.P. Morgan Securities (Asia Pacific) Limited
"Stabilising Manager"	J.P. Morgan Securities Ltd.
"State," "state," or "PRC government"	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof, or where the context requires, any of them
"Stock Borrowing Agreement"	the stock borrowing agreement to be entered into between Xiwang Investment and the Stabilising Manager on or around 17 February, 2012 pursuant to which Xiwang Investment will agree to lend up to 75,000,000 Shares to the Stabilising Manager on the terms set out therein

"subsidiary(ies)"	has the meaning ascribed to it in section 2 of the Companies Ordinance
"Track Record Period"	three years ended 31 December 2010 and the nine months ended 30 September 2011
"Underwriters"	collectively, the Hong Kong Underwriters and the International Underwriters
"Underwriting Agreements"	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
"United States" or "U.S."	the United States of America
"US$" or "U.S. dollars"	United States dollars, the lawful currency of the United States
"U.S. Exchange Act"	the United States Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder
"U.S. Securities Act"	the United States Securities Act of 1933, as amended
"Xiwang Biochem"	Shandong Xiwang Bio-Chem Technology Company Limited (山東西王生化科技有限公司), a company established in the PRC with limited liability on 14 December 2005 and a subsidiary of Xiwang Investment
"Xiwang Cereal & Oil"	Xiwang Cereal & Oil (Beijing) Company Limited (西王糧油(北京)有限公司), a company established in the PRC with limited liability on 12 November 2010 and a subsidiary of Xiwang Group
"Xiwang Food"	Shandong Xiwang Food Company Limited (山東西王食品有限公司), a company established in the PRC with limited liability on 12 April 2007 and a wholly owned subsidiary of Xiwang Foodstuffs and a subsidiary of Xiwang Group
"Xiwang Foodstuffs"	Xiwang Foodstuffs Co., Ltd (西王食品股份有限公司), a company established in the PRC with limited liability on 31 January 2011 whose shares are listed on the Main Board of the Shenzhen Stock Exchange (stock code: 639) and owned as to approximately 52.1% by Xiwang Group
"Xiwang Group"	Xiwang Group Company Limited (西王集團有限公司), a company established in the PRC with limited liability on 24 April 2001 held as at the Latest Practicable Date as to 64.36% by Mr. Yong Wang and as to 35.64% by the Individual Investors and formerly the ultimate parent of the Company

"Xiwang Holdings"	Xiwang Holdings Limited (西王控股有限公司), a company incorporated in the British Virgin Islands with limited liability on 9 February 2004 which was held as at the Latest Practicable Date as to 64.4% by Mr. Yong Wang and as to 35.6% by the Individual Investors, and was the sole shareholder of Xiwang Investment
"Xiwang Hong Kong"	Xiwang Hong Kong Company Limited (西王香港有限公司), a company incorporated in Hong Kong with limited liability on 1 April 2006 and a wholly owned subsidiary of Xiwang Group
"Xiwang Import & Export"	Shandong Xiwang Import & Export Trading Co., Ltd. (山東西王進出口貿易有限公司), a company established under the laws of the PRC on 21 November 2003 with limited liability and wholly owned by Xiwang Group as at the Latest Practicable Date. Xiwang Import & Export is a Connected Person
"Xiwang Investment"	Xiwang Investment Company Limited, a company established in the British Virgin Islands with limited liability on 27 January 2005, a wholly owned subsidiary of Xiwang Holdings and a shareholder of the Company
"Xiwang Metal"	Shandong Xiwang Metal Material Company Limited (山東西王金屬材料有限公司), a company established in the PRC under the former name Shandong Xiwang Savola Oils and Fats Company Limited (山東西王沙渥拉油脂有限責任公司) with limited liability on 20 April 2004 and a wholly owned subsidiary of the Company
"Xiwang Metal Transfer"	the transfer by each of the XM Investor of their respective equity interest in Xiwang Metal to AFIA Xiwang International in 2006
"Xiwang Properties"	Shandong Xiwang Properties Company Limited (山東西王置業有限公司), a company established in the PRC with limited liability on 16 October 2002 and an independent third party
"Xiwang Recycling Resources"	Shandong Xiwang Recycling Resources Company Limited (山東西王再生資源有限公司), a company established in the PRC with limited liability on 7 May 2009 and a wholly owned subsidiary of Shandong Xiwang Special Steel
"Xiwang Savola"	Shandong Xiwang Savola Oils and Fats Company Limited (山東西王沙渥拉油脂有限責任公司), a company established as a sino-foreign joint venture in the PRC on 20 April 2004 which was later known as Xiwang Metal and a wholly owned subsidiary of the Company

"Xiwang Steel"	Shandong Xiwang Steel Company Limited (山東西王鋼鐵有限公司), a company established in the PRC with limited liability on 31 December 2003 and a wholly owned subsidiary of Xiwang Metal
"Xiwang Steel Acquisition"	the transfer by Shandong Xiwang Investment, Mr. Yong Wang and the XS Investors of their respective equity interest in Xiwang Steel to Xiwang Metal in 2006
"Xiwang Steel Structure"	Shandong Xiwang Steel Structure Company Limited (山東西王鋼結構有限公司), a company established in the PRC with limited liability on 21 May 2003, an independent third party
"Xiwang Sugar"	Xiwang Sugar Holdings Company Limited (西王糖業控股有限公司), a company established in Bermuda with limited liability on 21 February 2005 whose shares are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 2088)
"Xiwang Sugar (Beijing) Company"	Xiwang Sugar (Beijing) Company Limited (西王糖業(北京)有限公司), a company established in the PRC with limited liability on 20 August 2010 and a subsidiary of Xiwang Investment
"XM Investors"	collectively, Shandong Xiwang Investment (which was wholly owned by Xiwang Group), Savola Edible Oil Company (沙渥拉食用油公司), Sumitomo Corporation (住友商事株式會社) and Sumitomo Corporation (China) Holding Ltd. (住友商事(中國)有限公司)
"XS Investors"	the eight individuals who hold the balance of the equity interest in Xiwang Steel not held by Shandong Xiwang Investment and Mr. Yong Wang, each holding 3% equity interest in Xiwang Steel prior to the Xiwang Steel Acquisition

The English names of the PRC nationals, enterprises, entities, departments, facilities, certificates, titles and the like are translations of their Chinese names and are included for identification purpose only. In the event of any inconsistency between the Chinese names and their English translations, the Chinese names shall prevail.

This glossary of technical terms contains explanations of certain technical terms used in this prospectus. As such, these terms and their meanings may not correspond to standard industry meanings or usage of these terms.

"alloy steel"	alloy steel is defined as any steel, excepting stainless, containing a minimum of any of the following alloying metals: 0.3% aluminium; 0.0008% boron; 0.3% chromium; 0.3% cobalt; 0.4% copper; 0.4% lead; 1.65% manganese; 0.08% molybdenum; 0.3% nickel; 0.06% niobium; 0.6% silicon; 0.05% titanium; 0.3% tungsten; 0.1% vanadium; 0.05% zirconium; or 0.1% of any other single element apart from carbon, oxygen, sulphur and oxygen
"alloy structural steel"	alloy steel used in structures
"bearing steel"	steel products designed to have mechanical properties suited for lowering friction levels in continuously moving machine parts. The main use of bearing steel products is in ball, roller, tapered and needle bearings. Bearing steels contain 0.5 to 2.0% chromium and 0.55 to 1.10% carbon. Manganese content is in the range of 0.10 to 1.15% and silicon content in the range of 0.15 to 2.0%. Typical bearing steel for small bearings might contain 1.00% carbon and 1.50% chromium, together with 0.25% silicon and 0.35% manganese. For larger bearings, the silicon and manganese content may be increased. For especially large bearings, the chromium content may be increased and molybdenum may be added
"billets"	semi-finished steel products cast from molten steel into steel of a round, square or rectangular cross-sectional shape
"blast furnace"	a type of metallurgical furnace used for smelting to produce industrial metals, generally iron ore
"blast oxygen furnace" or "BOF"	the BOF process requires as its principal iron input the hot metal from a blast furnace, which in turn consumes iron ore, metallurgical coke and injected fuels
"coiled steel"	a long strip of metal typically formed through a continuous bending operation
"continuous casting"	a process whereby molten steel is cast into billets using a continuous casting machine, which, when compared with alternative methods improves the yield rate by eliminating the wastage inherent in the latter process
"DRI"	direct reduced iron

"electric arc furnace" or "EAF"	a furnace in which steel scraps or scrap substitutes (molten iron or pig iron) are melted to produce molten steel
"gear steel"	steel products typically used in vehicle gear manufacturing
"HBI"	hot briquetted iron
"hot rolling"	the rolling of reheated semi-finished products, billets, into finished products (bars and wire rods)
"ingot casting"	the process where molten steel is cast into steel ingot
"ISO"	International Organization for Standardization
"kg"	kilogrammes, a measure of weight
"Kwh"	kilowatts per hour, a measurement of electricity consumption
"MPa"	megapascal, or one million pascals. A pascal is the pressure generated by a man of approximately 100 grams on a square metre under the earth's gravitational field
"pig iron"	iron used in combination with steel scraps to adjust the proportion of carbon for different products which can be stored over time
"quality carbon structural steel"	steel where the main alloying constituent is carbon
"rebar"	ordinary steel bar with cross-sectional diameters ranging from 12 to 32 mm which is commonly used as a tensioning device in reinforced concrete and reinforced masonry structures holding the concrete in compression
"rolling"	a continuous bending operation in which a long strip of metal (typically coiled steel) is passed through consecutive sets of rolls, or stands, each performing only an incremental part of the bend, until the desired cross-section profile is obtained
"secondary metallurgy"	any of various process used to make final adjustments to the chemistry of molten steel after it has been tapped from a steelmaking furnace
"steel scrap"	magnetically separated, steel scraps originating from recyclable metal from sources such as automobiles with average density of 50 to 70 pounds per cubic foot
"steel smelting"	the production process of molten steel

"steel welding wire"	steel wire products typically used in the welding electrode wires in the electrode conduit and liner of welding guns and welding torches
"tpy"	tonnes per year
"wire rod"	the smallest sections of ordinary steel that can be produced by hot rolling, produced in irregular coils, typically with cross-sectional diameters ranging from 5.5 to 12 mm

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. The forward-looking statements are contained principally in the sections headed "Summary", "Risk Factors", "Future Plans and Use of Proceeds", "Industry Overview", "Our Business", "Financial Information" and "Appendix III — Profit Estimate". These statements relate to events that involve known and unknown risks, uncertainties and other factors, including those listed under "Risk Factors", which may cause our actual results, performance or achievements to be materially different from performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our business strategies;
- our future business development, financial conditions and results of operations;
- our ability to successfully integrate acquired businesses;
- our ability to maintain and enhance our market position;
- our ability to develop new product lines and expand market share;
- performance of the steel and steel consuming industries;
- cost, fluctuations in the price and availability of our raw materials;
- our ability to increase manufacturing capacity and efficiency;
- the completion and commencement of operation of our planned production supplier base;
- our ability to maintain and expand our customer base and supplier base;
- our beliefs as to market demand of our products;
- our ability to maintain inventory levels that approximate the demand for our products;
- our ability to effectively protect our intellectual property and trade secrets and not infringe on the intellectual property and trade secrets of others;
- our ability to comply with environmental and safety regulations;
- our ability to obtain the necessary permits, licenses, registrations and certificates to carry on our business;
- our dividend policy;
- our capital expenditure plans;
- our profit estimate; and
- our property valuation set forth in "Appendix IV — Property Valuation" to this prospectus.

The words "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "seek", "will", "would" and the negative of these terms and other similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of uncertainties and factors, including but not limited to:

- any changes in the laws, rules and regulations of the central and local governments in the PRC and other relevant jurisdictions and the rules, regulations and policies of the relevant governmental authorities relating to all aspects of our business;

- general economic, market and business conditions in China;

- macroeconomic policies of the PRC Government;

- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices;

- the effects of competition in the steel industry on the demand for and price of our products;

- various business opportunities that we may pursue; and

- the risk factors discussed in this prospectus as well as other factors beyond our control.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set forth in this section as well as the risks and uncertainties discussed in the section headed "Risk Factors".

You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in our Shares. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. The trading price of our Shares could decline due to any of these risks, and you may lose all or part of your investment.

We believe that there are certain risks involved in our operations; many of these risks are beyond our control. These risks can be categorized as: (i) risks relating to our business; (ii) risks relating to our industry; (iii) risks relating to conducting operations in China; and (iv) risks relating to the Global Offering. Additional risks and uncertainties not presently known to us, or that we currently deem to be immaterial, could also harm our business, financial condition and operating results.

RISKS RELATING TO OUR BUSINESS

Our profit margin and other financial results may be adversely affected by increases in the price of raw materials.

Our major raw materials are steel billets, steel scraps and, to a lesser extent, pig iron and molten iron. See "Our Business — Raw Materials." For the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, we incurred costs of approximately RMB3,658.6 million, RMB3,433.1 million, RMB4,473.6 million and RMB4,983.1 million, respectively, for the purchase of raw materials, which accounted for 98.0%, 97.2%, 93.5% and 93.2% of our total cost of sales, respectively. The prices of our raw materials may fluctuate due to various factors, including, but not limited to, surges in demand as a result of the rapid development of the steel industry in China, and shortages in supply as a result of decrease in access to resources. Increases in raw material prices will increase our total cost of sales. Although steel manufacturers generally expect to mitigate the impact of increased raw material prices by increasing finished product prices, thereby transferring increased raw material costs to customers, there is no assurance that we will be able to increase the selling prices of our finished products to offset all or a significant portion of our increased raw material costs. Our ability to increase the selling prices of our finished products is subject to, among other things, the general market condition, such as the supply and demand of steel products, competition from other steel manufacturers and our customers' bargaining power. If we cannot fully transfer the increase in raw material prices to our customers, our profit margin will be adversely affected and we may not be able to maintain or improve our current profit margin and profitability.

Any increase in our electricity cost and/or transportation cost may adversely affect our profit margin and other financial results.

After the commencement of operations of our first EAF in 2009 and our second EAF in 2011, the amount of electricity we consume for our operations increased significantly. For the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, we consumed 61.5 million Kwh, 99.9 million Kwh, 369.3 million Kwh and 433.8 million Kwh of electricity, respectively, and our electricity costs were RMB22.7 million, RMB39.2 million, RMB180.7 million and RMB203.3 million, respectively, accounting for 0.6%, 1.1%, 3.8% and 3.8%, respectively, of our total cost of sales. Any future increase in our electricity price per unit may have an adverse effect to our profit margin. As a large-scale industrial electricity user in Binzhou City, Shandong Province, we currently obtain electricity supplied by State Grid (國家電網) at a reduced price of approximately RMB0.56 per Kwh pursuant to a five-year electricity supply contract with Binzhou Electricity Supply Company. See "Our Business — Production — Energy and Utilities." There is no assurance that the agreement will not be terminated early or that we will be able to renew the agreement upon expiration. If the supply contract is terminated early or not renewed upon its expiration, we may have to obtain electricity supply from other suppliers at a higher price per unit, which may increase our electricity cost as a percentage of our total cost of sales. In addition, the electricity price per unit set forth in the electricity agreement may be subject to further adjustments made by the competent price administration authority. Any increase in our electricity cost will adversely affect our profit margin, thereby reducing our ability to maintain or improve our current profit margin and our profitability.

In addition, any increase in our transportation cost may also adversely affect our profit margin. For the three years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, we incurred transportation costs of approximately RMB0.4 million, RMB1.1 million, RMB0.6 million and RMB0.3 million, respectively, representing 0.01%, 0.03%, 0.01% and 0.004% of our total revenue. However, our transportation cost may increase in the future in connection with our business expansion. Any increase in our transportation cost will have adverse effect to our profit margin.

Any decrease in the selling prices of our steel products may have a material adverse effect upon our profit margin.

Our revenue, generally derived from sales of our steel products, was RMB3,773.7 million, RMB3,739.3 million, RMB5,348.5 million and RMB6,290.2 million, respectively, for the years ended 31 December 2008, 2009 and 2010, and the nine months ended 30 September 2011. The change in our revenue, from time to time, may be caused by fluctuations of the selling prices of our steel products. The fluctuations of the steel product prices may be attributable to various factors, including, but not limited to, changes in raw material prices, changes in supply and demand in China's steel market and general market condition. For example, the weighted average selling prices of our steel products decreased from RMB3,835 per tonne in 2008 to RMB3,043 per tonne in 2009 primarily due to the global financial crisis. See "Financial Information — Factors Affecting Our Financial Condition and Results of Operations — Factors Affecting Our Gross Profit Margin — Fluctuations in the average selling prices of our products."

Although we expect that decreases in the selling prices of our steel products may be accompanied by decreases in our raw material costs, there is no assurance that such decreases in our raw material costs will occur, or if they occur, will be proportionate to decreases, if any, in the selling prices of our steel products. As a result, decreases in the selling prices of our finished products may adversely affect our profit margin.

We are a new entrant to the special steel industry, and our plan to diversify our product mix and to enlarge our presence in the special steel market might not be successful.

Before we entered into the special steel market in 2010, we produced only ordinary steel products for the construction industry. To develop our competitive position in the special steel market, we need to compete with existing special steel producers, some of whom have been in the market for many years with established brand awareness and may have greater resources than us.

In addition, we need to develop new customers for our special steel products as we continue diversifying our product mix. However, while we seek to increase the proportion of special steel distributors and broaden our end-user customer base to increase the proportion of direct sales to end users of our special steel products, there is no assurance that we will be able to achieve these goals. We would also need to further train our existing employees and hire new employees in order to produce new special steel products, which would increase our production cost. Furthermore, even if we successfully launch new special steel products, there is no assurance that our new products will receive positive customer feedback or that our sales volume will meet expectations.

Moreover, the prospect of our special steel business relies upon our ability to develop new products to meet our existing and future customer demands. If we experience problems when launching our new products, we may not be able to meet the demands of our customers. In addition, it has been our strategies to sustain and improve our profit margin through improving our product mix. If we fail to continue to improve our product mix by increasing the proportion of high value added products, such as special steel products, our profit margin and financial results may be adversely affected.

We entered into the special steel market in June 2010. Although we have recorded significant revenue from the sale of special steel products since then, we do not have a well established track record for special steel products as of 30 September, 2011. There is no assurance that our revenue derived from special steel products will continue to grow at a fast pace, if at all.

Our net profit margin may be adversely affected if we cannot capitalise our interest expenses.

For the years ended 31 December 2008, 2009 and 2010, and the nine months ended 30 September 2011, our total interest expense was RMB41.0 million, RMB40.7 million, RMB42.2 million and 80.2 million, respectively, of which RMB9.8 million, RMB27.3 million, RMB17.4 million and RMB31.2 million, respectively, were capitalised as part of the construction costs of our long-term assets. As these capitalised borrowing costs were not expensed in the periods in which they were incurred, they were excluded from the calculation of our net profit for the relevant periods. After the completion of the construction of the underlying assets, the interest expense of the outstanding borrowings can no longer be capitalised. Therefore, if we are not able to continue to capitalise these interest expenses due to the completion of the underlying construction, our finance costs will increase, which will adversely affect our net profits and net profit margin.

In addition to our current on-going constructions, we expect to continue to expand our production facilities through construction and/or acquisition, some of which may be financed by long-term bank borrowings. If we cannot capitalise the relevant costs of the outstanding borrowings after the completion of the underlying construction or acquisition, our finance cost will increase and our net profit margin will be adversely affected.

We received interest-free inter-company borrowings from a related company during the Track Record Period, which contributed to our high net profit margin. We expect to borrow from banks rather than from related parties going forward, and our net profit margin may be adversely affected.

We received interest-free inter-company borrowings from Xiwang Investment during the Track Record Period, the outstanding amounts of which were RMB108.4 million, RMB120.6 million, RMB132.3 million and zero, respectively, as of 31 December 2008, 2009 and 2010, and 30 September 2011. If we borrowed these amounts from banks at the respective effective interest rates, our finance costs would increase to approximately RMB8.9 million, RMB5.9 million, RMB9.8 million and RMB8.9 million for the same respective periods, and our net profit margin would have been lower. As of 30 September 2011, we had paid off all of these interest-free inter-company borrowings, and going forward, we expect to borrow from banks rather than from related companies. Therefore, our finance costs may increase and our net profit margin may be adversely affected.

Any change in the practice of advance payments from customers to us may adversely affect our financial position and our net profit margin.

During the Track Record Period, we required most of our customers to pay in advance the full purchase prices for our products in the form of either cash or bank acceptance notes. Advance payments from customers contributed to our cash flow and reduced our need to obtain bank borrowings for working capital requirements, which reduced our finance costs and had a positive impact on our net profit margin. If industry practice shifts away from customers making advance payments, however, we may need to fund our working capital needs with bank or other borrowings, which will increase our finance costs and adversely affect our net profit margin going forward.

If we fail to improve our production capacity to increase our production volume and our operational efficiency to further optimise our unit production cost, we may not be able to maintain and/or increase our profit margin.

During the Track Record Period, leveraging our increased production capacity, we achieved increases in our production volume, which contributed to the increases in our sales. If we fail to increase our production volume, our sales, profit margin and other financial results may be adversely affected.

In addition, greater operational efficiency can improve our gross margin by decreasing production costs relative to output. Our operational efficiency is reflected by the capacity utilisation rates of our production lines. If our utilisation rates increase, we can allocate our fixed costs over greater units of output, which generally decreases our average costs per unit of output. As a result, changes in our production capacity utilisation rates may have material effect to our profit margin. Utilisation rate may be temporarily affected during the period of technical adjustments or upgrades to our production lines for the purpose of achieving better production integration. We cannot assure you that we can always maintain high utilisation rates for all our product lines or continue to increase our utilisation rates to further decrease our average costs per unit of output. If we fail to maintain or improve our operational efficiency, our profit margin and other financial results may be adversely affected.

We may have difficulty managing our future growth.

Since we commenced operations in December 2003, we have expanded our business rapidly by increasing our production capacity and expanding our product portfolio to produce more high value-added products. We intend to continue such expansion. See "Our Business — Our Business Strategies." Such expansion and the need to integrate new operations arising from the expansion may place a significant strain on our managerial, operational and possibly financial resources. We will need to manage our growth effectively, which will entail managing our costs and implementing adequate control and accounting and reporting systems in a timely manner. Our failure to manage our growth or integrate any new operations with our existing operations, could adversely affect our ability to successfully pursue our business strategy and reduce our profitability.

In addition, we have managed to improve our unit cost of production by producing a portion of our steel billets in-house after we commenced operations of the first EAF in 2009 and the second EAF in 2011. Although we aim to continue increasing the proportion of steel billets produced in-house, there is no assurance that we can achieve such increase. With the expansion of our business operations, if the smelting capacity of our EAFs does not grow in line with the growth of our rolling capacity, we may have to purchase a greater volume of steel billets from third parties to meet the steel billet requirement of our rolling production lines. Any increase in proportion of the steel billets that we purchase from third parties would increase our cost of sales and adversely affect our gross profit margin, even as our sales and revenue increase.

We may encounter difficulties in implementing our expansion plans in new geographic regions outside of Shandong Province.

The majority of our customers during the Track Record Period were located in Shandong Province. We intend to expand the geographical coverage of our sales network for special steel products outside of Shandong Province into neighbouring provinces such as Jiangsu Province, Henan Province and Anhui Province. See "Our Business — Our Business Strategies — Strengthen our market positioning in the Shandong Province market and enter additional markets in eastern China." The successful implementation of our expansion plans may be influenced by various factors, including the availability of sufficient resources such as funding and staff, suitable customers, competition from local competitors and the negotiation of acceptable terms for agreements with customers. We may not be able to accurately assess or successfully meet the demands of our existing and potential customers in the new geographic regions we seek to enter, and we may incur higher costs in administration, logistics and marketing as we expand our sales network to other areas in China.

The construction of our new bar production line to produce large steel bar products may face cost overruns and delays and is subject to regulatory approvals.

We are constructing a production line for manufacturing large bars of special steel. As with any large construction and expansion projects, the construction of the new production line may be adversely affected by delays and cost overruns. Factors which may contribute to delays and cost overruns include availability and price changes of key equipment or materials, cost and availability of financing, risks relating to construction, changes in safety and/or environmental requirements, changes in general economic conditions in China, adverse weather conditions, natural disasters, accidents and unforeseen circumstances and problems. We did not apply in a timely manner for inspection on design safety facility before we commenced the construction of our large bar rolling line. As a result, we are not in compliance with the applicable provisions in the Measures on Management and Supervision of Safety Facilities in Industrial Manufacturing Projects in Shandong Province (山東省工業生產建設項目安全設施監督管理辦法), may therefore be ordered by governments to take remedial measures within a designated time limit and may be subject to a penalty in the range of RMB10,000 to RMB30,000. As of the Latest Practicable Date, we had passed the review and obtained the approval from the relevant authority with respect to the safety facility design for our large bar rolling line and had not been required to pay any monetary penalty. However, there is no assurance that such monetary penalty will not be imposed on us in the future. In addition, the large bar rolling line commenced operations on a trial basis in November 2011 and we are required to obtain the Approval Opinion of Check and Acceptance on Safety Facilities Completion (安全設施竣工驗收審批) and the Approval Opinion of Check and Acceptance on the Environmental Protection Facilities Completion (環境保護設施竣工審批). We cannot assure you that we will be able to obtain such approvals. Failure to obtain such approvals may subject us to monetary penalty and we may also be ordered to suspend operations of this production line under the applicable PRC laws and regulations. See "Our Business — Production — Production Facilities." Any significant delay in the construction of this production line or a material increase in the costs would adversely affect the competitive advantage that we hope to gain by expanding into the special steel market.

In light of the length of time required to complete the new production line, the market dynamics for special steel may change. If demand and prices for special steel are lower than we currently expect, our future profitability may be adversely affected.

We rely on the continued patronage of our principal customers for our recurring income, and therefore the loss of any of our principal customers could adversely affect our revenue.

Our top ten customers accounted for 45.2% 54.8% and 53.8% of our total revenue in 2009, 2010 and for the nine months ended 30 September 2011, respectively. Failure to secure continued patronage from our principal customers in the future would adversely affect our revenue and operating results.

As of 30 September 2011, three of our top five customers had maintained a business relationship with us for less than three years. Our rapid growth and capacity expansion in recent years required us to develop new customers to absorb our increased output. Our customers' ability and willingness to purchase our products, however, often depend on the operating results of their businesses which are beyond our control. Many of our customers are distributors who sell our products to downstream steel producers, real estate developers and construction contractors. Any restructuring or change in the regulatory environment, whether by the PRC Government or otherwise, affecting the steel industry or the relevant markets where our customers operate their business, including real estate and infrastructure, could affect the operations of most or all of our principal customers. If we are unable to maintain business relationships with a significant number of our new customers, or if a number of our customers were to encounter difficulties in their operations, as a result of unfavorable market conditions, any restructuring of their industry sector pursuant to government policies or otherwise, our revenue would be adversely affected.

Although we have entered into long-term supply contracts with some of our principal customers, the price of our products for each of our customers' orders under these contracts will be determined in the future depending on the then-prevailing market price and is subject to negotiation with our customers.

Our steel business may be materially and adversely affected by interruptions in the supply of electricity, transportation problems, equipment breakdowns, or natural disasters.

Steel production requires a stable supply of electricity. In recent years, many regions of China, particularly eastern China, have experienced power shortages from time to time. We cannot assure you that we will not encounter any significant interruption or shortage in the supply of electricity in the future. Any interruption in the supply of electricity may prevent our production facilities from operating at their full capacities and may have an adverse impact on our steel business.

Raw materials and finished steel products are delivered via railways, highways and waterways. Transportation problems could interrupt our production processes from time to time. Our dependence upon trucking and shipping companies impacts our ability to procure raw materials from our suppliers and deliver products to our customers. For each of the three years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, we incurred transportation costs of approximately RMB0.4 million, RMB1.1 million, RMB0.6 million and RMB0.3 million, respectively, representing 0.01%, 0.03%, 0.01% and 0.004% of our total revenue. Disruption of service due to weather-related problems, strikes, lockouts, bottlenecks and other events could temporarily impair our ability to operate our steel business, resulting in decreased production volume or shipments. Decreased performance levels over long periods of time could cause our customers to look elsewhere for alternative steel producers, negatively affecting our revenues and profitability. We cannot assure you that problems or interruptions in the transportation of raw materials and finished products will not occur in the future.

Successful operation of our steel business also depends on the performance of our manufacturing equipment and production lines. Malfunctions or breakdowns in our facilities may occur. Closure of a production site, prolonged suspension of any substantial part of our production processes, damage to our production facilities arising from unforeseeable events and unexpected or natural disasters, such as earthquakes, fires or floods, or other similar events may decrease production volume and adversely affect our revenue.

We rely on our major suppliers.

Although we have commenced in-house production of steel billets with the implementation of our EAF in June 2010, we still rely on key suppliers for supply of ordinary steel billets to meet our production requirement. Steel scraps, molten iron, pig iron and steel billets are the raw materials for our steel products. We purchase steel scraps from various suppliers. Although we have a steel scrap purchase agreement with China Recycling, our major steel scrap supplier and strategic partner pursuant to a letter of intent, we do not own or control any source of steel scraps or molten iron. If we do not have sufficient supply of steel scraps or if China Recycling fails to fulfill its supply requirement, we may not be able to acquire sufficient steel scraps to produce steel products, and our business operation may be adversely affected. For the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, purchases from our five largest suppliers represented approximately 94.5%, 84.5%, 53.5% and 59.9%, respectively, of our total purchases of raw materials. During the same period, purchases from our largest supplier accounted for approximately 81.9%, 49.8%, 23.2% and 17.2%, respectively, of our total purchases of raw materials. All of our five largest suppliers were independent third parties during the Track Record Period.

Our business with our suppliers has been, and we expect it will continue to be, conducted on the basis of actual purchase orders placed by us. If any of our major suppliers fails to meet our purchase orders or terminates their business relationship with us and we are unable to source raw materials from alternative suppliers on a timely basis and on acceptable terms, our business, financial condition and results of operations could be materially and adversely affected. In addition, although we intend to expand our supplier network in connection with our planned new production facilities, we cannot assure you that we will be successful in expanding our supplier network.

If we are unable to obtain sufficient quantities of raw materials, or if there are increases in the price of any of our major raw materials, we may be unable to maintain our production schedules and meet our commitments to our customers, or we may incur significant additional costs which we may be unable to pass along to our customers. Any such developments could have a material adverse effect to our business, financial condition and results of operations.

The steel industry is capital intensive and if we are not able to obtain the capital resources required to continue to upgrade our facilities, our results of operations and growth prospects may be adversely affected.

The production of steel is capital intensive. We require additional capital resources to pursue our business strategy of growing our business and to remain competitive by responding timely to technological changes or market demand. In particular, we require significant capital to build, maintain, operate and improve our production facilities and processes, and to conduct research and development of new special steel products which requires a considerable period of time before we can generate any revenue or investment returns, if at all. We expect to meet our funding needs through cash flow from operations, bank borrowings and other external financing sources. Our ability to obtain additional financing will depend on a number of factors, including China's economic condition, prevailing conditions in capital markets, regulatory requirements, our financial condition, results of operations and cash flows, and costs of financing including changes in interest rates. If we cannot obtain sufficient funding on acceptable terms or receive necessary approvals from the regulatory authorities, we may not be able to successfully implement our business strategy, and our prospects could be materially adversely affected.

We had net current liabilities as of 31 December 2008, 2009 and 2010 and 30 September 2011, which exposes us to certain liquidity risks.

As of 31 December 2008, 2009 and 2010 and 30 September 2011, we had net current liabilities of RMB387.1 million, RMB1,212.8 million, RMB1,445.8 million and RMB367.6 million, respectively. We cannot assure you that we will not have net current liabilities in the future. Our net current liabilities expose us to certain liquidity risks. Our future liquidity, the payment of trade and bills payables, the payment of other payables and accruals, and the repayment of outstanding debt obligations as and when they become due will primarily depend on our ability to maintain adequate cash inflows from operating activities and adequate external financing. Our operating cash flows could be adversely affected by numerous factors, including increased market competition, decreased demand for our products and higher raw material prices. Servicing our debt and other fixed payment obligations will further divert our cash flow from our operations and planned capital expenditures. Furthermore, the interest cost of such obligations could undermine our future profitability.

Any changes to certain tax treatments applicable to us may have a material adverse effect to our operating results.

We received value added tax refunds as an incentive by the government to encourage renewable resources recycling. These tax refunds were reported as subsidy income, a component of other income, in our financial statements, and amounted to RMB3.1 million in 2009 and RMB39.7 million in 2010. We do not expect to receive any such subsidy income in 2011, and cannot assure you that we will obtain such tax benefits in the future. In addition, any decision by the relevant China authorities to reduce or revoke such tax benefits may adversely affect our financial position.

Our business operations are largely dependent on our key management and skilled personnel and could be affected by the loss of their services.

Our executive directors and senior management have been the key driver of our business strategy and have been fundamental to our achievements to date. Our success is, to a significant extent, attributable to the contribution and continuous service of our key management as stated in the section headed "Directors, senior management and employees." Each executive Director has entered into a service contract with us. However, we cannot assure you that we will be able to retain member(s) of the management team or recruit competent personnel for our further development. If any of the member(s) of the management team cease to be involved in our operations, and we are unable to recruit replacement personnel, our operations may be adversely affected.

We also depend on the continued service of our skilled employees, particularly our technical and engineering personnel. Our business could suffer if we lose the services of any of these personnel and cannot adequately replace them. In addition, our business and production expansion are dependent on our ability to continue to recruit qualified skilled employees. We cannot assure you that we will be able to recruit a sufficient number of employees with the qualification and skills to meet the need from our business expansion in both production and sales and marketing.

Our Controlling Shareholders have substantial influence over our Company and their interests may not be aligned with interests of our other shareholders.

Our Controlling Shareholders will control substantial a majority of our outstanding Shares immediately after the completion of the Global Offering and assuming the Over-allotment Option is not exercised. As such, our Controlling Shareholders have substantial influence over our business, including decisions regarding mergers, consolidations and the sale of all or substantially all of our assets and other significant corporate actions. This concentration of ownership may discourage, delay or prevent a change in control of our Company, which could deprive our shareholders of an opportunity to receive a premium for their Shares as part of a sale of our Company.

Our continued growth depends on our research and development capabilities to continue develop new products and improve our production efficiency, and on the success of our new products.

The special steel industry is characterized by changing technologies, periodic new product introductions and evolving end-user customer and industry requirements. Our continued success, therefore, depends on our ability to continue developing new products that can successfully compete with those offered by our competitors in terms of quality and price. In addition, we rely upon the continued improvement of our production efficiency to optimise our cost structure and thereby reduce our production cost. Our ability to develop new products and improve our production efficiency depend largely on our research and development capabilities. We have entered into a cooperation agreement with Badische Stahl Engineering GmbH ("BSE") in order to improve our production efficiency. See "Our Business — Research and Development." However, there is no assurance that such cooperation will be successful or the result will meet our expectation for production efficiency improvement. If we are unable to enhance our research and development capabilities to improve our existing products and develop new products, and enhance our production efficiency, we may be at a disadvantage compared to our competitors and, consequently, our results of operations and future development may be adversely affected.

In addition, our research and development efforts may not yield the anticipated level of economic benefits. Even if our research and development efforts are successful, we may not be able to apply these newly developed technologies to products that will be accepted by the market or apply them in a timely manner to take advantage of the opportunities presented in the market. Furthermore, the success of our new products depends on a number of factors, some of which are beyond our control, such as prevailing economic conditions and inherent uncertainty in market demand. The level of economic benefit that can be derived from newly developed technologies or products may also be affected by the ability of our competitors to replicate such technologies or products or develop more advanced or cheaper alternatives. If our technologies or products are replicated, replaced or made redundant, or if the demand for our products is not as robust as anticipated, our revenue derived from such technologies and products may not offset the costs that we incur in developing such new technologies and products.

We rely on a single production site, and any interruptions in the operations of our facilities situated on this site would prevent us from producing steel and generating any revenue.

We conduct substantially all of our activities, including the production of all of our steel products, at a single steel production site in Xiwang Industrial Area, Zouping County, Shandong Province. Closure of our production site, interruption in, or prolonged suspension of, any substantial part of our production, or any damage to or destruction of our production facilities arising from unexpected or catastrophic events (such as earthquakes, fires or floods, or epidemics such as the severe acute respiratory syndrome) or other similar events would prevent us from producing steel and generating any revenue.

We may be subject to liability in connection with industrial accidents at our production facilities.

Our operations involve the operation of heavy machinery that could result in industrial accidents and could cause injuries or deaths. We cannot assure you that industrial accidents, whether due to malfunctions of machinery or other reasons, will not occur in the future at our production facilities. In such an event, we may be liable for loss of life and property, medical expenses, medical leave payments and fines and penalties for violation of applicable PRC laws and regulations. In addition, we may experience interruptions in our operations and may be required to change the manner in which we operate as a result of governmental investigations or the implementation of safety measures due to accidents. Any of the foregoing could adversely affect our business, financial condition and results of operations.

We may suffer certain losses not covered by insurance.

Risks associated with steel production include damage to equipment and facilities, environmental pollution, transportation damage and delays, and risks posed by natural disasters, any of which may result in losses to us. We maintain insurance coverage for our fixed assets in the total amount of RMB1,021.7 million. See "Our Business — Insurance."

However, we cannot assure you that our insurers would accept all of our claims or that our insurance will be sufficient to cover our losses. Consistent with what we believe to be the industry practice in China, we do not maintain any insurance coverage for third party liability, business interruption or environmental damage arising from accidents on our property or relating to our operations, or product liability insurance, directors' and officers' liability insurance or key-man life insurance on our executive officers. Moreover, we have not been able to obtain or purchase insurance policies covering risks associated with certain natural disasters, such as earthquakes. Our financial condition and results of operations will be negatively affected if we incur any loss which is not covered by our insurance policies, or if the amount of such loss exceeds the aggregate amount of our insurance coverage.

Any failure to maintain an effective quality control system at our manufacturing facilities could have a material adverse effect to our business and operations.

The performance, quality and safety of our products are critical to our ability to maintain existing customer base and acquire and retain new end-user customers. We have established and maintained restrictive quality assurance standards and inspection procedures. See "Our Business — Quality Control." The effectiveness of our quality control system is determined by various factors, including the design of the system, implementation of quality standards, quality of training programs and our employees' adherence to our quality control policies and guidelines. If we fail to maintain an effective or adequate quality control system, we may produce defective products that expose us to product liability and warranty claims. Any such claim, regardless of whether it is ultimately successful, could cause us to incur significant costs, harm our business reputation and result in significant disruption to our operations. Furthermore, if any such claim is ultimately successful, we could be required to pay substantial monetary damages or penalties, which could have a material adverse effect to our results of operations and financial condition.

We are subject to product liability risks which could harm our reputation and materially and adversely affect our business, financial condition and results of operations.

According to the Product Quality Law of PRC (中華人民共和國產品質量法) and other applicable PRC laws and regulations, producers shall be responsible for the quality of products they produce and may be held liable for the injuries or damages caused by defective products. Our steel products may expose us to potential product liability claims if they are proven to be defective, or if their use causes, results in or is alleged to have caused or resulted in personal injuries, project delays or damage or other adverse effects. Any product liability claim, whether relating to personal injuries, project delays or damages or regulatory action, could prove costly and time-consuming to defend and have the potential to harm our brand reputation. If successful, product liability claims may require us to pay substantial damages. We currently do not maintain product liability insurance to cover potential product liability arising from the use of our products and may be unable to obtain sufficient product liability insurance coverage on commercially reasonable terms, or at all. Product liability claims, with or without merit, may result in significant negative publicity and thus materially and adversely affect the marketability of our products and our reputation, as well as our business, financial condition and results of operations.

Moreover, a material design, manufacturing or quality-related failure or defect in our products or other safety issues could warrant a product recall by us and result in increased product liability claims. If authorities in the jurisdictions in which we sell our products decide that our products fail to conform to applicable quality and safety requirements and standards, we could be subject to regulatory actions. In China, violation of PRC product quality and safety requirements may subject us to monetary and injunctive penalties, including orders to cease sales of relevant products or to cease operations pending the required remediation. Furthermore, if the violation is determined to be serious in nature, our business licenses to manufacture or sell relevant products could potentially be suspended or revoked, and we could be subject to criminal liability.

We face certain risks relating to the real properties we lease.

We currently lease four parcels of rural collectively owned lands (the "Premises") with a total area of 61,461 square meters from Xiwang Group in Handian Town, Zouping County, Shandong Province of the PRC, where we have built a substation, a gas station, a weight station and a steel scrap storage yard.

Our PRC legal advisers are of the view that the lease agreement may be deemed invalid for violating certain provisions of the Land Administration Law of PRC, according to which, the rural collectively owned lands can only be used for certain limited purposes by specified entities, such as being used by collective economic organisations for establishing local enterprises or building residential housing, or can be approved by law for use in the construction of township public facilities or for public welfare projects, whereas the use of the land by us does not fall into the specified categories.

As confirmed by our PRC legal advisers, Jingtian & Gongcheng, if the lease agreement is found null and void by the relevant authorities or courts, we may be required to cease occupation and usage of the Premises, and we will have to relocate our facilities off the Premises. If we have to vacate from the Premises, our Directors estimate that the relocation expenses may be approximately RMB10.0 million and carrying out the plan may take approximately two months. For more details, see "Our Business — Real Property."

In addition, Xiwang Group has agreed, pursuant a written indemnification undertaking, to indemnify the Group against any losses suffered from the lease.

RISKS RELATING TO OUR INDUSTRY

Our operations in China require various governmental approvals, permits and licenses. Failure to acquire or maintain any of these approvals, permits or licenses may materially and adversely affect our operations.

Our operations require licenses, permits and, in some cases, renewals of these licenses and permits from various governmental authorities in the PRC. Our ability to obtain, maintain, or renew such licenses and permits on acceptable terms is subject to change, as, among other things, the regulations and policies of applicable governmental authorities may change. We cannot assure you that we will be successful and timely in obtaining the required approvals, licenses and permits. Failure to do so may subject us to monetary fines or other penalties, including possible suspension of our operations.

For example, according to the Rules and Qualifications for Production and Operation of Steel Industry (鋼鐵行業生產經營規範條件) which was formulated by the Ministry of Industry and Information Technology of PRC (MIIT) together with other authorities on 21 June 2010 and laid down specific standards for production scale, equipment and environmental protection of steel enterprise, the status quo of the production and operation of all exiting steel enterprises are subject to review by MIIT for normalization management and the list of enterprises which meet the requirements of the Rules and Qualifications for Production and Operation of Steel Industry will be announced by MIIT after the consultation with other relevant authorities. We have submitted the application for review of our steel production to Shan Dong Economics and Information Technology Committee (SEIC) which is the provincial level of MIIT in October of 2010. As of the Latest Practicable Date, we had obtained the approval from SEIC and the provincial approval will be reviewed by MIIT. According to the SEIC's opinion, which is based on the results of the review by SEIC jointly with Shandong Development and

Reform Commission, Shandong Environmental Protection Bureau and Shandong Provincial Department of Land & Resources, our production and operation have met the requirements and qualifications set out in the Rules and Qualifications for Production and Operation of Steel Industry. As far as we know, MIIT has not made any announcement of the review results of the applications of all the applicants. Our PRC legal advisers expect that there will be no legal impediments for us to pass the MIIT review and be announced as a qualified steel manufacturer and if we have passed the review of and been announced by MIIT, our production and operation will be in compliance with all the requirements and qualifications specified in the Rules and Qualifications for Production and Operation of Steel Industry. However, both we and our PRC legal advisers are of the view that, if the relevant regulatory authorities change their interpretation or enforcement of relevant policies or adopt stricter requirements in the future, we may be required to obtain further approvals or to meet other additional regulatory requirements.

For another example, as Xiwang Steel no longer engages Xiwang Import & Export to import steel scraps, and going forward, we expect Xiwang Steel to import steel scraps based upon our supply requirement. Xiwang Steel has submitted application for import license for steel scraps, which is subject to the approval of the relevant government authority. See "Connected Transactions — Discontinued related party transactions — H. Transactions with Xiwang Import & Export." There is no assurance that we can obtain such import license or obtain it in the near future. After we obtain such import license, we also need to comply with the applicable PRC laws and regulations to maintain and renew such license. Although we substantially rely upon procurement from the nearby areas and our steel scrap purchasing centers to meet our steel scrap demands, we plan to diversify our steel scrap supply by importing steel scraps from overseas. Our plan to diversify our source of steel scraps through importing may not be successful if we fail to obtain our own import license in the near future, or fail to renew or maintain it. We cannot assure you that we will be able to find other steel scrap supply sources to provide the same level of diversification on favourable terms, on a timely basis, or at all.

Any failure or difficulty in obtaining any required approvals, licenses and permits may adversely affect our business, financial condition and results of operations. In addition, we cannot assure you that the PRC Government will not adopt stricter standards (such as environmental requirements) in handling any required approvals, licenses and permits in the future or that we will be able to meet such standards in a timely manner or at all.

Our steel business is affected by the market conditions of the steel industry.

Market conditions in the steel industry change from time to time. In China, production capacities for steel products have increased substantially in recent years due to improvements in manufacturing technology and construction of new facilities. Domestic overcapacity in steel production may have a negative impact on steel prices in China.

Further, our steel products are used principally in construction, machinery, equipment, and automobiles. Our business may be affected indirectly by supply and demand changes within these industries. In addition, demand from our customers may change with their operating results, and our major customers may reduce their orders or cease to purchase products from us for reasons over which we have no control.

Supply and demand changes in the steel industry and our target downstream industries may adversely affect sales volumes, average realized selling prices and profit margin of our steel products. As a result, production volume, revenue and profitability in our steel business are subject to significant fluctuations due to many factors beyond our control.

Our business and prospects depend on the performance of the steel consuming industries in China.

Our business and prospects depend on the performance of the industries that consume steel in China, including, machinery, equipment, automobiles and construction. China has experienced rapid growth in recent years, which has contributed to the strong demand for steel and other metal. This, in turn, has resulted in strong demand for our products. For example, from 2000 to 2009, consumption of steel in China grew at a CAGR of 16.9%, according to World Steel Association Yearbook 2010. A significant slowdown in the China economy or a downturn in the real estate, construction or manufacturing sectors in China, likely would adversely affect demand for our products in China.

As a result, we cannot assure you that there will be continued or growing demand for steel products in China. If demand for steel products in China does not continue to grow or grows more slowly than expected, steel product prices may decline and our business, financial condition and results of operations could be materially and adversely affected.

Intensified competition among domestic and foreign steel makers may saturate the market and adversely affect our profit margin and other financial results.

China's steel market is rapidly growing. The period of profitability in the domestic market, however, may lead to potential over-capacity as existing and new steel companies invest in new equipment and technology as well as undertake capacity expansion projects. Such expansion in capacities would lead to increased competition among domestic steel makers in both the national and regional markets and result in reduced revenues, lower profit or loss of market share for us. We operate in a highly competitive industry. We may also face competition from overseas suppliers. As competition becomes more intense, our financial position may be adversely affected.

In addition, if the intensity of competition in our existing and future markets increases, it may lead to decrease in sales volume and selling prices of our products, which may have adverse effect to our profit margin and financial results. The intensity of competition in China's steel markets may be affected by a number of factors which are beyond our control and any unpredictable impact on the intensity of competition may cause adverse effect upon our profit margin.

Costs of environmental and workplace safety compliance may adversely affect our business operation and financial results.

Our steel production activities are subject to environmental protection laws and regulations in China, concerning, among other things, the discharge of waste products. These laws and regulations establish quotas for the discharge of waste products, permit the levy of fines and payments for damages for serious environmental offences, and permit the State or local authorities, at their discretion, to close any facility that fails to comply with orders requiring it to correct or stop operations causing environmental damage. Waste products generated from steel production such as dust, sulphur dioxide and waste water are hazardous to the environment and must be properly disposed of under applicable environment laws. We discharge pollutants in reliance on the pollutant discharge permit held by Xiwang Group. However, if Xiwang Group violates the provisions of PRC environmental protection regulations and the requirements of the relevant environmental protection authorities, the discharge permit may be revoked by the relevant authorities, and we may not be able to discharge our wastes. The current pollutant discharge permit is valid through 31 December 2011. On 7 December 2011, Xiwang Group and us have reported this situation to the relevant authority and sought to renew the pollutant discharge permit upon its expiration. According to a written confirmation dated 9 December 2011 by Zouping County Environmental Protection Bureau which issued the permit, the bureau is in the process of re-allocating the total discharge quantity of pollutants to all the entities within the scope of its authority. During the transition period of the aforementioned re-allocation, the pollutant discharge permit will be extended or reissued, as the case may be. See "Our Business — Safety and Environmental — Environmental protection." We cannot assure you that Xiwang Group will be able to renew the permit upon its expiration. Any failure to renew our pollutant discharge permit may substantially affect our production volume and limit the expansion of our production lines, which may adversely affect our results of operations and prospect.

Steel production may also give rise to certain safety hazards to workers on the production line, and steel businesses in China are subject to the State and local laws and regulations relating to the maintenance of workplace safety. The environmental and workplace safety laws and regulations are constantly evolving and becoming increasingly stringent. We are not always able to quantify the cost of complying with environmental and safety laws and regulations because some of these laws and regulations have not yet been promulgated or are undergoing revision. We cannot assure you that the State or local authorities would not enact additional regulations or enforce current or new regulations in a more rigorous manner. Any future change in environmental and workplace safety laws and regulations could force us to incur substantially more capital and operating costs for our business.

Demand for our steel products may decrease if substitutes for steel become available and more economical.

We plan to produce high value-added steel products that may be used in the oil and natural gas pipeline, machinery equipment and automobile industries. In these industries, steel products can be replaced by aluminum, fiber-glass, plastic and other basic materials in certain applications. If our customers elect to substitute other materials for steel products, demand for our steel products may decrease, and the sales volume, sales price and profitability of our steel business may be adversely affected. In light of the advancements made in material science research, we cannot assure you that our steel products will not be gradually replaced by lower cost substitutes.

RISKS RELATING TO CONDUCTING OPERATIONS IN CHINA

Interference by the PRC government in the development of China's steel industry may result in restrictions on or disruptions to our business.

The PRC Government has in the past adopted, and may in the future adopt from time to time, restrictive measures to curtail the growth of various industry sectors in an effort to control inflation and stabilise the value of RMB. Such measures may extend to the steel manufacturing industry and other steel consuming industries, such as construction and manufacturing of heavy equipment, automobiles, and ships. We cannot assure you that the PRC Government will not take actions in the future that would adversely affect demand and prices for our products in China. Such actions could materially and adversely affect our business, financial condition and results of operations.

On 26 September 2009, the State Council of the PRC (國務院) issued the State Council No.38 Circular. Certain major principles were put forward, including restricting additional capacity and optimizing existing capacity, growing emerging industries and upgrading traditional industries and adopting market orientation and macro controls. The State Council No. 38 Circular also required a restriction on the overall production capacity and constrained surplus production capacity, encouraged the development of new industries and products that are of high-technology level, high value-added, low resources consumption and low emission, enhanced merger and corporate restructuring as well as industry consolidation, expedited the retirement of technologically laggard plants, emphasised technology advancement, improved existing capacity, adjusted product mix and pursued an efficient, quality and sustainable industrial development.

The principles set out in the State Council No.38 Circular aimed at consolidating the resources of steel manufacturing companies by merging and reorganising the small and medium companies and eliminating old and outdated production facilities so as to maintain the sustainable development of the steel manufacturing industry. These principles required steel manufacturing companies to refine their product structure and aimed to eliminate the outdated products and production facilities. A consolidation of the upstream steel manufacturing industry may, when implemented, negatively affect customers' demand for our steel products as there will be a transition period as a result of such consolidation whereby end customers' may place less orders until the full impact of any such consolidation is made clear.

The economic, political and social conditions in China, as well as government policies, laws and regulations, could affect our business.

A majority of our assets are located in China and we derive substantially all of our revenue from our operations in China. Accordingly, our results of operations and prospects are, to a significant degree, subject to economic, political and legal developments in China. The economy of China differs from the economies of most developed countries in many respects, including the extent of government involvement, its level of development, its growth rate and its control over foreign exchange. China's economy has been transitioning from a planned economy to a more market-oriented economy. In recent years, the PRC Government has implemented measures emphasizing market forces for economic reform, the reduction of State ownership of productive assets and the establishment of sound corporate governance in business enterprises. However, a portion of productive assets in China is still owned by the PRC Government. The PRC Government continues to play a significant role in regulating industrial development. It also exercises significant control over China's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policies and providing preferential treatments to particular industries or companies. All of these factors could affect the economic conditions in China and, in turn, our business.

While the China economy has experienced significant growth in the past 20 years, growth has been uneven across both geographic regions and the various sectors of the economy. The PRC Government has implemented various measures to influence growth rates and to guide the allocation of resources. Some of these measures benefit the overall economy of China but may have a negative effect on us. For example, our results of operations and financial condition could be materially and adversely affected by governmental monetary policies, changes in interest rate policies, tax regulations or policies and regulations affecting the steel industry and scrap metal recycling industry.

The PRC legal system has inherent uncertainties that could limit the legal protections available to us and may cause difficulties in the enforcement of judgments in China.

Our business is conducted primarily within China and is governed to a large extent by PRC laws and regulations. The PRC legal system is a civil law system based on written statutes, and prior court decisions generally can only be used as a reference. Since 1979, the PRC Government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organisation and governance, commerce, property, taxation and trade, with a view to developing a comprehensive system of commercial law. However, due to the fact that these laws and regulations have not been fully developed, and because of the limited volume of published cases and the non-binding nature of prior court decisions, interpretation of PRC laws and regulations involves uncertainty. Some of these laws may be changed without being immediately published or may be amended with retroactive effect. Depending on the government agency involved in applying or enforcing these laws and regulations or how an application or case is presented to such agency, we may receive less favorable interpretations of laws and regulations than our competitors. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. All of these uncertainties may cause difficulties in the enforcement of our land use rights, entitlements under our permits and other statutory and contractual rights and interests.

A majority of our assets are located in China, and certain of our Directors and executive officers reside in China. As a result, it may not be possible for investors to effect service of process within the United States, the United Kingdom, Japan, Singapore or many other countries upon such persons or us.

Further, we have been advised that China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts within the United States, the United Kingdom, Japan, Singapore and many other countries. As a result, recognition and enforcement China of judgments of a court in any of these and other jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

It may be difficult to effect service of process upon us or our Directors or executive officers who reside in China or to enforce any judgments obtained from non-PRC courts against them in China.

Most of our Directors and the majority of our executive officers reside within China, and all our assets and substantially all of the assets of those persons are located within China. Therefore, it may not be possible for investors to effect service of process upon us or those persons inside China or to enforce against them in China any judgments obtained from non-PRC courts. China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts in Hong Kong, the United States, the United Kingdom, Japan or most other western countries. Therefore recognition and enforcement in China of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provisions may be difficult or impossible.

Labour laws in China may adversely affect our results of operations.

On 29 June 2007, the PRC government promulgated a new labour law, namely the Labour Contract Law of China, or the New Labour Contract Law, which became effective on 1 January 2008. The Implementation Rules of the New Labour Contract Law were subsequently promulgated and became effective on 18 September 2008. The PRC government also promulgated the Law on Mediation and Arbitration of Labour Disputes on 29 December 2007, which came into effect on 1 May 2008. The New

Labour Contract Law imposes stricter requirements in terms of signing labour contracts, paying remuneration, stipulating probation and penalties and dissolving labour contracts. It also requires the terms of employment contracts to be placed in writing within one month of the commencement of an employment relationship, which may make hiring temporary workers more difficult. These newly enacted labour laws and regulations impose greater liabilities on employers and may significantly increase the costs to an employer if it decides to reduce its workforce. In the event we decide to significantly change or decrease the workforce of our PRC subsidiaries, the New Labour Contract Law could adversely affect our ability to enact such changes in a manner that is most advantageous to the business of our PRC subsidiaries or in a timely and cost-effective manner, which may materially and adversely affect our results of operations and financial condition.

If we are unable to offset increased labour costs, our business could be materially and adversely affected and we cannot assure you that we will not experience strikes by our labour force in the future.

Currently, all of our total workforce is employed in China. The average wages paid for manufacturing labour in China have increased recently and may continue to increase. If we are unable to offset the increase in our labour costs or pass along these increased labour costs to customers, our business, results of operations and financial condition could be materially and adversely affected.

Recently, factories in China have been experiencing an increase in strikes and workplace stoppages by their labour force. We cannot assure you that we will not experience such strikes or stoppages by our labour force in the future, which could adversely affect our operations.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds we receive from the Global Offering to make loans or additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

In utilizing the proceeds we receive from the Global Offering in the manner described in "Use of Proceeds," as an offshore holding company of our PRC subsidiaries, we may make loans to our PRC subsidiaries, or we may make additional capital contributions to our PRC subsidiaries. Any loans to our PRC subsidiaries are subject to PRC regulations and approvals. For example, loans by us to our wholly owned subsidiaries in China that is a foreign-invested enterprise to finance its activities cannot exceed statutory limits, being the difference between the registered capital and total investment amount, and must be registered with the SAFE, or its local branch. Otherwise, such foreign-invested enterprise should increase its total investment amount. We may also decide to finance our wholly owned subsidiaries by means of capital contributions. These capital contributions must be approved by the PRC Ministry of Commerce (商務部) or its local counterpart.

We cannot assure you that we will be able to complete these government registrations or obtain the relevant government approvals on a timely basis, if at all, with respect to future loans or capital contributions by us to our PRC subsidiaries. Failure to complete these registrations or obtain approvals may delay or prevent us from using the proceeds we receive from the Global Offering to make loans or additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

We may be treated as a resident enterprise for PRC tax purposes following the effectiveness of the New Enterprise Income Tax Law on 1 January 2008, which may subject us to PRC income tax for any dividends we receive from our subsidiaries and withholding tax for any dividends payable by us to our foreign investors and gain on the sale of our Shares.

Under the New Enterprise Income Tax Law (the "New EIT Law"), enterprises established outside of China whose "de facto management bodies" are located in China are considered "resident enterprises," and will generally be subject to the uniform 25% enterprise income tax rate for their global income. Under the Implementation Rules of the New EIT Law, "de facto management body" is defined as the body that has material and overall management and control over the business, personnel, accounts and properties of the enterprise. Substantially all of our management is currently located in the PRC. Accordingly, we may be considered a resident enterprise and may therefore be subject to the enterprise income tax of 25% of our global income.

In addition, the New EIT Law provides that "dividend income between qualified resident enterprises" is exempted income. However, given the short history of this law, it is not clear what is considered "qualified resident enterprise" under the New EIT Law. If we are considered a "resident enterprise", we will be required to pay income tax for any dividends we receive from our PRC subsidiaries, and as a result, the amount of dividends we can pay to our Shareholders could be reduced.

Under the Implementation Rules of the New EIT Law, except for the application of any relevant income tax treaty that the PRC has entered into, withholding for any dividends paid to non-resident enterprises by resident enterprises on profits earned after 1 January 2008 are subject to PRC income tax at the rate of 10%, while profits earned before 1 January 2008 are not subject to PRC income tax. Accordingly, our Group is subject to withholding taxes at the rate of 10% on dividends distributed by its subsidiaries established in PRC with respect to earnings generated from 1 January 2008. Because we may be treated as a resident enterprise, any dividends we pay to our non-PRC Shareholders on profits earned after 1 January 2008 may be subject to PRC income tax, which may materially and adversely affect your investment. Subject to applicable tax agreements or treaties between the PRC and other tax jurisdictions, non-resident are ordinarily subject to a maximum 10% (or lower treaty rate) withholding tax with respect to dividend income from resident enterprises. If we are required under the New EIT Law to withhold PRC income tax on our dividends payable to our foreign Shareholders, or if you are required to pay PRC income tax on the transfer of your Shares, the value of your investment in our Shares may be materially and adversely affected.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our Shares.

Prior to the Global Offering, there has not been a public market for our Shares. An active public market may not develop or be sustained after the Global Offering. The initial Offer Price range for our Shares was the result of, and the Offer Price will be the result of, negotiations among us and the Sole Global Coordinator on behalf of the Underwriters and may not be indicative of prices that will prevail in the trading market after the Global Offering.

We have applied to list and deal in our Shares on the Hong Kong Stock Exchange. However, even if approved, being listed on the Hong Kong Stock Exchange does not guarantee that an active trading market for our Shares will develop or be sustained. If an active market for our Shares does not develop after the Global Offering, the market price and liquidity of our Shares may be adversely affected. As a result, you may not be able to resell your Shares at prices equal to or greater than the price paid for the Shares in the Global Offering.

The market price of our Shares may be volatile, which could result in substantial losses for investors purchasing Shares in the Global Offering.

The market price of our Shares may fluctuate significantly and rapidly as a result of a variety of factors, many of which are beyond our control, including:

- variations in our results of operations (including variations arising from foreign exchange rate fluctuations);
- changes in securities analysts' estimates or market perception of our financial performance;
- announcement by us of significant acquisitions, dispositions, strategic alliances or joint ventures;
- addition or departure of key personnel;
- developments in the steel industry or scrap metal recycling industry;
- regulatory or legal developments, including litigation;
- fluctuations in trading volumes; and
- general economic, political and stock market conditions.

Moreover, in recent years, stock markets in general have experienced significant price and volume fluctuations, some of which have been unrelated or disproportionate to the operating performance of the listed companies.

These broad market and industry fluctuations may adversely affect the market price of our Shares. Our future operating results may be below the expectations of stock market analysts and investors. Any shortfall could cause a decline in the price of our Shares. In addition, the price of our Shares may be adversely affected by other factors, including acquisitions, new products or services introduced by our competitors, changes in government regulations and general market, political and economic conditions. We cannot assure you that the price of our Shares will not decline.

Purchasers of Shares will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.

Based on the Offer Price range, the Offer Price is expected to be higher than the net tangible book value per Share immediately prior to the Global Offering. Therefore, you will experience an immediate dilution in pro forma net tangible book value per Share. In addition, if we issue additional Shares or equity-related securities in the future, the percentage ownership of our existing Shareholders may be further diluted. In addition, such new securities may have preferred rights, options or pre-emptive rights that make them more valuable or senior than the Shares.

The Offer Price may not be indicative of prices that will prevail in the trading market, and the market price of Shares may be volatile.

The Offer Price for the Offer Shares will be determined by negotiations between the Company and the Sole Global Coordinator (for itself and for and on behalf of the Underwriters) and may not be indicative of prices that will prevail in the trading market. Investors may not be able to resell their Shares at or above the Offer Price. The price and trading volume of the Shares may be highly volatile. Factors such as changes in the results of operations, announcements of technological innovations or events affecting other companies in the steel systems industry, currency fluctuations and general political, economic and market conditions may cause the market price of the Shares to change substantially. The volatility in the price of the Shares may be caused by factors outside the control and may be unrelated or disproportionate to the operating results.

We may not be able to pay any dividends on our Shares.

Our ability to pay dividends will depend on our ability to generate sufficient profits. We cannot assure you that we will declare dividends of any amount, at any rate or at all. Dividends, if any, will be at the discretion of our board of directors and will depend upon our future operations and earnings, capital expenditure requirements, general financial conditions, legal and contractual restrictions and other factors that our board of directors may deem relevant. Because we are a holding company, we rely principally on dividends, if any, paid by our subsidiaries to us to fund our dividend payments, if any, to our shareholders, including you, and any limitation on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect to our ability to pay dividends to you.

In preparation for the Listing, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules and the Companies Ordinance:

WAIVER FROM STRICT COMPLIANCE WITH RULE 8.12 OF THE LISTING RULES

Rule 8.12 of the Listing Rules provides that an issuer must have a sufficient management presence in Hong Kong, which normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. Currently, the business operation and management facilities of our Group are located in Zouping County, Shandong Province, the PRC. Our Company does not and, in the foreseeable future, will not have any management presence in Hong Kong.

In light of the above, our Company has applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has agreed to grant to our Company, a waiver from strict compliance with Rule 8.12 of the Listing Rules. Our Company has adopted the following arrangements in order to maintain regular and effective communication with the Hong Kong Stock Exchange:

(a) we have appointed and will continue to maintain two authorised representatives pursuant to Rule 3.05 of the Listing Rules who will act as the principal channel of communication with the Hong Kong Stock Exchange. The two authorised representatives are Mr. Di Wang (王棣), a non-executive Director, and Ms. Wai Lin Lam, the company secretary of the Company. Ms. Lam is ordinarily resident in Hong Kong. Each of the authorised representatives of the Company has confirmed that each of them will be available to meet with the Hong Kong Stock Exchange in Hong Kong within a reasonable time upon the request of the Hong Kong Stock Exchange and will be readily contactable by telephone, facsimile and electronic means and that he/she has means for contacting all the Directors promptly at all times as and when the Hong Kong Stock Exchange wishes to contact the Directors. Each of the authorised representatives are authorised to communicate on behalf of the Company with the Hong Kong Stock Exchange;

(b) Directors who are not ordinarily resident in Hong Kong possess valid travel documents which are able to be renewed when they expire or can apply for valid travel documents to visit Hong Kong and will be able to meet with the relevant members of the Hong Kong Stock Exchange within a reasonable period of time when required;

(c) each of the Directors has provided his mobile phone number, office phone number, e-mail address and fax number to the Hong Kong Stock Exchange;

(d) each of the authorised representatives (including the alternate authorised representative) has been provided with the means to contact all Directors promptly at all times as and when the Hong Kong Stock Exchange wishes to contact the Directors for any matters;

(e) we have appointed a compliance adviser in accordance with Rule 3A.19 of the Listing Rules for the period commencing on the Listing Date and ending on the date on which the Company complies with Rule 13.46 of the Listing Rules in respect of the Company's financial results for the first full financial year after the Listing Date and the compliance adviser will act as an additional channel of communication with the Hong Kong Stock Exchange; and

(f) we have also appointed other professional advisers (including legal advisers and accountants) to assist us in dealing with any questions which may be raised by the Hong Kong Stock Exchange and to ensure that there will be efficient communication with the Hong Kong Stock Exchange.

EXEMPTION FROM STRICT COMPLIANCE WITH PARAGRAPHS 27 AND 31 OF THE THIRD SCHEDULE TO THE COMPANIES ORDINANCE AND WAIVER FROM STRICT COMPLIANCE WITH RULE 4.04(1) OF THE LISTING RULES

According to paragraph 27 of Part I of the Third Schedule to the Companies Ordinance, we are required to include in this prospectus a statement as to the gross trading income or sales turnover for each of the three financial years preceding the issue of this prospectus.

According to paragraph 31(1) and (3) of Part II of the Third Schedule to the Companies Ordinance, we are required to include in this prospectus a report by Ernst & Young, our auditors and reporting accountants, with respect to our financial results for each of the three financial years immediately preceding the issue of this prospectus.

According to Rule 4.04(1) of the Listing Rules, we are required to include in this prospectus the accountants' report covering our consolidated results in respect of each of the three financial year immediately preceding the issue of this prospectus.

The accountants' report for the three years ended 31 December 2010 and the nine months ended 30 September 2011 has been prepared and is set out in Appendix I to this prospectus. However, strict compliance with paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance and Rule 4.04(1) of the Listing Rules would create undue burden on us, as there would not be sufficient time for our reporting accountants to finalize the audited results for the full financial year ended 31 December 2011 for inclusion in this prospectus.

An application has been made to the SFC for a certificate of exemption from strict compliance with paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance in relation to the inclusion of the accountants' report for the full financial year ended 31 December 2011 in this prospectus on the ground that it would be unduly burdensome for us to do so within a short period of time after 31 December 2011. A certificate of exemption has been granted by the SFC under section 38A of the Companies Ordinance on 8 February 2012.

An application has also been made to the Hong Kong Stock Exchange for a waiver from strict compliance with Rule 4.04(1) of the Listing Rules in relation to the inclusion of the accountants' report for the full financial year ended 31 December 2011 in this prospectus on the ground that it would be unduly burdensome for us to do so within a short period of time after 31 December 2011. A waiver has been granted by the Hong Kong Stock Exchange on condition that (i) the Listing shall commence on or before 31 March 2012, which is prior to the expiry of three months after our latest financial year end; (ii) the grant of a certificate of exemption from the SFC from similar requirements under paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance; and (iii) the inclusion in the prospectus of (a) a profit estimate for the year ended 31 December 2011 which complies with Rules 11.17 to 11.19 of the Listing Rules; and (b) a Directors' statement that there is no material adverse change to our Group's financial and trading positions or prospect with specific reference to the trading results from 30 September 2011 to 31 December 2011.

Our Directors and the Sole Sponsor have confirmed that, after performing all due diligence work which our Directors and the Sole Sponsor consider appropriate, there has not been any material adverse change in the financial position of the Group since 30 September 2011 and up to the Latest Practicable Date and that there is no material event which would materially affect the information as contained in the accountants' report of our Group (as set out in Appendix I to this prospectus). In addition, our Directors and the Sole Sponsor consider that all information that is reasonably necessary for the potential investors to make an informed assessment of the activities or financial position of the Group has been included in this prospectus, and that an exemption from strict compliance with the above Companies Ordinance and Listing Rules requirements would not prejudice the interests of the investing public.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules and the Listing Rules for the purpose of giving information with regard to our Group. Our directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries and to the best of their knowledge and belief that the facts contained in this prospectus are accurate and complete in all material respects and there are no other facts the omission of which would make any statement herein misleading.

THE HONG KONG PUBLIC OFFERING AND THIS PROSPECTUS

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. Neither the delivery of this prospectus nor any subscription or acquisition made under it shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information in it is correct as at any subsequent time.

UNDERWRITING

For applicants under the Hong Kong Public Offering, this prospectus and the related Application Forms contain the terms and conditions of the Hong Kong Public Offering. The Global Offering comprises the International Offering of initially 450,000,000 Offer Shares and the Hong Kong Public Offering of initially 50,000,000 Offer Shares, each subject to the re-allocation on the basis as described in the section headed "Structure of the Global Offering" in this prospectus.

The Listing is sponsored by the Sole Sponsor and the Global Offering is managed by the Sole Global Coordinator. Subject to the terms of the Underwriting Agreements, the Hong Kong Offer Shares are fully underwritten by the Hong Kong Underwriters and the International Offer Shares are fully underwritten by the International Underwriters. Further information regarding the Underwriters and the underwriting arrangements are set out in the section headed "Underwriting" in this prospectus.

INFORMATION ON THE GLOBAL OFFERING

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the related Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised in connection with the Global Offering to give any information or to make any representation not contained in this prospectus and the related Application Forms, and any information or representation not contained herein and therein must not be relied upon as having been authorised by the Company, the Underwriters and any of their respective directors, officers, employees, agents or representatives or any other persons involved in the Global Offering.

SELLING RESTRICTIONS

Each person acquiring the Hong Kong Offer Shares will be required to, or be deemed by his acquisition of the Hong Kong Offer Shares to, confirm that he is aware of the restrictions on offers of the Hong Kong Offer Shares described in this prospectus and the related Application Forms.

No action has been taken to permit a Hong Kong Public Offering of the Offer Shares or the general distribution of this prospectus and/or the related Application Forms in any jurisdiction other than Hong Kong. Accordingly, and without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Hong Kong Offer Shares have not been publicly offered or sold directly or indirectly, in the PRC or the U.S.

APPLICATION FOR LISTING ON THE MAIN BOARD

We have applied to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option).

Dealings in the Shares on the Hong Kong Stock Exchange are expected to commence on Thursday, 23 February 2012. Except for our pending application to the Hong Kong Stock Exchange for the listing of, and permission to deal in the Shares, no part of the Company's share or loan capital is listed or dealt in on the Hong Kong Stock Exchange or any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future. All the Offer Shares will be registered on the Hong Kong Share Registrar of our Company in order to enable them to be traded on the Hong Kong Stock Exchange.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposal of, and/or dealing in the Offer Shares or exercising any rights attached to them. Our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, employees, agents or representatives or any other person or party involved in the Global Offering do not accept responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding, disposition of, or dealing in, the Offer Shares or exercising any rights attached to them.

OVER-ALLOTMENT AND STABILISATION

Details of the arrangement relating to the Over-allotment Option and stabilisation are set out under the section headed "Structure of the Global Offering — Over-allotment and Stabilisation" in this prospectus.

STOCK BORROWING ARRANGEMENT

In order to facilitate the settlement of over-allocations in connection with the International Offering, the Stabilising Manager may choose to borrow Shares from Xiwang Investment under a stock borrowing arrangement between the Stabilising Manager and Xiwang Investment, or acquire Shares from other sources. Such stock borrowing arrangement will be in compliance with Rule 10.07(3) of the Listing

Rules. Details of such stock borrowing arrangement are set out under the section headed "Structure of the Global Offering — Stock Borrowing Arrangement".

PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedures for applying for the Hong Kong Offer Shares are set out in the section headed "How to Apply for Hong Kong Offer Shares" of this prospectus and on the related Application Forms.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Particulars of the structure of the Global Offering, including its conditions, are set out in the section of this prospectus headed "Structure of the Global Offering".

HONG KONG REGISTER OF MEMBERS AND HONG KONG STAMP DUTY

Our Company's principal register of members will be maintained by its principal share registrar and transfer office, the Hong Kong Share Registrar, in Hong Kong. All of the Shares allocated pursuant to the Global Offering will be registered on the Company's register of members to be maintained in Hong Kong by its Hong Kong Share Registrar, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong. Dealings in the Shares registered in our Company's Hong Kong register of members will be subject to Hong Kong stamp duty.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on the Hong Kong Stock Exchange and our compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Hong Kong Stock Exchange or any other date as determined by HKSCC. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Hong Kong Stock Exchange are expected to commence on Thursday, 23 February 2012. Shares will be traded in board lots of 1,000 Shares each.

EXCHANGE RATE CONVERSION

For exchange rate translations throughout this prospectus, unless otherwise specified, the translations of RMB or U.S. dollars into Hong Kong dollars have been made at the rates of RMB1.00 to HK$1.175 and US$1.0000 to HK$7.782 respectively, for illustration purpose only. We make no representations and none should be construed as being made, that any of the Renminbi, HK dollar or US dollar amounts contained in this prospectus could have been or could be converted into amounts of any other currencies at any particular rate or at all on such date or any other date.

DIRECTORS

Name	Address	Nationality
Executive Directors		
Liang Wang (王亮)	2nd Floor, Block 2 Senior Management Building Xiwang Industrial Area Zouping County Shandong Province China 256209	Chinese
Gang Wang (王剛)	3rd Floor, Block 8 Senior Management Building Xiwang Industrial Area Zouping County Shandong Province China 256209	Chinese
Tao Wang (王濤)	Room 501, Building 4 Huangxi Village Huangshan District office Zouping County Shandong Province China	Chinese
Non-executive Directors		
Yong Wang (王勇)	3rd Floor, Block 1 Senior Management Building Xiwang Industrial Area Zouping County Shandong Province China 256209	Chinese
Di Wang (王棣)	3rd Floor, Block 1 Senior Management Building Xiwang Industrial Area Zouping County Shandong Province China 256209	Chinese

Name	Address	Nationality
Xinhu Sun (孫新虎)	1st Floor, Block 2 Senior Management Building Xiwang Industrial Area Zouping County Shandong Province China 256209	Chinese
Independent Non-executive Directors		
Shu Sun Sunny Leung (梁樹新)	Flat H, 19/F Block 23A South Horizons Ap Lei Chau Hong Kong	Chinese
Kou Yu (于叩)	Flat 601, Unit 3, Building 2 No. 35, Chun Shu Guan Xicheng District Beijing City China	Chinese
Gongxue Zhang (張公學)	Flat 401, Unit 2 No. 21, Sanba Street Zouping County Shandong Province China	Chinese

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor	J.P. Morgan Securities (Asia Pacific) Limited 28/F, Chater House 8 Connaught Road, Central Hong Kong
Sole Global Coordinator	J.P. Morgan Securities (Asia Pacific) Limited 28/F, Chater House 8 Connaught Road, Central Hong Kong
Joint Bookrunners of the Hong Kong Public Offering	J.P. Morgan Securities (Asia Pacific) Limited 28/F, Chater House 8 Connaught Road, Central Hong Kong
	Citigroup Global Markets Asia Limited 50/F, Citibank Tower, Citibank Plaza 3 Garden Road, Central Hong Kong
	Kim Eng Securities (Hong Kong) Limited Level 30, Three Pacific Place 1 Queen's Road East Hong Kong
	CCB International Capital Limited 34/F, Two Pacific Place 88 Queensway Admiralty, Hong Kong
	ABCI Securities Company Limited Room 701, 7/F One Pacific Place 88 Queensway Admiralty, Hong Kong

Joint Bookrunners of the International Offering	J.P. Morgan Securities Ltd. 125 London Wall London EC2Y 5AJ United Kingdom
	Citigroup Global Markets Asia Limited 50/F, Citibank Tower, Citibank Plaza 3 Garden Road, Central Hong Kong
	Kim Eng Securities (Hong Kong) Limited Level 30, Three Pacific Place 1 Queen's Road East Hong Kong
	CCB International Capital Limited 34/F, Two Pacific Place 88 Queensway Admiralty, Hong Kong
	ABCI Securities Company Limited Room 701, 7/F One Pacific Place 88 Queensway Admiralty, Hong Kong
Joint Lead Managers of the Hong Kong Public Offering	J.P. Morgan Securities (Asia Pacific) Limited 28/F, Chater House 8 Connaught Road, Central Hong Kong
	Citigroup Global Markets Asia Limited 50/F, Citibank Tower, Citibank Plaza 3 Garden Road, Central Hong Kong
	Kim Eng Securities (Hong Kong) Limited Level 30, Three Pacific Place 1 Queen's Road East Hong Kong
	CCB International Capital Limited 34/F, Two Pacific Place 88 Queensway Admiralty, Hong Kong
	ABCI Securities Company Limited Room 701, 7/F One Pacific Place 88 Queensway Admiralty, Hong Kong

Joint Lead Managers of the International Offering	J.P. Morgan Securities Ltd. 125 London Wall London EC2Y 5AJ United Kingdom
	Citigroup Global Markets Asia Limited 50/F, Citibank Tower, Citibank Plaza 3 Garden Road, Central Hong Kong
	Kim Eng Securities (Hong Kong) Limited Level 30, Three Pacific Place 1 Queen's Road East Hong Kong
	CCB International Capital Limited 34/F, Two Pacific Place 88 Queensway Admiralty, Hong Kong
	ABCI Securities Company Limited Room 701, 7/F One Pacific Place 88 Queensway Admiralty, Hong Kong
Legal Advisers to Our Company	*As to Hong Kong law:*
	Stephen Mok & Co. in association with Eversheds LLP 21/F, Gloucester Tower, The Landmark 15 Queen's Road Central Hong Kong
	As to United States law:
	Simpson Thacher & Bartlett 35/F, ICBC Tower 3 Garden Road, Central Hong Kong
	As to PRC law:
	Jingtian & Gongcheng 34/F, Tower 3, China Central Place 77 Jianguo Road, Chaoyang District Beijing, PRC

Legal Advisers to the Sole Sponsor, Sole Global Coordinator, Joint Bookrunners and Joint Lead Managers	*As to Hong Kong and United States federal law and New York law:* Sidley Austin Level 39, Two International Finance Centre 8 Finance Street Central Hong Kong *As to PRC law:* Commerce & Finance Law Offices 6th Floor, NCI Tower A12 Jianguomenwai Avenue Beijing 100022 PRC
Auditor and Reporting Accountants	Ernst & Young Certified Public Accountants 22nd Floor CITIC Tower 1 Tim Mei Avenue, Central Hong Kong
Property Valuer	CBRE HK Limited 4/F Three Exchange Square 8 Connaught Place Central Hong Kong
Receiving Banks	Standard Chartered Bank (Hong Kong) Limited 15/F, Standard Chartered Tower 388 Kwun Tong Road Hong Kong The Bank of East Asia, Limited 10 Des Voeux Road Central Hong Kong Wing Lung Bank, Limited 45 Des Voeux Road Central Hong Kong Bank of Communications Co., Ltd. Hong Kong Branch 20 Pedder Street Central Hong Kong

Registered Office	Unit 2110, 21/F Harbour Centre 25 Harbour Road Wanchai, Hong Kong
Headquarters	Xiwang Industrial Area Zouping County Shandong Province China 256209
Website address	**www.xiwangsteel.com** (contents of this website do not form part in this prospectus)
Company Secretary	Wai Lin Lam (林惠蓮) (FCCA, CPA)
Authorised Representatives	Di Wang (王棣) 3rd Floor, Block 1 Senior Management Building Xiwang Industrial Area Zouping County Shandong Province China 256209 Wai Lin Lam (林惠蓮) Flat H, 5/F Block 18, Park Island Ma Wan, New Territories Hong Kong
Members of the Audit Committee	Shu Sun Sunny Leung (梁樹新) *(Chairman)* Xinhu Sun (孫新虎) Gongxue Zhang (張公學)
Members of the Remuneration Committee	Gongxue Zhang (張公學) *(Chairman)* Di Wang (王棣) Kou Yu (于叩)
Members of the Nomination Committee	Gongxue Zhang (張公學) *(Chairman)* Di Wang (王棣) Kou Yu (于叩)
Hong Kong Share Registrar	Tricor Investor Services Limited
Compliance Adviser	Guangdong Securities Limited

Principal Bankers

Bank of China
Zouping County Branch
No. 65 Daixisan Road
Zouping County
Shandong Province
China

Agriculture Bank of China
Binzhou Xiwang Branch
No. 8 Xiwang Central Road
Handian Town
Zouping County
Shandong Province
China

Industrial and Commercial Bank of China
Zouping County Branch
No. 65 Daixisan Road
Zouping County
Shandong Province
China

China Construction Bank
Zouping County Branch
2 Fl, Laodong Caishui Building
Zouping County
Shandong Province
China

This section contains information and statistics relating to the industry in which we operate. We have derived certain such information and data partly from publicly available sources prepared by independent third parties. We believe that the sources of such information are appropriate sources for such information and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Sole Sponsor, the Sole Global Coordinator, and the Joint Lead Managers, the Joint Bookrunners, the Underwriters or any of their respective directors, affiliates or advisers, nor any parties involved in the Global Offering and no representation is given as to its correctness and accordingly such information should not be unduly relied upon. Furthermore, the information in this section may not be consistent with the information compiled within or outside the PRC. Investors should also note that, save for certain information which is extracted from a report of CRU Strategies Limited ("CRU") commissioned by us, the other researches and reports from which certain information and statistics contained in this section are derived were not commissioned by us or our connected persons and/or the Sole Sponsor, the Sole Global Coordinator, the Joint Lead Managers, and the Joint Bookrunners.

We commissioned CRU, a specialized London-based market research provider and independent third party, to conduct an analysis of and to report on the PRC steel market and industry.

CRU maintains a proprietary database on the global and Chinese steel industry. In compiling this report, CRU relied on this database, analyzed the market and industry trends to determine the most probable outcome quoted in the report. It is important to emphasize that some of the estimates and forecasts provided in the report are subject to uncertainty and rely on the best judgment of CRU's experts based on their ongoing familiarity with the industry.

The industry report dated May 2011 was produced by CRU's analysts with specific knowledge of the PRC steel industry and the forecasts were based on CRU's analysis of historical data and trends. This information was obtained by CRU from a variety of industry sources, including official sources of the PRC government and, for comparative information on other countries, official data from government sources, industry associations and company reports. CRU maintains an ongoing dialogue with market participants and industry experts in order to support, verify and cross check its estimates. In addition, CRU has contacted individual respondents in the PRC to verify specific conclusions concerning the PRC steel industry.

Certain information set forth in this section has been extracted from the industry report prepared by CRU. The consulting fees paid by us to CRU in connection with the preparation of the industry report for this prospectus was approximately US$98,868.

INTRODUCTION

Steel is an alloy of iron and carbon containing less than 2% carbon. Steel would typically also contain manganese and small quantities of silicon, sulphur, phosphorus and oxygen. Steel may further be alloyed with other elements in order to achieve the properties that may be desired. Within the category of steel there are thousands of specific chemical compositions.

Steel is the world's most important engineering and construction material. The biggest single uses of steel are construction and motor vehicles. Other major uses of steel include domestic appliances, shipbuilding, rail transport, energy production and transport, general machinery, agricultural machinery, electrical equipment, packaging and office furniture.

Production processes for making steel

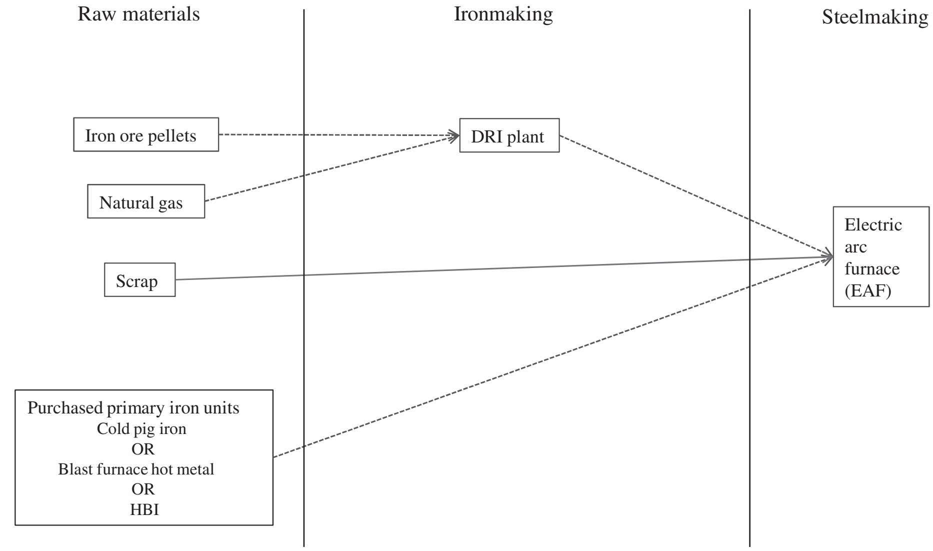
There are two main processes for producing liquid steel, each categorised by the type of furnace that makes the steel. These are the blast oxygen furnace ("BOF") process and the EAF process.

The BOF process requires as its principal iron input the hot metal from a blast furnace, which in turn consumes iron ore, metallurgical coke and injected fuels. The EAF process starts with cold metal. Usually the charge consists mainly of recycled scrap, although primary iron units may also be added to the melt in the form of direct reduced iron ("DRI"), hot briquetted iron ("HBI"), cold pig iron or even blast furnace hot metal.

The EAF-based steelmaking process is preferable on environmental grounds. The EAF process uses less energy than the BOF process, if only because a blast furnace consumes energy in reducing ores as well as for heating. The main use of energy in the EAF is for heating the charge. Moreover, the blast furnace uses coal as the main source of energy, whereas the EAF uses electricity. Some of the electricity used in operating an EAF is itself derived from coal, but not necessarily all, and the Chinese government is trying to diversify the sources of electricity by investing heavily in wind power, nuclear power and other non-coal technologies. The EAF process is also less capital-intensive than the BOF process.

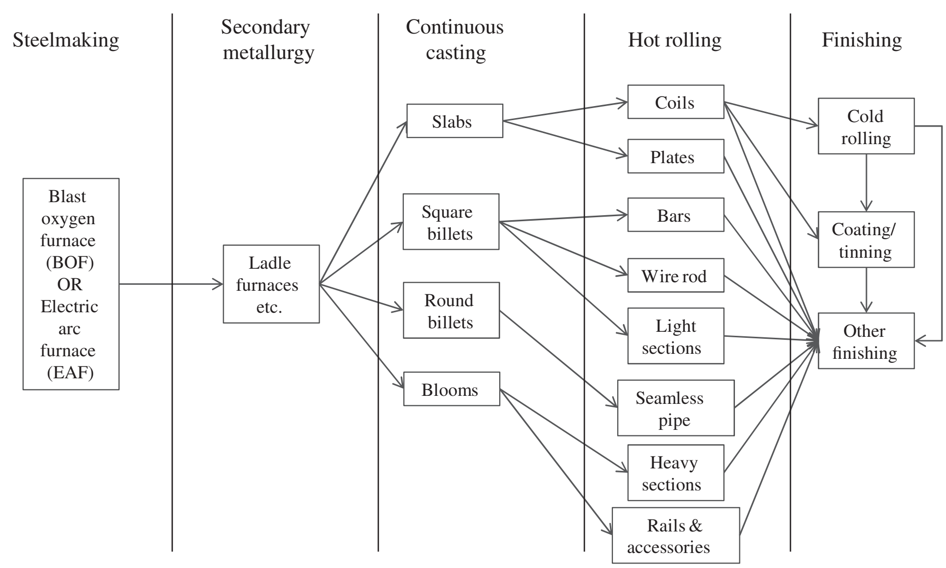
Whichever process is used, the next stage in the production process is the casting of semi-finished products. Cast billets, blooms and slabs would subsequently be hot rolled to produce various finished products. Some finished products require further processing beyond the hot rolling stage.

Flowchart for steelmaking via the EAF route



Source: CRU

Flowchart for downstream processing



Source: CRU

Types of steel

Steel is commonly broken down into three main headings: carbon, alloy and stainless. Standard international trade classifications make the following distinctions.

Carbon steel is defined by exception. It is any steel that is not alloy or stainless steel.

Alloy steels are steels that contain specific alloying metals in concentrations greater than specified levels, which vary from one metal to the next. There is an upper limit of 10.5% on the chromium content of alloy steels, above which the steel would be classified as stainless rather than alloy.

Bearing steels and gear steels are classified, to the best of CRU's knowledge, as alloy steel, because they contain chromium and, in certain cases, other alloy elements. Bearing and gear steels are used to produce bearings and gears. Bearing steels contain 0.5% to 2.0% chromium (typically 1.5%) and 0.55% to 1.10% carbon (typically 1.0%). Gear steels contain 0.4% to 1.15% chromium and 0.14% to 0.21% carbon. Other alloying elements, typically molybdenum and nickel, may be added in small concentrations in premium grades of these steels.

Stainless steel is defined as any steel containing no more than 1.2% carbon and no less than 10.5% chromium. Stainless steel is a type of special steel.

Some countries, and in particular, China and Japan, use the term "special steel" as a separate category. Steels that are not special steels are designated as ordinary or general steels. However, there is no universal definition of special steel. In China, special steels normally include high-quality carbon steel, alloy steel and stainless steel. High-quality carbon steels are steels with special chemical compositions, with special purity requirements or requiring special processing. The assignment of carbon steels between special and ordinary appears to be made on a case-by-case basis for specific products. In general, special carbon steels include high-carbon grades, high-quality structural carbon steels and steels with specially low tolerances for sulphur and phosphorus. About 70% of special steel production in China consists of alloy steel.

CHINA STEEL INDUSTRY

China is the largest steel producing country in the world, with a 10-year CAGR of 18% from 2000 to 2009. In contrast, both Japan and the United States experienced negative growth over the same period. According to the World Steel Association, crude steel production in China increased from approximately 128.5 million tonnes in 2000 to approximately 567.8 million tonnes in 2009. China accounted for approximately 46.4% of the world's total steel output in 2009.

World Crude Steel Production (million tonnes)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	CAGR (%)
China	128.5	151.6	182.4	222.3	282.9	353.2	419.1	489.3	500.3	567.8	18.0%
Japan	106.4	102.9	107.7	110.5	112.7	112.5	116.2	120.2	118.7	87.5	(2.1%)
United States	101.8	90.1	91.6	93.7	99.7	94.9	98.6	98.1	91.4	58.2	(6.0%)

Source: World Steel Association Yearbook 2010

China is also the largest steel consuming country in the world. Domestic consumption for crude steel reached approximately 565.0 million tonnes in 2009, accounting for approximately 47.0% of the world's total consumption during that year. From 2000 to 2009, steel consumption in China grew at a CAGR of approximately 16.9%, significantly higher than world steel consumption, which grew at a CAGR of approximately 4.0% over the same period.

The increased steel consumption was primarily driven by the steady and rapid economic development in China. China's GDP has grown at a CAGR of approximately 15.0% per year, between 2000 and 2009, faster than any other major developed or developing countries. This rapid economic growth has mainly been driven by the rate of industrialization and infrastructure development, which increases demand for steel products.

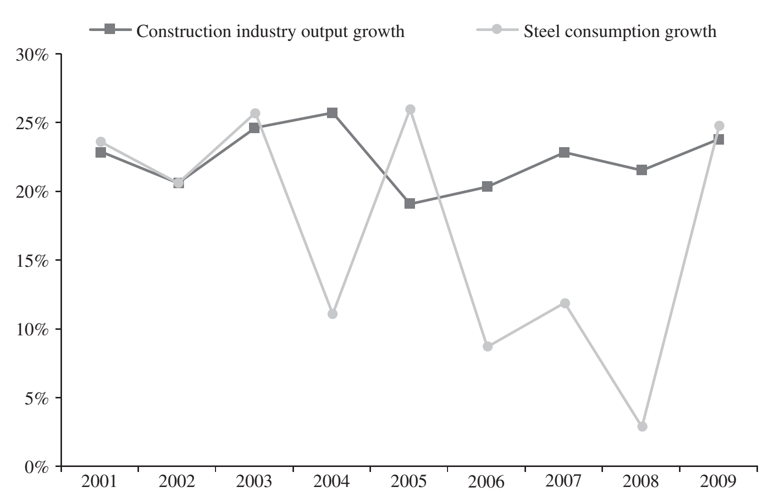
China Crude Steel Consumption, Production and Net trade (million tonnes)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	CAGR (%)
Consumption	138.1	170.6	205.7	258.6	287.3	362.0	393.4	440.1	452.9	565.0	16.9%
Production	128.5	151.6	182.4	222.3	282.9	353.2	419.1	489.3	500.3	567.8	18.0%
Net import[(1)]	9.6	19.0	23.3	36.3	4.4	8.8	(25.7)	(49.2)	(47.4)	(2.8)	(187.2%)

(1) The figures for net imports are derived from the differences between domestic consumption and domestic production.

Source: World Steel Association Yearbook 2010

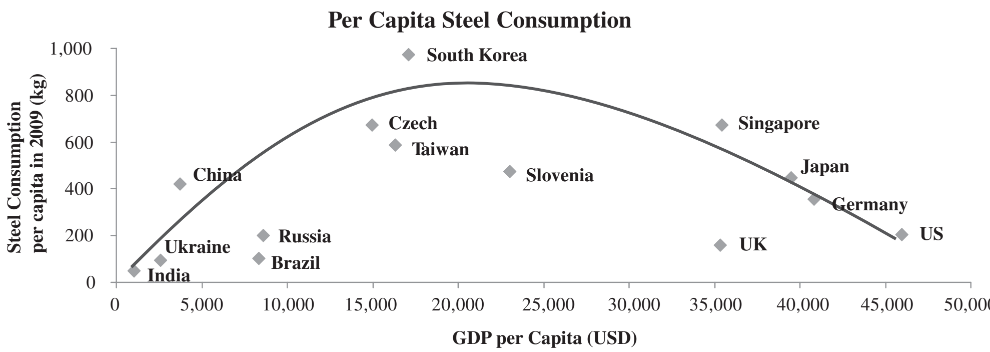
The building and construction sector is the largest steel consuming sector in China and has been growing at a CAGR of 15.0% from 2000 to 2009, according to National Bureau of Statistics in China. Construction industry growth has a direct bearing on demand for steel products in China, as shown in the chart below. Under the Twelfth Five-Year plan, the construction industry is projected to grow at 11.3% per annum by BMI. Other sectors such as machinery, automobile and electronic appliances are also key drivers of steel consumption in China.



Source: National Bureau of Statistics of China; World Steel Association Yearbook 2010

China's per capita steel consumption

Despite being the world's largest steel consuming nation, China's average per capita steel consumption was approximately 422.1 kg in 2009, significantly below that of developed Asian nations such as Singapore and South Korea, as reflected in the chart below. Given that China is in the stage of its economic development where the demand of steel is still in an upward trajectory, steel consumption per capita is expected to continue to rise, as GDP per capita increases.



Source: World Steel Association Yearbook 2010

China's downstream steel producers

According to the China Steel Year Book 2010, 72.3% of China's production of finished steel products was derived from 10 provinces or municipalities. Shandong Province ranks amongst the top three by production volume.

China finished steel production by province (million tonnes)

		Volume 2009	Percentage of total 2009
1	Hebei	152.0	21.9%
2	Jiangsu	77.5	11.2%
3	Shandong	58.7	8.5%
4	Liaoning	49.1	7.1%
5	Tianjin	40.8	5.9%
6	Henan	27.0	3.9%
7	Guangdong	25.1	3.6%
8	Zhejiang	24.4	3.5%
9	Hubei	23.8	3.4%
10	Shanxi	22.9	3.3%
	Others	192.0	27.7%
Total		693.4	100.0%

Source: China Steel Year Book 2010

The Chinese steel industry is considered fragmented, consisting of many SOE producers as well as private enterprises. The largest producers are listed in the table below. To curb over-capacity of steel production and excessive growth of small and inefficient steel makers in the country, the PRC government has taken various regulatory measures to encourage consolidation of the industry. As a consequence, the steel market in China has seen a series of government-encouraged mergers and acquisitions in recent years.

China's major crude steel producers (million tonnes)

		Volume	Percentage of total
		2009	2009
1	Hebei Iron & Steel Group Co., Ltd.	40.2	7.1%
2	Baoshan Iron & Steel Co., Ltd.	38.9	6.9%
3	Wuhan Iron and Steel Company Limited	30.3	5.3%
4	Angang Steel Company Limited	29.2	5.1%
5	Jiangsu Shagang Group Co., Ltd.	26.4	4.6%
6	Shandong Iron & Steel Group Co., Ltd.	21.3	3.8%
7	Beijing Shougang Company Limited	19.5	3.4%
8	Hebei New Wu'an Iron and Steel Group	16.7	2.9%
9	Maanshan Iron & Steel Company Limited	14.8	2.6%
10	Hunan Valin Iron & Steel Co., Ltd.	11.9	2.1%
	Others	318.6	56.1%
Total		567.8	100.0%

Source: China Steel Year Book 2010

Major ordinary steel product groups

Rebars and wire rods, two major ordinary steel product groups, are experiencing a still rising but decelerating market in line with the overall ordinary steel industry. This is a common pattern for China and other developing countries. Both rebars and wire rods are consumed mainly by the construction industry, which at this stage of China's economic development, is expected to grow more slowly than the motor vehicle industry and overall industrial production. Market volumes for rebar and wire rod are expected to grow at a CAGR of approximately 6% over the 2011 to 2015 period.

Historical production of rebars and wire rods, China, 2003-2010 (million tonnes)

	2003	2004	2005	2006	2007	2008	2009	2010	2003-2010 CAGR (%)
Rebars	40.1	47.1	67.5	82.0	101.1	97.1	123.1	131.2	18.5%
Wire rods	40.7	49.4	60.3	71.7	79.3	80.2	96.0	105.1	14.5%

Source: CRU

Forecast production of rebars and wire rods, China, 2011-2015 (million tonnes)

	2011	2012	2013	2014	2015	2011-2015 CAGR (%)
Rebars	140	149.4	149.4	168.5	178.1	6.3%
Wire rods	111.8	119.1	125.8	132.5	138.9	5.7%

Source: CRU

CHINA SPECIAL STEEL INDUSTRY OVERVIEW

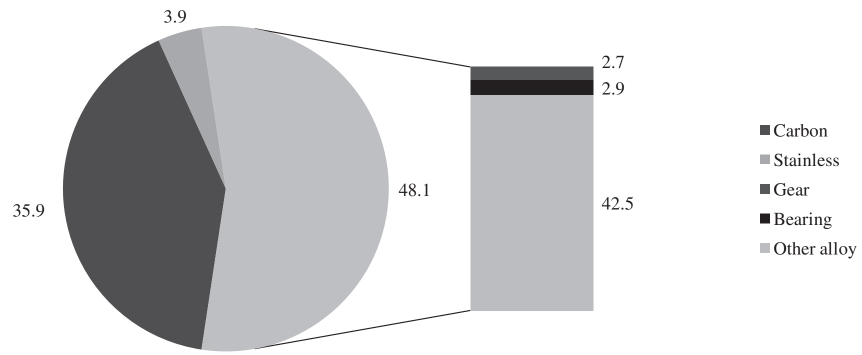
CRU obtained its data on the Chinese special steel industry from Mysteel.com, a website that reports official Chinese government statistics, which distinguishes special steel from ordinary steel.

For the purpose of international comparisons, definitions of special steel vary from one country to the next. The statistics reflect the views of the respective national governments or trade associations that compile them as to how special steel ought to be defined. The statistics would not normally be published with sufficient disaggregation by type of steel to make possible a direct comparison. CRU believes that these statistics should be sufficiently reliable to give an accurate overall impression of the special steel industry in China.

Data reported for 32 producers of special steel show that they produced 88.7 million tonnes of crude steel and 87.9 million tonnes of finished products in 2010. Data are not reported for all producers in China, so may underestimate the size of the market. The 32 mills produce an estimated 60% of special steel products in China.

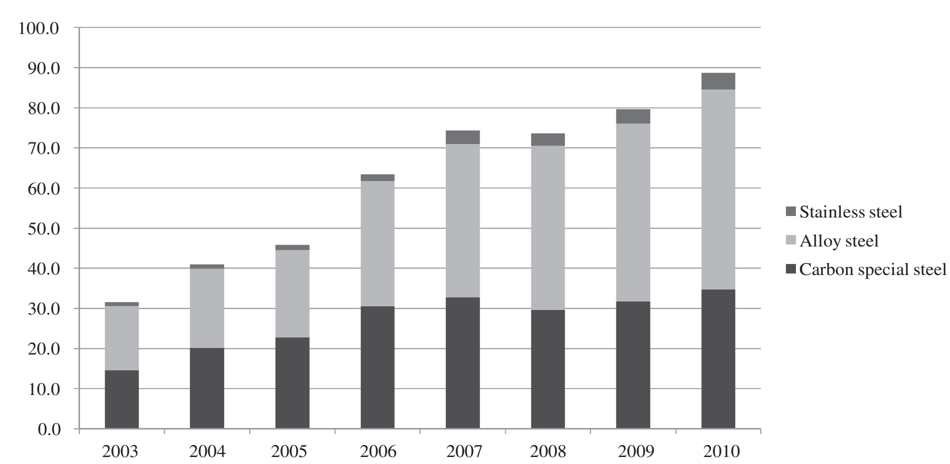
The data for the top 32 can be broken down into special carbon steel, alloy steel and stainless. Excluding stainless, which is only used in high-value applications where other steels are not suitable due to its substantially more expensive production process requiring either an argon-oxygen or a vacuum oxygen decarburiser as specialized equipment and is therefore a totally different market, alloy steel accounted for 56% of production on a crude steel basis and 55% on a finished product basis. The 32 mills produced 49.7 million tonnes of crude alloy steel and 48.1 million tonnes of finished alloy steel products in 2010.

Production of special steel by type, 32 top Chinese producers, finished product basis, 2010 (million tonnes)



Source: CRU

Special steel production by type, China, 32 reporting producers, 2003–2010 (million tonnes)



Source: CRU

Production of special steel reported by top 32 producers, China, 2003-2010 (million tonnes)

	2003	2004	2005	2006	2007	2008	2009	2010	Growth rate
Crude steel basis									
Total special steel	31.6	41.0	45.9	63.5	74.4	73.6	79.7	88.7	15.9%
Carbon special steel	14.6	20.2	22.8	30.6	32.8	29.6	31.7	34.8	13.2%
Alloy steel	16.0	19.7	21.8	31.1	38.2	41.0	44.3	49.7	17.6%
Stainless steel	1.0	1.1	1.3	1.7	3.4	3.0	3.7	4.2	23.0%
Gear steel(1)	1.1	1.3	1.4	1.7	1.9	1.1	1.6	2.1	10.2%
Bearing steel(1)	1.5	1.8	2.0	2.1	2.4	2.2	2.0	3.1	11.4%
Finished steel basis									
Total special steel	27.7	38.6	41.4	59.3	70.7	69.7	77.3	87.9	17.9%
Carbon special steel	13.1	18.9	20.1	28.1	31.5	27.7	31.3	35.9	15.5%
Alloy steel	13.5	18.4	19.9	29.3	36.1	39.3	42.7	48.1	19.9%
Stainless steel	1.1	1.3	1.4	1.9	3.0	2.8	3.4	3.9	20.2%
Gear steel(1)	1.1	1.3	1.5	1.9	2.2	1.4	2.0	2.7	13.2%
Bearing steel(1)	1.3	1.6	1.8	2.0	2.2	2.0	1.8	2.9	11.9%

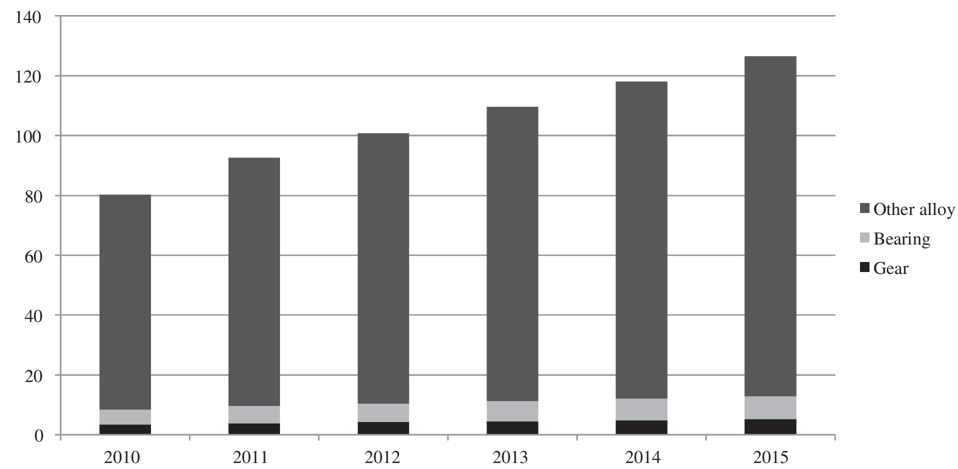
(1) Also included in alloy steel above.

CRU's data source: Mysteel.com

Crude special steel production has grown at an average rate of 15.9% per year since 2003. This is the same rate at which total crude steel production is reported to have grown over the same period. Crude alloy steel production has grown at an average annual rate of 17.6%. On a finished steel basis, reported special steel production has grown at an average rate of 17.9%, and finished alloy steel production alone by 19.9% per year.

Growth in Chinese steel production is expected to be an average of 6.8% per year between 2010 and 2015. By comparison, steel production is expected to grow by only 4.3% per year over the same period in the rest of the world. Production of alloy steels, on the other hand, is expected to grow faster than the overall category at 9.5% between 2010 and 2015.

Chinese production of alloy steel finished products, million tonnes

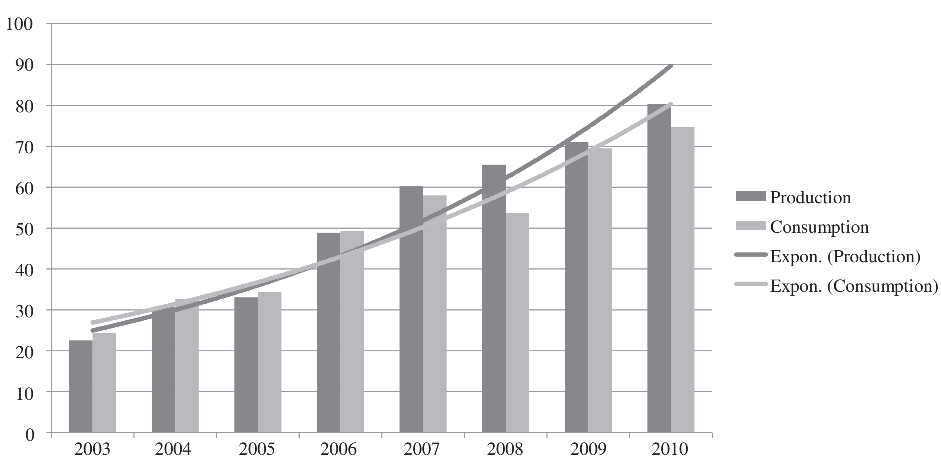


Source: *CRU*

Note: Volumes adjusted for under-reporting (assumed 60% of total)

Apparent consumption of alloy steels is estimated to have grown at a 17.4% annual rate between 2003 and 2010, and reached 80.2 million tonnes in 2010. This growth rate is based on the assumption that reported alloy steel production has accounted for 60% of the total.

Chinese market for alloy steel finished products, million tonnes



Source: *CRU*

Note: Reported production is assumed to account for 60% of actual production

CRU forecasts Chinese alloy steel consumption to grow by 8.9% per year between 2010 and 2015. This reflects the growing maturity of the steel industry in China in general. Alloy steel consumption is nonetheless expected to grow more rapidly than the overall steel market in China. By 2015, alloy steel consumption should reach 114.5 million tonnes, up from 74.7 million tonnes in 2010.

Forecast production of market volumes, alloy steels, China (million tonnes)

		2010	2011	2012	2013	2014	2015	Average growth (%)
Apparent consumption . .	Alloy steel	74.7	80.6	88.8	87.6	106.1	114.5	8.9%
Net exports	Alloy steel	5.5	12.0	12.0	12.0	12.0	12.0	N/A
Production	Alloy steel	80.2	92.6	100.8	109.6	118.1	126.5	9.5%
of which:	Gear steel	3.4	3.9	4.2	4.5	4.8	5.2	9.0%
	Bearing steel	5.0	5.8	6.2	6.7	7.2	7.6	8.5%

Source: CRU

Special steel production volume as a percentage of total output

Reported production of crude special steel was 14% of total Chinese crude steel production in 2010, and with reported alloy steel production at 8% of the total. Note that these percentages understate actual shares by the share of unreported special steel production. Even without adjustment for under-reporting, these shares are comparable to shares of special steel and alloy steel production in many industrial countries.

Trends in special steel production relative to total crude steel production, China, 2003-2010

	2003	2004	2005	2006	2007	2008	2009	2010
million tonnes								
All production	222.4	280.5	355.8	423.0	489.3	500.3	567.8	626.7
Carbon special steel (top 32)	14.6	20.2	22.8	30.6	32.8	29.6	31.7	34.8
Alloy steel (top 32)	16.0	19.7	21.8	31.1	38.2	41.0	44.3	49.7
Gear steel (top 32)	1.1	1.3	1.4	1.7	1.9	1.1	1.6	2.1
Bearing steel (top 32)	1.5	1.8	2.0	2.1	2.4	2.2	2.0	3.1
Stainless steel (top 32)	1.0	1.1	1.3	1.7	3.4	3.0	3.7	4.2
2003 = 100								
All production	100.0	126.1	160.0	190.2	220.0	224.9	255.3	281.8
Carbon special steel (top 32)	100.0	138.2	155.7	208.9	224.0	202.2	216.9	237.8
Alloy steel (top 32)	100.0	123.1	136.1	194.8	238.7	256.3	277.2	311.1
Gear steel (top 32)	100.0	121.9	135.5	156.9	183.3	106.3	148.6	197.0
Bearing steel (top 32)	100.0	122.9	134.2	144.9	164.2	148.8	135.2	213.0
Stainless steel (top 32)	100.0	113.0	135.1	179.2	353.2	309.9	375.6	426.6

	2003	2004	2005	2006	2007	2008	2009	2010
% of total								
All production	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Carbon special steel (top 32)	6.6%	7.2%	6.4%	7.2%	6.7%	5.9%	5.6%	5.6%
Alloy steel (top 32)	7.2%	7.0%	6.1%	7.4%	7.8%	8.2%	7.8%	7.9%
Gear steel (top 32)	0.5%	0.5%	0.4%	0.4%	0.4%	0.2%	0.3%	0.3%
Bearing steel (top 32)	0.7%	0.6%	0.6%	0.5%	0.5%	0.4%	0.3%	0.5%
Stainless steel (top 32)	0.4%	0.4%	0.4%	0.4%	0.7%	0.6%	0.6%	0.7%

CRU's data source: Mysteel.com, World Steel Association

International comparisons of special steel shares of crude steel production (%)

	2003	2004	2005	2006	2007	2008	2009	2010
Special steel, total								
China (top 32)	14.2%	14.6%	12.9%	15.0%	15.2%	14.7%	14.0%	14.2%
Japan	20.1%	20.9%	21.8%	22.0%	21.7%	22.0%	18.4%	22.5%
South Korea	14.6%	15.3%	15.9%	13.9%	16.7%	15.7%	11.8%	14.1%
Italy	20.1%	20.9%	21.4%	22.9%	22.6%	21.7%	19.0%	
Alloy steel only (excluding stainless)								
China (top 32)	7.2%	7.0%	6.1%	7.4%	7.8%	8.2%	7.8%	7.9%
Japan	8.5%	8.9%	9.4%	9.6%	9.6%	10.1%	7.9%	9.9%
USA	5.7%	6.6%	7.1%	6.5%	6.3%	6.4%	4.5%	5.8%
Germany	23.1%	22.7%	26.6%	24.7%	25.2%	25.5%	22.2%	
France	8.4%	7.7%	8.8%	9.3%	10.1%	10.1%	7.0%	10.3%
Italy	10.1%	10.0%	11.1%	11.6%	11.8%	11.6%	8.8%	
Poland		4.7%	4.7%	4.9%	6.0%	5.1%	3.6%	
Spain	4.6%	4.3%	4.4%	4.1%	4.3%	4.1%	2.2%	
Brazil	5.2%	5.9%	6.2%	9.4%	9.3%	10.9%	10.3%	

Data sources: CRU, national steel associations, Mysteel.com, World Steel Association

Reported alloy steel production has increased its share of total crude steel production over the 2003 to 2010 period, from 7.2% to 7.9%. This figure could potentially be higher to the extent that there is significant production of alloy steels not among the top 32 producers.

Special steel production in China is heavily weighted towards rolled long products rather than flat products or pipes and tubes. CRU estimates that the top 32 producers of special steels produced 50.0 million tonnes of rolled long products in 2010. Long products accounted for 56% of total production. Among long products, merchant bars accounted for 25% of total production and rebars and wire rod form the majority of the remaining portion. Among long products, production rose faster for both wire rod and rebars than for merchant bars during the same period.

Major special steel producers in China

CRU can identify 26 producers of special steels, excluding companies that specialise in flat products, pipe or stainless steel. CRU identified the 26 producers of special steels in China by obtaining a list from a proprietary source. These producers are scattered across thirteen provinces of China. The heaviest concentration is in the eastern provinces, in an arc ranging from Liaoning in the north to Zhejiang in the south. The province with the greatest share of production is Shandong. Four provinces, Shandong, Jiangsu, Liaoning and Jiangxi, accounted in 2010 for an estimated 69% of production. The production numbers may be not completely accurate in terms of special steel production because they may include indeterminate volumes of ordinary steel. The available data series on individual producers does not provide breakdown by ordinary and special steel. Because the majority of the special steel producers also manufacture ordinary steel, the production numbers may include indeterminate volumes of ordinary steel.

Most of these producers are in the state-owned sector. Six are private sector companies. Four are located in Jiangsu Province and one each in Shandong and Henan Provinces. One of these produced over 6 million tonnes of finished products in 2010. Two produced between 2 million and 3 million tonnes, and three less than 1 million tonnes. See "Our Business — Our Competitive Strengths" and "Our Business — Competition" in this prospectus for more details about the market share, the competitive landscape of our major products and our competitive advantages.

Selected private sector special steel mills[1], China, estimated production of finished products, 2010
('000 tonnes)

Province	Company	Volume (estimated)
Jiangsu	Nanjing Iron and Steel Company Limited	6,302
Jiangsu	Jiangsu Shagang Group – Huaigang Special Steel Co., Ltd.	2,776
Shandong	Shandong Shiheng Special Steel Group Co., Ltd.	2,249
Jiangsu	Jiangsu Shagang Group – Xinrui Special Steel Co., Ltd.	620
Henan	Zhengzhou Yongtong Special Steel Co., Ltd.	210
Jiangsu	Tiangong International Co., Ltd.	40

Source: CRU

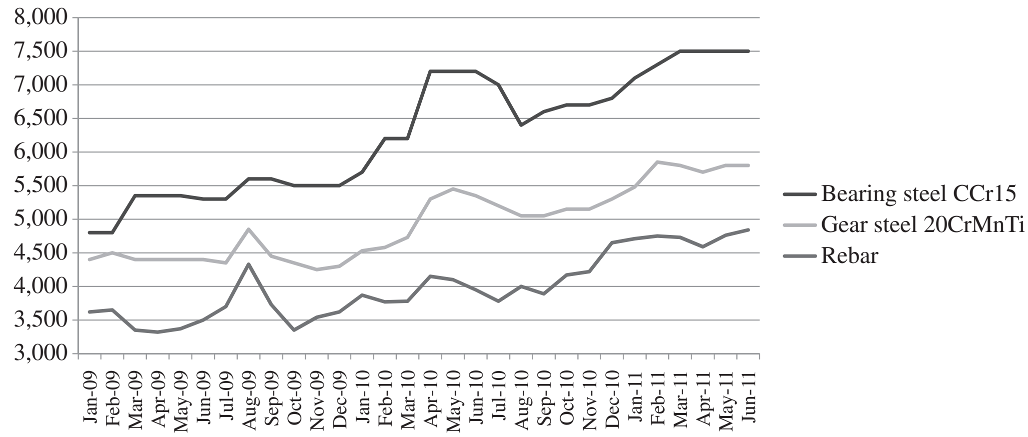
Note:

1 May include some ordinary steel production. Excludes producers specialising in flat products, pipe or stainless steel.

China historical special steel prices comparison

The premia for gear and bearing steels bears little relation to the alloy content of the steels. The price differences relate to such factors as quality control, tighter tolerances, additional processing, technical service, marketing and other less tangible items.

Spot prices for selected long products, Shanghai, RMB/tonne[1]



Source: CRU

1 prices include 17% of VAT

RELEVANT PRC GOVERNMENT POLICIES

The current PRC government policy towards the steel industry is set out in the Twelfth Five-Year Developing Plans. This, in turn, follows policy trends set out in other recent statements by the State Council, of which the most important is the State Council Decree of 17 June 2010. The policies set out therein are discussed below.

The PRC government has issued major policies towards the steel industry at other times in recent years. The most important of these have been the Iron and Steel Industry Revitalisation Plan of 20 March 2009 and the Development Policies for the Iron and Steel Industry of 20 July 2005. These will not be discussed separately in this chapter because the policies set out more recently represent a continuation of previously accepted general principles.

Twelfth Five-Year Developing Plans

The general direction in which the PRC government hopes to take the industry is clear. The PRC government has set out its objectives for the steel industry for the from period 2011 to 2015 in its Twelfth Five-Year Developing Plans. In line with this plan, the China Iron and Steel Association ("CISA") has outlined eight principles on which it will focus:

- Accelerate the elimination of outdated capacities to control the rapid growth of the steel industry;

- Optimise product structure in order to strengthen the competitiveness of steel products;

- Speed up the construction of coastal production bases in order to improve the geographical distribution of steel production capacities;

- Boost the integration of steel enterprises with the aim of increasing the concentration of the steel industry;

- Accelerate technology and industry upgrades;

- Implement the strategy of combining local and imported resources as well as local and foreign markets to achieve the unification of the world economy;

- Establish a healthy and integrated industrial chain which would adapt to the requirements of development; and

- Foster a sustainable economy.

The elimination of outdated capacities is one of these ongoing policies. CISA has reported that government has targeted for closure 26.53 million tpy of ironmaking capacity and 26.27 million tpy of steelmaking capacity in 2011.

The government can also introduce new standards for steel to mandate the use of better quality products. There is an emphasis on producing more high value-added quality steel and not just more tonnes of steel. For example, a new rule will take effect on 1 July 2011 mandating increased use in concrete structures of wires with higher yield strength than the wires currently in common use. The rule seeks eventually to ban the use of wire with a yield strength of 235 MPa and, wherever possible, to upgrade to wires with yield strengths of 400 MPa or even 500 MPa. The government also seeks to upgrade the quality of bearing steel.

Fostering a sustainable economy presumably refers to the environment, an issue of which the central government has become increasingly aware. The government has issued mandatory standards for crude steel, coke and ferroalloy production, limiting energy consumption and pollutant emissions. There is also a policy in force to cut overall carbon dioxide emissions, both in the steel industry and in the Chinese economy at large.

State Council decree of June 2010

On 17 June 2010, the State Council published a policy document on the steel industry that has received widespread attention. This document raised the following issues:

- Local governments would be required as soon as possible to submit plans for industry consolidation to the Ministry of Industry and Information Technology ("MIIT").

- A moratorium on new expansion projects, announced in August 2009, would be extended to the end of 2011. Exceptions were made for the Zhanjiang project of Baosteel in Guangdong Province and the Fanchenggang project of Wuhan Iron & Steel in Guangxi Province.

- China would adjust its import and export tariffs to discourage the export of low-value steel products in order to conserve energy. China had extended export tax rebates during the 2009 financial crisis as a means of promoting exports when markets were weak. These would be reduced or even rescinded. Subsequently, the government rescinded the 9% export tax rebate on hot-rolled sheet and plate and on cold-rolled sheet, effective 15 July 2010.

- Several measures were announced to review unauthorised steel projects that have been built since 2005. These projects are said to account for up to 300 million tpy of steelmaking capacity. The National Development and Reform Commission would review all of these projects. Moreover, the Ministry of Land and Resources would search for violations of land use regulations and the Ministry of Environmental Protection would expose environmental offenders related to these projects.

- The National Development and Reform Commission would formulate a differential energy pricing policy to discourage power consumption by inefficient plants.

Guidelines for closures of inefficient capacity

The MIIT released guidelines on 13 July 2010 concerning closures of inefficient plants. All blast furnaces with a capacity of less than 400 cubic metres would be targeted for closure, along with steelmaking furnaces of less than 30 tonnes. Blast furnace rebuilds would be allowed only for furnaces with a capacity of at least 1,000 cubic metres.

Certain criteria were laid out for small mills that have started up since July 2005. Installations not meeting these criteria could be forced to shut down, refused operating licenses and lines of credit and would have limited access to new mineral resources. Blast oxygen converters would need a capacity of 120 tonnes in order to be permitted to operate, and electric arc furnaces built since that date would need a capacity of 70 tonnes. Steel mills would be required to have a capacity of at least 1 million tpy. However, this limit would be reduced to 300,000 tpy for special steel mills where alloy steel accounts for at least 60% of capacity.

Scrap, special steel and EAF technology

On 18 October 2010, the PRC government issued a policy document expressing support for the development of new engineering materials of various types, specifically including high-quality special steel. A more detailed plan was scheduled to be released in the spring of 2011 but, to the best of our knowledge, has not yet been published.

The PRC government also seems keen to increase the recovery rates of steel scrap, which are below developed world norms. The State Council is reported to have announced that the next five-year plan will encourage mechanised recycling systems, including car shredders, to improve scrap recoveries.

The PRC government would also welcome the greater use of electric arc furnace-based steelmaking on environmental grounds. The EAF process uses less energy than the BOF process, if only because a blast furnace consumes energy in reducing ores as well as for heating. The main use of energy in the EAF is for heating the charge. Moreover, the blast furnace uses coal as the main source of energy, whereas the EAF uses electricity. Some of the electricity used in operating an EAF is itself derived from coal, but not necessarily all, and the PRC government is trying to diversify the sources of electricity by investing heavily in wind power, nuclear power and other non-coal technologies.

RAW MATERIALS

Scrap is by far the most important material for producing special steels by the EAF route. In addition, alloy metals, of which the most important is chromium, are used in all bearing and gear steels.

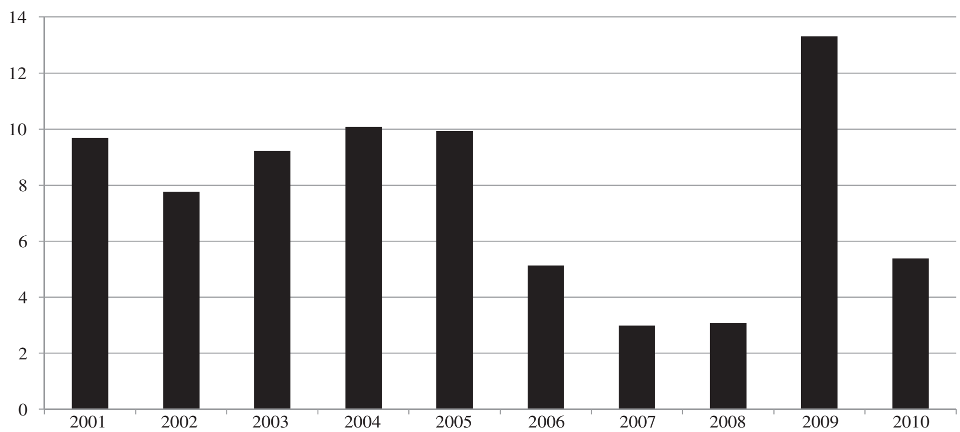
The principal feed in EAF steelmaking is scrap. Chinese consumption of scrap in carbon and alloy steelmaking amounted to 114 million tonnes in 2010. Of this, 39 million tonnes were consumed in EAF steelmaking and 75 million tonnes in BOF steelmaking.

China has unusually high rates of pig iron consumption in EAF steelmaking. Many Chinese EAFs have been installed to use hot metal from a blast furnace on site or from another blast furnace near the site. This practice is not unique to China but is more widespread in China than anywhere else in the world.

China's steel scrap supply

China is always a net importer of scrap. In 2010, China imported 5.4 million tonnes of scrap. The implied volume of steel scrap generation in China was 111 million tonnes, a record, after adjustment of steel scrap demand to account for uses other than steelmaking.

Chinese net imports of steel scrap (million tonnes)



Source: CRU

The total demand for steel scrap in steelmaking would have to increase to 177 million tonnes by 2015.

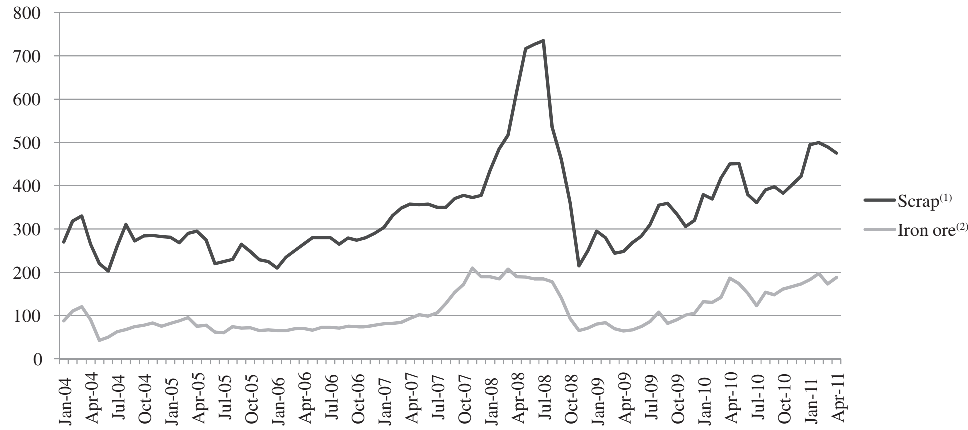
The forecast supply/demand balance for scrap in China, 2010-2015
(million tonnes)

	2010	2011	2012	2013	2014	2015
Consumption						
Steelmaking	114.3	124.5	135.0	149.6	163.6	177.5
Other	2.4	2.6	2.8	3.1	3.3	3.5
Total	116.7	127.1	137.9	152.7	166.9	181.0
Supply						
Net imports	5.4	5.4	5.7	6.0	6.3	6.3
Generation	111.3	121.7	132.1	146.7	160.6	174.7

Source: CRU

Reference prices for steel scrap show that iron ore and scrap prices have broadly tracked one another since 2004. Steel scrap prices have also broadly tracked iron ore prices since, at the margin, both indirectly and directly, there is substitution between blast furnace hot metal and scrap. Steel scrap prices have tended to rise over time, although a price spike in early 2008 was followed by a severe downward correction in the second half of the year.

Comparison between iron ore prices and steel scrap prices, U.S. dollars per tonne



Source: CRU

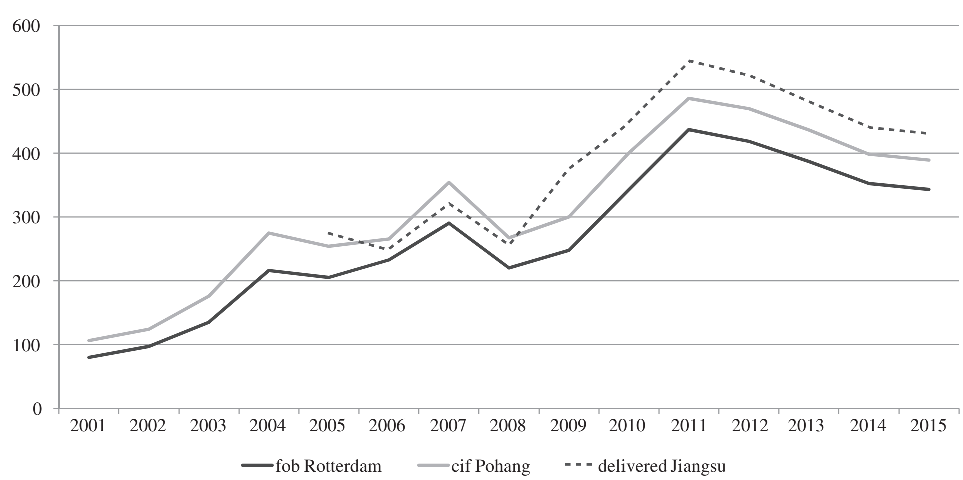
Notes:

(1) Steel scrap prices c.i.f. Pohang, South Korea.

(2) Iron ore prices c.i.f. Qingdao, China, 63.5% Fe.

Steel scrap prices are expected to peak in 2011. Beyond 2011, CRU expects new supplies of iron ore to start to reverse the recent rises in iron ore prices. Steel scrap prices too are expected to fall.

Steel scrap prices, No.1 Heavy Melting Scrap[1] or equivalent, U.S. dollars per tonne



Source: CRU

Note:

(1) The most common reference prices for steel scrap is based on No. 1 Heavy Melting Scrap ("No. 1 HMS"). No. 1 HMS is suitable for most steel products, including long products. No. 1 HMS is specified as clean iron and steel with a minimum thickness of 0.25 inches (6.35 mm) and a maximum size of 60 X 24 inches (1,524 X 610 mm), which gives steel scrap of a size suitable for use in the furnace charging system of an EAF. The steel scrap is essentially fed to the EAF by tipping it out of a charge box, which is a container from which the metallics charge is fed into a furnace.

Margins for steel scrap processing

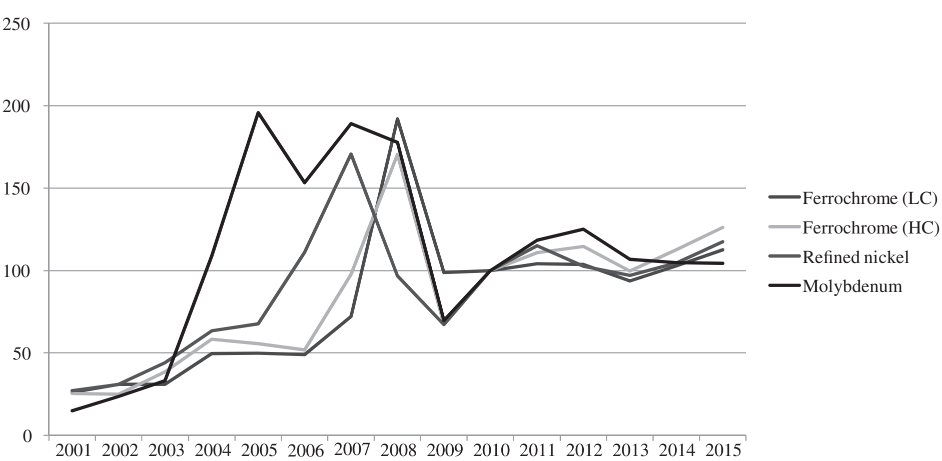
Steel scrap may pass through a chain of collectors, each of which consolidates material purchased from smaller collectors into larger shipments and then sells it on. Eventually, the steel scrap will reach the gate of a large scrap processor which sorts it into saleable forms and sells it on to a steel mill. At each stage of the chain, as the steel scrap gets closer to its final destination, the price of the steel scrap increases to account for transport and handling and to provide profit for the handler.

The margin obtained by a large processor varies according to specific circumstances, and may vary too by grade, as handling may be easier for some grades than for others. CRU estimates that a large scrap processor will encounter a spread in the range of RMB300 to RMB500 per tonne (US$46-77) between the receipt price of unprocessed scrap and the outbound price of processed scrap.

Alloy metals

Prices for key alloy metals, high- and low-carbon ferrochrome, nickel and molybdenum, have fallen from the peak levels of 2007 to 2008 but remain several times higher than they were ten years previously. These are global commodities and reference prices tend to be set in terms of US dollars ("$"). High-carbon ferrochrome reference prices averaged $1.21 per pound contained chromium in 2010, and low-carbon (0.10% C) ferrochrome prices $2.35 per pound contained chromium. The London Metal Exchange cash price for nickel averaged $21,809 per tonne in 2010, and the spot reference price for molybdenum oxide $16.30 per tonne contained molybdenum. The prices for these metals are forecast to remain close to 2010 levels, pushing slightly higher by the end of the forecast period.

Alloy metal reference prices, 2010 = 100



Source: CRU

MARKETS AND OUTLOOK FOR GEAR AND BEARING STEEL IN CHINA

The major uses of gear steel and bearing steel are in rotating mechanical parts. Gears and bearings tend to be complementary in their end-use patterns. The largest single application of bearings is in the transport equipment sector. Additionally, bearings are widely used in general machinery, including steelmaking equipment, machine tools, wind turbines, railcars, ships and aerospace.

The macroeconomic outlook for the relevant industrial sectors in China parallels the outlook for the steel industry in China. Growth is expected to remain strong by the standards of almost any other country in the world, but the growth rates are expected to be slower over the forecast period than over the last decade.

Macroeconomic outlook for main sectors consuming bearings and gears, China, 2003-2015
(% change year-on-year)

	2003	2004	2005	2006	2007	2008	2009	2010
Total industrial production	16.7%	16.2%	16.0%	16.2%	17.4%	12.8%	12.2%	14.5%
Mechanical engineering	28.9%	23.4%	22.2%	26.0%	24.3%	18.4%	21.4%	18.8%
Transport equipment	21.8%	25.1%	9.2%	26.2%	24.2%	15.7%	19.6%	21.2%
Motor vehicles	22.2%	21.2%	16.3%	32.4%	23.9%	2.3%	29.1%	26.3%
Other	21.5%	29.4%	1.9%	19.0%	24.5%	33.0%	10.0%	15.1%

	2011	2012	2013	2014	2015	2003-10 Average	2010-15 Average
Total industrial production	14.1%	12.8%	12.7%	9.7%	8.9%	15.0%	11.6%
Mechanical engineering	14.1%	13.4%	12.6%	10.9%	9.5%	22.0%	12.1%
Transport equipment	13.5%	11.9%	9.5%	8.0%	7.9%	20.0%	10.2%
Motor vehicles	16.4%	12.8%	10.6%	8.4%	8.3%	21.3%	11.2%
Other	9.9%	10.7%	8.1%	7.4%	7.4%	18.6%	8.7%

Source: CRU

Major customers

All of the major global bearings manufacturers have factories in China. These include SKF Group (Sweden), Schaeffler Group (Germany), The Timken Company (USA), JTEKT Corporation, NTN Corporation, NSK Global Ltd., Nachi-Fujikoshi Corporation and Minebea Co. Ltd (all Japan). In addition, there is a relatively large number of domestic producers of bearings. Many of these companies specialise in particular types of bearings or in specific end-use sectors. The list is far from exhaustive.

CRU understands that approximately half of gear and bearing steels produced are sold directly to final users and that the balance are sold through traders.

SPECIAL STEEL MARKET IN SHANDONG

Marine equipment & component manufacturing industry and heavy machinery industry are two main drivers for Shandong Province's demand for special steel.

Marine equipment & component manufacturing industry

With a coastline of more than 3,000 kilometers, the Shandong Peninsula has abundant marine resources and natural resources. It also has the highest port density in PRC. In light of the *Development Plan for the Shandong Peninsula Blue Economic Zone* (or the "*Plan*"《山東半島藍色經濟區發展規劃》) enacted by the National Development and Reform Commission in January 2011, GOP (Gross Ocean Product) of Shandong Province in 2009 totaled RMB604 billion, contributing to 18.9% of the national GOP and ranking second in PRC behind Guangdong Province. The Commission of Science, Technology and Industry for National Defense of Shandong Province announced that during the Eleventh Five-year Plan period, the gross industrial output of Shandong shipbuilding industry reached RMB50 billion, the sales revenue was RMB46 billion and profits were RMB3 billion, up by approximately 200% in aggregate from 2005.

The *Plan* explicitly pointed out that Shandong Province should put in great efforts in developing its marine industries including marine equipment manufacturing, marine resources & mining, and marine engineering. By 2015, the GDP of Shandong Province will achieve an average annual growth rate of over 15%. In 2011, a designated fund of RMB 1 billion from Shandong Province Finance Bureau (山東省財政廳), and another designated fund of RMB 1 billion from 7 cities of the Shandong Peninsula Blue Economic Zone will be used to construct the Shandong Peninsula Blue Economic Zone. Five cities including Dongying, Weifang, Weihai, Rizhao and Binzhou will be developed into specialized modern marine equipment & component manufacturing bases.

In particular, the marine equipment & component manufacturing industry is a key downstream industry for special steel product demand. In the marine equipment & component manufacturing industry, key parts (such as electric gear and gear rack of spud legs and lifting systems) of marine platforms (such as oil platforms and drilling platforms) require special steel products. Such special steel products include Z-direction steel (Z15, Z25, Z35) with high strength, large thickness and lamellar tearing resistance. X 80 pipeline steel with thick walls is used in deep-sea natural gas projects. Anchor chains used in the shipbuilding industry require CM690 class III die-cast anchor chain steel. Sucker rods used in deep-sea oil well also require special steel products designed for 30CrMnSiNi2 sucker rods. Therefore, the marine industry's rapid development is expected to be a strong driver for the market demand for special steel.

Heavy machinery industry

Data from the Shandong Province Machinery Industry Association show that in 2010, the sales revenue, gross industrial output, and taxes of Shandong machinery industry all ranked second in PRC. Production capacity and market shares of products such as heavy duty automobile, light truck, and large-scale forging equipment all ranked first in PRC. Shandong Province Machinery Industry Association forecasts that machinery vendors in the province will achieve operating revenue of RMB1.85 trillion in 2011, up 20% from 2010.

Heavy machinery manufacturing industry also has large demand for special steel products. In the heavy machinery manufacturing industry, most steel products used in spare and accessory parts are basic special steel products including 45# carbon structural steel and 40Cr alloy steel. Bearings in large machinery require a large amount of bearing steel such as GR15 and GR 55 bearing steel. Key parts in machinery manufacturing such as axle shaft also require special steel products such as CR and CrMo series structural steel. 60Si2Mn and 60Si2MnA spring steel is used to make high-strength spring, and 20SiMnT and 20SiMnTH gear steel is used to make large gear and flange. Therefore, the rapid development in the heavy machinery industry is expected to stimulate the market demand for special steel.

Historical market prices for special steel and ordinary steel products in Shandong

Similar to the national market, special steel products typically sell at a premium to ordinary products in the Shandong Province. But depending on market supply/demand balance for certain products, prices may deviate from this relationship.

Reference special steel and ordinary steel product prices in Shandong:

			Selling price as at 30 September 2011 (in RMB per tonne)		Selling price as at 31 December 2011 (in RMB per tonne)	
	Type of steel	Specification	Including 17% VAT	Excluding 17% VAT	Including 17% VAT	Excluding 17% VAT
Special steel						
Quality carbon steel . . .	45#	ϕ18-65	5,450	4,658	5,050	4,316
Alloy structural steel . .	40Cr	ϕ18-65	5,000	4,274	4,800	4,103
Bearing steel	GCr15	ϕ32-65	5,800	4,957	5,650	4,829
Steel welding wire	ER50-6	ϕ5.5	5,350	4,573	4,550	3,889
Ordinary steel						
Rebar	ϕ16-25	HRB335	4,550	3,889	4,310	3,684
Wire rods	ϕ8	HRB400	5,000	4,274	4,580	3,915

Data source: Mysteel.com

The laws, regulations and normative documents governing the steel industry are mainly "Development Policy for the Iron and Steel Industry", "Rules and Qualifications for Production and Operation of Steel Industry", "Tentative Measures for the Examinations and Approvals of Investment Projects by Enterprises", "Administrative Regulations of the People's Republic of China on Production Licenses for Industrial Products", "Standardisation Law of PRC", "Environment Protection Law of PRC" and "Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Waste". The following are certain relevant provisions in the above laws, regulations and normative documents that govern the steel industry and its related products.

"Development Policy for the Iron and Steel Industry" (《鋼鐵產業發展政策》)

(promulgated by the Order No. 35 of the National Development and Reform Commission on 8 July 2005)

Pursuant to this policy, steel production should be in accordance with the concept of sustainable development and the recycling economy, should enhance overall standards of environmental protection and resource utilisation, and should save energy and lower consumption. China encourages steel corporations to improve overall utilisation capacity to reduce waste gases, water and refuse to the greatest possible extent and to establish iron and steel factories with recycling facilities. Iron and steel enterprises must develop their power generation businesses by using reclaimed heat and energy. The Group has established the utilisation system to collect all waste heat, water and slag for recycling utilisation in the Group's plants.

As a general principle, the establishment of independent steel-rolling factories shall not be encouraged and any new free-standing iron or steel-related enterprise, independent iron smelter or steel smelter shall not be established for the purpose of adjusting the framework of the iron and steel industry. China will only, based on established enterprises that meet the relevant criteria in combination with merger and relocation activities, carry out reforms and expand in regions with comparative advantages in areas such as water resources, raw materials, transportation and market consumption. As a general principle, increases in production capacity should be combined with the elimination of inefficient production capacity and enterprises should not expand production capacity to any significant extent. As a general principle, the majority share shall not be controlled by foreign investors. According to our PRC legal advisers, in practice there is no absolute prohibition for a foreign investor to do so, and the examination and approval for a foreign investor to enter into PRC steel industry are made on case-by-case basis. For the Company, all of its PRC subsidiaries have obtained all necessary examinations and approvals for their establishment and operation in China, and are legally established and validly existing under PRC laws.

In order to guarantee the industrial upgrading of the iron and steel industry, realize sustainable development and prevent low-grade construction of unnecessary facilities, the policy prescribes the conditions for access to the iron and steel industry, both in terms of equipment requirements and technical and economic indicators, and existing enterprises shall endeavor to reach these standards by way of technical innovation. For the electric furnaces, the nominal volume of electric furnaces shall be 70 tonnes or above and the electric furnaces shall be equipped with smoke and dust recovery devices. Enterprises are encouraged to actively adopt advanced techniques such as ex-furnace refining, continuous casting and continuous rolling. As confirmed by our Directors, the Group's electric furnaces and rolling lines are in compliance with these requirements related to the equipment and technique.

All production enterprises shall meet local and state standards on the discharge of waste. Control indices for total discharge volumes for major waste from construction projects shall be strictly implemented in accordance with the provisions of approved Environmental Impact Appraisal Report Documents (Forms). Any enterprise found to have exceeded the maximum waste discharge index or total volume prescribed shall be ordered to cease operations. The emission of smoke and dust for the production of each ton of steel in key medium and large enterprises shall be lower than 1kg and the emission of carbon dioxide shall be lower than 1.8kg. As confirmed by our Directors, the pollutants the Group discharges have reached these drainage standards.

China promotes the application of short production processes that use steel scraps as raw materials and encourages special steel enterprises to research, develop and produce special steel products to be used in the military industry, bearings, gears and models, heat resistance, cold resistance and corrosion resistance. Special steel enterprises are discouraged from adopting any small blast furnace technical process that involves the use of electric furnaces with high consumption rates and causes serious pollution. Special steel enterprises shall endeavor to develop in institutionalized and specialized directions.

With the increase in the number of iron and steel products in the market and the quantity of recycled waste steel, China will gradually reduce the proportion of iron ore used and increase the proportion of waste steel used.

"Blueprint for the Adjustment and Revitalization of the Steel Industry" (《鋼鐵產業調整和振興規劃》)

(Issued by the General Office of the State Council on 20 March 2009)

According to this blueprint, China will strictly control the total output of steel and accelerate the process of eliminating what is backward. Newly added production capacity shall be strictly regulated and controlled. Steel projects merely for creating new production capacity or expanding the current production capacity should not be approved. China aimed at, by the end of 2010, eliminating the blast furnaces of 300 cubic metres or below with a total production capacity of 53.4 million tonnes and the revolving furnaces and electric furnaces of 20 tonnes or below with a total production capacity of 3.2 million tonnes, and by the end of 2011, eliminating blast furnaces of 400 cubic metres or below and the revolving furnaces and electric furnaces of 30 tonnes or below with the corresponding iron-making capacity of 72 million tonnes and steel-making capacity of 25 million tonnes. Therefore, our expansion in the future shall focus on structural adjustments and technical upgrades of the products instead of merely increasing our steel productivity.

For the purpose of adjusting the steel product mix and improving the product quality, this blueprint stipulated that China will focus on the development of such key steel products as steel used for express railways, steel used for high-strength sedans, top-grade steel used for electric power, die steel and special large-size forging steel, encourage enterprises and scientific research institutes with the right conditions to address the key problems existing in technologies for producing super-thick steel plates and high pressure boiler tubes used for thermal power and nuclear power of a million KW, oriented silicon steel with high magnetic induction and low iron loss used for transformers of 250,000 kilovolt-ampere, raise the authentication standards, strengthen policy guidance, do its best to achieve the objective of raising the quality of steel products to reach the international standards, amend the relevant design norms, eliminate hot-rolled ribbed steel bars of 335MPa or below, accelerate the promotion and use of steel bars of 400MPa or above, and facilitate the updating and upgrading of construction steel. As confirmed by our Directors, the Group's steel products are in line with the specification and standards required therein and the Group endeavours to expand the varieties of encouraged special steels in the Group's product mix.

"Rules and Qualifications for Production and Operation of Steel Industry" (《鋼鐵行業生產經營規範條件》)

(issued by Ministry of Industry and Information Technology of PRC on 21 June 2010, and came into effect the same day)

These rules and qualifications lay down specific standards for production scale, equipment and environmental protection of iron and steel enterprises. Under the rules and qualifications, steel enterprises meeting the productions scale requirements should have produced crude steel of 1 million metric tonnes and above in 2009, and special steel corporations should have a special steel output of 300,000 tonnes and above in 2009, with alloy steel accounting for over 60% of such output (not including specialized corporations with 100% alloy steel for production high speed steel and tool steel). In addition, steel enterprises shall have met the following requirements: having established a quality management system, whose products being compliance with the national standards and trade standards, and no serious product quality issues having taken place during their production in the recent two years.

Steel enterprises shall comply with the state production licensing system and are obliged to apply and obtain the manufacturing permit for the steel products.

"Decision of the State Council on Promulgating the Interim Provisions on Promoting Industrial Structure Adjustment for Implementation" (國務院關於發佈實施《促進產業結構調整暫行規定》的決定) and "Guiding Catalogue for Industry Restructuring (2011 Edition)" (《產業結構調整指導目錄(二零一一年本)》)

(promulgated by Order No.40 of the National Development and Reform Commission on 2 December 2005, amended on 27 March 2011 and came into effect on 1 June 2011)

According to this decision, China will urge the steel industry to develop towards those of large bases and of large scale. China will actively develop and spread resource conserving, substitutive and circular utilisation technologies and products, emphatically propel the transformation of energy conserving and consumption reducing technologies in the steel industry, develop energy conserving and land saving buildings, apply mandatory elimination systems to techniques and products with high energy consumption, serious pollution, work safety endangering, and outdated technologies, and lawfully shut down enterprises that destroy the environment and fail to meet work safety conditions. China will adjust the scale of industries with high energy consumption and serious pollution, and decrease the proportion of such industries and encourage the production and use of various consumables with good conserving performance, and form a consumption mode of conserving resources.

In the guiding catalogue, development and application of high performance, high quality and upgraded steel products, including such as 600MPa and above high-strength automobile sheet, high performance steel for oil and gas pipeline, corrosion-and-wear-resistant steel, and special steel bar and wire for high performance basic parts (high performance gear, grade 12.9 and above bolt, high-strength spring and long life bearing) etc. has been listed as the industry under the government's encouragement.

"Guideline for Current Priorities for Development in Key Sectors of High-Tech Industry (2007)" (《當前優先發展的高技術產業化重點領域指南(二零零七年度)》)

(jointly issued by the National Development and Reform Commission, Ministry of Science and Technology, Ministry of Commence, State Intellectual Property Office on 23 January 2007)

According to this guideline, highly-efficient and low-cost steel is one of the current priorities for development in the key sectors of high-tech industry. The rolling process of tiny steel materials, the smelting process of advanced micro-alloy, high uniformity and quality mould input and highly-clean steels, the production processes of high-strength and heat-resistant alloy steel and forging, and the production process of extremely high-strength steel are also involved.

China encourages enterprises to recycle and reuse steel scraps.

"Circular of the State Council on Approving and Forwarding the Several Opinions on Curbing Overcapacities and Redundant Constructions in Certain Industries and Guiding the Healthy Development of Industries Drafted by the National Development and Reform Commission and other Departments" (《國務院批轉發展改革委等部門關於抑制部分行業產能過剩和重複建設引導產業健康發展若干意見的通知》)

(issued by the State Council on 26 September 2009, and came into effect the same day)

According to this circular, China is making resolute efforts to control the overall amount and curb overcapacities of high energy-consuming and high polluting industries such as the iron and steel industry. China encourages the developing of new techniques and products with high technology, high added value, low consumption and low emission, and extending industrial chains to form new growth points in the iron and steel industry. China promotes the transformation of the iron and steel industry from one large industry to one strong industry by way of eliminating the out-dated, joint restructuring and the relocation of urban steel factories under the premise of reducing or not increasing production capacities. Iron and steel projects with the sole intention to build new production capacity or expand production capacity shall no longer be approved and supported. Key support will be given to large-scale iron and steel enterprises with the capability to develop key varieties such as special plates and high pressure boiler tubes for the one million kilowatts thermal power and nuclear power, silicon steel of high magnetic induction and low iron loss for transformers of more than 250,000 KVA, and high-grade tool and die steel. China will speed up the improvement of the standards and design specifications of steel for construction use, accelerate the elimination of hot-rolled ribbed steel bars with the strength below 335 MPa, popularize steel bars with the strength of 400 MPa and above to promote the upgrading and the launching of new generations of steel used for construction. The blast furnace of 400 cubic metres and below, and converters and electric furnaces of 30 tonnes and below will be shut down by the end of 2011. The comprehensive energy consumption per tonne of steel of carbon steel enterprises shall be less than 620 kilograms standard coal. The amount of fresh water consumed by each tonne of steel shall be less than 5 tonnes. The smoke and dust emissions of each tonne of steel shall be below 1.0 kilogram. The sulfur dioxide emissions of each tonne of steel shall be less than 1.8 kilograms and second energies shall basically realize 100% recycling and utilisation.

"Notice of the State Council on Further Strengthening the Elimination of Backward Production Capacities" (《國務院關於進一步加強淘汰落後產能工作的通知》)

(issued by the State Council on 6 February 2010, and came into effect the same day)

According to this notice, for iron and steel industry, China will eliminate ironmaking blast furnaces with a capacity of 400 cubic metres or less and eliminate steelmaking converters and electric furnaces with a capacity of 30 tonnes or less by the end of 2011.

"Decision of the State Council on Reforming the Investment System" (《國務院關於投資體制改革的決定》) ("Investment Decision") and "Catalogue of Investment Projects Approved by the Government (2004)" (《政府核准的投資項目目錄(二零零四年本)》)

(issued by the State Council on 16 July 2004)

According to the Investment Decision, the governmental examination and approval is no longer required for the non-governmental-funded investment projects. Instead, the ratification system and record system are applied depending on different circumstances. The government will only conduct ratification on the major projects and restricted projects which are listed in the Catalogue of Investment Projects Approved by the Government (政府核准的投資項目目錄) ("Investment Catalogue") from the standpoint of maintaining public interests. The projects not listed in the Investment Catalogue will, regardless of size or scale, be subject to the recording system. Unless otherwise specified by the state, an enterprise shall, based on the principle of territory, report such projects to the competent investment department of the local government. The detailed implementation measures for the recording system shall be formulated by the people's governments at the provincial level.

According to this catalogue, steel making and steel rolling with newly increased production capacity shall be subject to the approval of the competent investment authority of the State Council.

"Tentative Measures for the Examinations and Approvals of Investment Projects by Enterprises" (《企業投資項目核准暫行辦法》)

(issued by the National Development and Reform Commission on 15 September 2004, and came into effect the same day)

According to these measures, to invest in and construct any project subject to examinations and approvals, an enterprise must, in accordance with the relevant state provisions, prepare a project application report and submit it to the approving department. The approving department shall examine the application and grant approval according to the law and strengthen the relevant supervision and administration. The approving departments shall strengthen the supervision and control of investment projects by enterprises in conjunction with the authorities for city planning, land and resources, environmental protection, banking regulation, and work safety. In the event that it is noticed that the construction of any project subject to examinations and approvals has started without submission of a report for examinations and approvals or without an approval letter or without abiding by the requirements by the approval letter, the approving department shall promptly give an order to halt the construction and the person liable shall be subject to the legal and administrative implications.

"Administrative Regulations of the People's Republic of China on Production Licenses for Industrial Products" (《中華人民共和國工業產品生產許可證管理條例》) and "Measures for the Implementation of the Administrative Regulations of the People's Republic of China on Production Licenses for Industrial Products" (《中華人民共和國工業產品生產許可證管理條例實施辦法》)

(respectively promulgated by the No.440 Order of the State Council on 9 July 2005 and came into force as of 1 September 2005 and the General Administration of Quality Supervision, Inspection and Quarantine and came into effect on 1 November 2005 and amended on 21 April 2010)

Steel products, such as high strength deformed steel bar and bearing steel, are placed in the "Catalogue of Implementation of Production License Management for Industrial Products (《實行生產許可證制度管理的工業產品目錄》). Any enterprise that has not obtained a production license for a product listed in such catalogue shall be prohibited from producing the relevant product. No entity or individual may sell or use in the course of business activities any product listed in the Catalogue for which it has not obtained a production license.

Where an enterprise produces any product listed in the aforesaid catalogue without applying for a production license in accordance with these regulations, the department responsible for production licenses for industrial products shall order it to stop production, confiscate any illegally produced products, and fine the enterprise between one and three times the value of illegally produced products. Any illegal gains shall be confiscated and where the circumstances constitute a crime, criminal liability shall be pursued in accordance with the law.

Any enterprise that seeks to obtain a production license shall meet the following requirements: (1) have a business license; (2) Have professional and technical personnel required for the products it produces; (3) have production, inspection and quarantine facilities suitable for the products it produces; (4) have technical and technological documents relating to the products it produces; (5) established a sound and effective quality control system and a system of responsibilities; (6) have products that comply with relevant national standards, industrial standards and requirements designed to ensure personal health and the safety of personnel and property; and (7) in compliance with state industrial policy provisions and not be involved in activities such as the use of any outdated technique, high energy costs, pollution of the environment, or the wastage of resources, prohibited by state proclamation or in which investment is prohibited.

The period of validity of a production license shall be five years. During that period, enterprises shall ensure product quality consistency and conformity and submit periodic reports to the department responsible for production licenses for industrial products within the relevant province, autonomous region or municipality directly under the Central Government.

The State Council department responsible for production licenses for industrial products and the local departments responsible for production licenses for industrial products at or above the county level shall supervise and examine enterprises on a periodic or ad hoc basis. Where it is necessary to inspect a product, the relevant department shall carry out the inspection on the basis of the relevant provisions of the "PRC Law on Products Quality".

"PRC Law on Products Quality" (《中華人民共和國產品質量法》)

(passed on the 30th Session of the Standing Committee of the 7th National People's Congress on 22 February 1993, revised by the 16th Session of the Standing Committee of the 9th National People's Congress on 8 July 2000, and came into effect on 1 September 2000).

According to this law, producers and salespeople should establish a completed and internal management system for the product quality, strictly implement post-oriented quality regulations, quality liabilities and the corresponding measures for their assessment. Products should pass the quality assessment and those without passing the quality assessment should not pretend to have passed such assessment.

China encourages the use of scientific quality management and advanced scientific technology and promotes that the quality of products should reach and be above the industry standard, the state standard and the international standard.

China also carries out a quality accreditation system for enterprises according to the quality management standard generally used in the world. Enterprises can apply, of their own will, for the quality certificate from the accreditation institutions that are approved by the quality supervision division of the State Council or approved by the division authorised by the quality supervision division of the State Council.

The quality of products should satisfy the following requirements: (1) no unreasonable risks of personal and property safety and reaching the state standard and industry standard of securing personal health, personal safety and property safety (if any); (2) have the functions that the products should have, except for the defect that have been explained; (3) reach the standards that are stated on the products or its packing and meet the quality stated by product illustration and sample.

For the producers and salespeople who have breached the "PRC Law on Products Quality", supervision division of quality technology can order them to cease their production and sale, forfeit the products that are illegally produced and sold, impose a fine on them, forfeit their gains from illegal operation and suspend their business license (as the case may be). If the breach is criminal, the producers and salesmen are liable for the legal responsibility.

"Standardisation Law of PRC" (《中華人民共和國標準化法》)

(passed on the 5th Session of the Standing Committee of the 7th National People's Congress on 29 December 1988 and came into effect on 1 April 1989)

National standards and trade standards shall be classified into compulsory standards and voluntary standards. Those for safeguarding human health and ensuring the safety of the person and of property and those for compulsory execution as prescribed by the laws and administrative rules and regulations are compulsory standards, whereas the others are voluntary standards. The local standards formulated by standardisation administration departments of provinces, autonomous regions and municipalities directly under the PRC government for the safety and sanitary requirements of industrial products are compulsory standards within their respective administrative areas. Compulsory standards must be complied with. It shall be prohibited to produce, sell or import products that are not up to the compulsory standards. The PRC government encourages the adoption of voluntary standards by enterprises on an optional basis.

"Environment Protection Law of PRC" (《中華人民共和國環境保護法》)

(passed on the 11th Session of the Standing Committee of the 7th National People's Congress on 26 December 1989, promulgated by order No. 22 of the President of the People's Republic of China on 26 December 1989, and came into effect on the date of promulgation)

According to this law, entities that cause environmental pollution and other social harms are required to introduce environmental protection in their operation plan and establish an accountability system on environmental protection. Enterprises have to adopt effective measures to prevent and control the pollutions and harms by the exhaust gas, waste water, waste residue, dust, odor, radioactive substance, noise, vibration and electromagnetic wave radiation produced during the production and other activities.

Enterprises that discharge pollutants in their operation have to report and register according to the requirements of the environmental protection administrative competent division of the State Council. Enterprises that discharge pollutants exceeding the state or local standard of pollutant discharge have to pay the pollutant discharge fee for the additional discharge in accordance with the state requirements and be responsible for the remediation of the pollution.

"Law of the People's Republic of China on Prevention and Control of Water" (《中華人民共和國水污染防治法》)

(passed on the 5th Session of the Standing Committee of the 6th National People's Congress on 11 May 1984, first revised by the Ninetieth Session of the Standing Committee of the Eighth National People's Congress on 15 May 1996 and second revised by the Thirty-second Meeting of the Standing Committee of the Tenth National People's Congress on 28 February 2008, and the second revised law entered into force as of 1 June 2008)

According to this law, the construction projects under establishment, expansion and reconstruction that discharge polluted water directly or indirectly have to comply with the state environmental protection administrative requirements relating to construction projects. The equipment used for preventing and controlling water pollution must be designed, constructed and operated with the main construction in the same time. Enterprises that discharge polluted water directly or indirectly should report and register with the environmental protection division in the place where the enterprises are located for their equipments that discharge pollutants, the facilities that dispose pollutants, and the type, amount and concentration of the pollutants under their ordinary operation in accordance with the requirements of the environmental protection division of the State Council. Enterprises are also required to provide the related technology information about the prevention and control of water pollution.

Enterprises and institutions that discharge industrial waste water or medical treatment sewage directly or indirectly into a water body, as well as other enterprises and institutions that can discharge waste water or sewage only after obtaining license for pollutant discharge shall obtain license for pollutant discharge. Enterprises that discharge polluted water have to pay the pollutant discharge fees according to the state requirements. Any enterprises that, in violation of the provisions of this law, discharges water pollutants exceeding the national or local discharge standards or the quota for control of total discharge of major water pollutants, competent environmental protection authorities of the local people's governments at or above the county level shall, pursuant to their limits of power, order to treat within a time limit and impose a fine of not less than two times and not more than five times of the fee for pollutant discharge payable. Enterprises should also apply clean production processes that have a high utilisation rate of raw materials and low pollutant discharge. Enterprises should also reinforce the management and reduce the production of pollutants.

Enterprises that have breached the above requirements may be ordered to cease their illegal activities and rectify within a limited period, be warned, be imposed a penalty and be ordered to cease their businesses by the environmental protection administrative competent division.

"Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution" (《中華人民共和國大氣污染防治法》)

(passed in the 22nd Session of the Standing Committee of the 6th National People's Congress on 5 September 1987, revised by the 15th Session of the Standing Committee of the 8th National People's Congress on 29 August 1995 and the 15th Session of the Standing Committee of the 9th National People's Congress on 29 April 2000, and came into effect on 1 September 2000)

According to the law, the projects under establishment, expansion and reconstruction that discharge atmospheric pollutants have to comply with the state environmental protection administrative requirements relating to construction projects. Enterprises that discharge polluted gas should report to the environmental protection administrative competent division in the place where the enterprises are located for their equipments that discharge pollutants, the facilities that dispose pollutants, and the type, amount and concentration of the pollutants under their ordinary operation. Enterprises are also required to provide the related technology information about the prevention and control of atmospheric pollution. The concentration of the pollutants must not exceed the state and local standard of discharge.

Enterprises should also apply a clean production process that has a high utilisation rate of energy and low pollutant discharge, and reduce the production of pollutants. Enterprises that have breached the above requirements, may be ordered to cease their illegal activities and rectify within a limited period, be warned, be imposed a penalty and be ordered to cease their businesses by the environmental protection administrative competent division.

"Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Wastes" (《中華人民共和國固體廢物污染環境防治法》)

(passed on the 16th Session of the Standing Committee of the 8th National People's Congress on 30 October 1995, revised by the 13th Session of the Standing Committee of the 10th National People's Congress on 29 December 2004, and came into effect on 1 April 2005)

On the prevention and control of the solid waste pollution, China has applied the principles of reducing the production and harm of solid wastes, fully and reasonably using the solid wastes and disposing solid wastes in a harmless way, so as to promote clean production and recurring economic development.

China has adopted economic and technological policies and measures that are beneficial to the integrated-use of solid wastes to fully recycle and reasonably use solid wastes. China also encourages entities and individuals to purchase and use recycled products and products that can be reused.

In respect of the prevention and control of solid waste pollution in China, polluters have legally liability. The producers, salespeople, importers and users of products are legally liable on the solid wastes they produced. Enterprises should reasonably choose and use raw materials, energy resources and other resource; apply advanced production process and equipment; reduce the production volume of industrial solid wastes and diminish the harm of industrial solid wastes. For those who cause environmental pollution by solid wastes should eliminate the harm, compensate according to the law and carry out measures to restore the environment to the original condition.

"Circular Economy Promotion Law of the People' s Republic of China" (《中華人民共和國循環經濟促進法》)

(promulgated by the Standing Committee of the National People's Congress on 29 August 2008, and came into effect on 1 January 2009)

According to this law, China implements an administration and supervision system regarding energy and water consumptions concentrating on enterprises in steel industry and other high-energy and water consuming Industries, whose general energy and water consumption volumes exceed the total volumes provided by the State per year.

Enterprises engaging in steel and other high-energy and water consuming industries shall replace fuel oil by clean energies including clean coal, petroleum coke and natural gas, and stop using oil generating sets and oil-fired boilers which do not comply with provisions of the State within the scope and time limit provided by the State.

Where any enterprise engaging in steel and other high-energy and water consuming industries violates provisions by failing to stop using any oil generating set and oil-fired boiler which does not comply with provisions of the China within the scope and time limit, the general administration for promoting circular economy under the people's government above the county level (縣級以上地方人民政府循環經濟發展綜合管理部門) shall order the enterprise to make corrections; if the enterprise does not make any correction within the time limit, the said administration shall order it to dismantle the oil generating set or oil-fired boiler and impose a fine of RMB50,000 up to RMB500,000.

Where any project meets national industrial policies that may save energy, water, land and materials and use resources comprehensively, financial institutions shall give a priority to make loans and provide relevant financial services actively.

"Cleaner Production Promotion Law" (《中華人民共和國清潔生產促進法》)

(promulgated by the 28th Session of the Standing Committee of the 9th National People's Congress on 29 June 2002, and came into effect on 1 January 2003)

This law encourages the purchase and use of recycled products that are beneficial to the environmental and resource protection as a priority. This law also encouraged the use of technology and equipment with a high utilisation rate of resources and which cause less pollutant and the displacement of technology and equipment with a low utilisation rate of resources and which cause more pollutant. This law also encouraged the integrated and recurring use of the waste materials produced during the production process. The law also requires enterprises to recycle and reuse wastes that are produced during the production process whenever economically and technologically feasible or to transfer the wastes to other enterprises or individuals that have such economic and technological conditions.

If the pollutant discharge is in excess of the state and local standard of discharge or exceeds the control standard of total pollutant discharge required by the local government, the enterprises should examine the clean production process.

"Measures for Administration of Renewable Resources" (《再生資源回收管理辦法》)

(jointly promulgated by the Ministry of Commerce, National Development and Reform Commission, Ministry of Construction, State Administration for Industry and Commerce and State Environmental Protection Administration on 17 May 2006, and came into effect as of 1 May 2007)

According to these measures, enterprises or individuals that undertake renewable resources recovery without business licenses shall be punished by the department of industrial and commercial administration in accordance with "Measures on Investigating, Punishing and Stamping out Operations without Business License" (《無照經營查處取締辦法》). Operators engaging in renewable resources recovery business shall be filed with departments of commercial administration or authorised institutions thereof which shall be the same level with the departments of industrial and commercial administration where they are registered in line with the principal of dependency administration within 30 days after obtaining business license.

The whole process of collecting, storage, transportation and disposal of renewable resources shall be carried out in accordance with the relevant pollution prevention standards, technical policies and the state specifications. Business operators of renewable resources shall comply with relevant regulations of second hand goods circulation to undertaking business of second-hand goods purchase, sales, storage and transportation.

"The Production Safety Law of PRC" (《中華人民共和國安全生產法》)

(adopted at the 28th meeting of the Standing Committee of the Ninth People's Congress of the People's Republic of China on 29 June 2002 and amended on 27 August 2009)

According to this law, the State Administration of Work Safety (國家安全生產監督管理總局) is in charge of the overall administration of production safety. The production and business operation entities shall set up eye-catching safety warning marks at the production or business operation sites that have substantial dangerous elements or on the relevant facilities or equipments. The designing, manufacturing, installation, using, checking, maintenance, reforming and claiming as useless of safety equipments shall be in conformity with the national standards or industrial standards.

The safety facilities of the newly built or rebuilt or expanded engineering projects of the production and business operation entities (hereinafter referred to as construction projects as a general term) shall be designed, built and put into production and use at the same time of the principal part of the projects. The investment in safety facilities shall be incorporated in the budgetary estimates of the construction projects concerned.

PRC Provisions Related to the Solid Wastes Importation

In accordance with the provisions of the PRC Law for the Prevention and Control of Environmental Pollution by Solid Wastes, the importation of the solid wastes that fall under the restricted category and the automatically imported category is administered under a restrictive import licensing system and automatic import licensing system respectively. The Ministry of Environmental Protection (formerly known as the State Environmental Protection Administration) shall, in conjunction with the Ministry of Commerce and the National Development and Reform Commission, the General Administration of Customs and the State Administration of Quality Supervision, Inspection and Quarantine ("SAQSIQ") (中華人民共和國國家質量監督檢驗檢疫總局), formulate, revise and publish the catalogues of solid wastes that are prohibited from import, restricted from import, and imported under the administration of automatic licensing system. The importation of solid wastes as listed in the prohibited catalogue shall be banned. The importation of solid wastes as listed in the restricted catalogue shall be examined and approved by the Ministry of Environmental Protection in consultation with the Ministry of Commerce. For any import of solid wastes listed in the catalog for automatic import licensing administration, the consignee shall complete the formalities on the automatic licensing import in accordance with the legal rules. According to the latest catalogues as promulgated by the State Administration of Environmental Protection and the aforesaid other authorities on January 29 2008, steel and iron scraps were listed in the Catalogue of Solid Wastes Used as Raw Materials under Automatic Import License (自動進口許可管理類可用作原料的固體廢物目錄).

According to the Administrative Provisions for the Environmental Protection of Imported Steel Scrap (Trial Implementation) (進口廢鋼鐵環境保護管理規定(試行)) (issued by Ministry of Environmental Protection of PRC on 10 December 2009 and came into effect on 1 January 2010), iron and steel smelting enterprise, whose production method, equipments and products conform to the state industrial policies, that have been equipped with the facilities, equipments, sites and supporting pollution preventing installations for importing and utilizing steel scrap and satisfy the environmental protection standards may file an application with the relevant authorities for importing the steel and iron scraps. Application for the license of importing steel and iron scraps shall submit the application and supporting documents to the relevant authorities in accordance with the procedure for applying importing solid wastes approved automatically which can be used as raw materials. The application is subject to the approval of the Ministry of Environmental Protection. After obtaining the approval and the "Import License for Solid Wastes" (固體廢物進口許可證), the consignee or the user is permitted to proceed with the importation of the solid wastes.

In addition, according to the Announcement Requiring a Registration of Domestic Consignees of Wastes used as Raw Materials (關於對進口廢物原料國內收貨人實施登記的公告) issued by the SAQSIQ on 12 March 2007, the PRC government applies a registration system on the domestic consignees of import solid wastes that may be used as raw materials. A domestic consignee shall, before signing a foreign trade contract, obtain the registration at the SAQSIQ or the entry-exit inspection and quarantine organ. For one who passed the examination, it will be registered and granted the registration certificate with a term of five years with and by the SAQSIQ.

PRC Laws and Regulations Relating to Foreign Investment

The Provisions on the Acquisition of Domestic Enterprises by Foreign Investors (2006 Revision) (關於外國投資者併購境內企業的規定), or the M&A Provisions, issued by six PRC ministries including the Ministry of Commerce People's Republic of China (中華人民共和國商務部), or the MOFCOM, the State-owned Assets Supervision and Administration Commission, the State Administration of Taxation (國家稅務總局), State Administration for Industry and Commerce, or the SAIC, China Securities Regulatory Commission ("CSRC") and the SAFE, effective from 8 September 2006 and revised on 22 June 2009, provide the rules with which foreign investors must comply should they seek to purchase by agreement the equities of the shareholders of a domestic non-foreign-funded enterprise or subscribe to the increased capital of a domestic non-foreign-funded enterprise, and thus change the domestic non-foreign-funded enterprise into a foreign funded enterprise to conduct asset merger and acquisition. In case a foreign investor merges or acquires a domestic enterprise and obtains the actual right to control it, and in case it involves major industry, has or may have the influence on the state security or cause the transfer of the actual right of the domestic enterprise owning famous trademark or having a name of long history, the person concerned shall submit a report thereof to the Ministry of Commerce. The listing transaction abroad of the company with special purpose, which as the provisions defines refers to an overseas company directly or indirectly controlled by a domestic company or a natural person for the purpose of making the equities of its actual owned domestic company to be listed abroad, shall be approved by the securities regulatory administration of the State Council.

According to the Notice of the State Administration of Foreign Exchange on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and in Return Investment via Overseas Special Purpose Companies (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知), or the Circular 75, a domestic resident shall, before establishing or controlling an overseas special purpose company (the "SPC"), bring the prescriptive materials to the local branch of SAFE (the "SAFE Branch") to apply for going through the procedures for foreign exchange registration of overseas investments. SAFE Branch shall, after examining and checking the materials to be inerrant, affix the special seal for foreign exchange business for capital account transactions on the "Certificate of Foreign Exchange Registration of Overseas Investments" or the "Form of Foreign Exchange Registration of Overseas Investments of the Domestic Individual Resident". Where a domestic resident contributes the assets or stock rights of a domestic enterprise it owns into a SPC, or engages in stock right financing abroad after contributing assets or stock rights into a SPC, it shall go through the procedures for modification of foreign exchange registration of overseas investments with regard to the net asset equities of the SPC it holds. After a SPC accomplishes overseas financing, the domestic resident may, according to the plan on use of funds as stated in the business plans or the prospectus, transfer the funds which ought to be arranged for use inside PRC into PRC. A domestic resident may, after accomplishing the procedures for foreign exchange registration of overseas investments or for modification thereof in accordance with the legal provisions, pay the profits, dividends, liquidation expenses, stock right assignment expenses, capital decrease expenses, etc. to the SPC. Where a SPC meets with a major capital modification event such as capital increase or decrease, stock right assignment or exchange, merger or division, investment with long-term stock rights or credits, provision of guaranty to a foreign party, etc., and is not involved in return investment (the "Major Events"), the domestic resident shall, within 30 days as of the major event, apply to the SAFE Branch for going through the procedures for modification or filing of the foreign exchange registration of the overseas investment.

Xiwang Metal was established on 20 April 2004 and purchased 100% equity of Xiwang Steel on 15 August 2006. Our PRC legal advisers, Jingtian & Gongcheng, have advised us that the incorporation and acquisition of Xiwang Metal was completed before the enforcement of "The Provisions on the Acquisition of Domestic Enterprises by Foreign Investors (2006 Revision)". Therefore, the aforementioned conduct is not subject to Article 11 of the above mentioned acquisition regulation. Our PRC legal advisers also have advised us that no approval from the CSRC for the Global Offering and Listing needs to be obtained by the Group.

Our PRC legal advisers have advised us that each of Mr. Yong Wang and the Individual Investors, has made the domestic individual foreign exchange registration of overseas investment for their relevant overseas investments with the State Administration of Foreign Exchange, Shandong Branch, in accordance with Circular 75. After the completion of the Group's offshore reorganisation, they should register their overseas investments again in light of the alteration in accordance with Circular 75. As confirmed by our PRC legal advisers, Mr. Yong Wang and the Individual Investors have completed their respective registration in accordance with Circular 75 for the Group's offshore reorganisation in the August of 2011.

According to the Circular of the SAFE on Relevant Business Operations Issues Concerning Improving the Administration of Payment and Settlement of Foreign Exchange Capital of Foreign-funded Enterprises (國家外匯管理局關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知) issued by the SAFE on 29 August 2008, a foreign-invested enterprise shall authorise an accounting firm to conduct capital verification before applying for the settlement of the foreign exchange capital. The settled foreign exchange capital shall be merely used for purposes within the business scope approved by the related authorities and shall not be used for equity investment unless specifically provided for otherwise. It is also prohibited to use the settled foreign exchange capital for purchasing domestic real estate for any purpose other than its own use, unless the enterprise is a foreign-fund real estate enterprise. In addition, the use of such settlement of foreign exchange under capital account of foreign investment enterprises may not be changed without approval from SAFE, and may not be used to repay Renminbi loans if the proceeds of such loans have not yet been used.

Taxation Laws and Regulations in PRC

The applicable tax laws, regulations, notices and decisions (collectively referred to as "Applicable Foreign Enterprises Tax Law") related to foreign investment enterprises and their investors include, among other things, the following:

- Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法), adopted by the NPC on 16 March 2007 which came into effect on 1 January 2008;

- Implementing Rules of the Enterprise Income Tax Law of PRC (中華人民共和國企業所得稅法實施細則) promulgated by the State Council on 6 December 2007 which came into effect on 1 January 2008;

- The Provisional Regulations of the People's Republic of China Concerning Value Added Tax (中華人民共和國增值稅暫行條例) promulgated by the State Council on 10 November 2008 and came into effect on 1 January 2009;

- The Provisional Regulations of the People's Republic of China Concerning Business Tax (中華人民共和國營業稅暫行條例) promulgated by the State Council on 10 November 2008 and came into effect on 1 January 2009;

- The Customs Law of the PRC (中華人民共和國海關法) adopted by the NPC on 8 July 2000 which came into effect on 1 January 2001;

- The Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises (國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知) issued by the State Administration of Taxation on 10 December 2009;

- The Notice of the State Council regarding the Adjustment of Taxation Policy of Import Equipment (國務院關於調整進口設備稅收政策的通知) issued by the State Council on 29 December 1997; and

- Notice on Implementing Preference Policy of Enterprise Income Tax in Transition Period (國務院關於實施企業所得稅過渡優惠政策的通知) promulgated by the State Council on 26 December 2007 which came into effect the same date.

PRC Enterprise Income Tax Law

Prior to 1 January 2008, the foreign-invested enterprises shall pay EIT pursuant to the Foreign-Invested Enterprise and Foreign Enterprise Income Tax Law of the PRC (中華人民共和國外商投資企業和外國企業所得稅法) promulgated by the National People's Congress Standing Committee in 1991 ("Prior EIT Laws") and related implementation regulations. Pursuant to the Prior EIT Law, except for the preferential tax rates, a foreign-invested enterprise was subject to EIT at a statutory rate of 33%. In addition, certain foreign-invested enterprises were exempted from EIT for two years starting from the first profit-making year and followed by a fifty percent reduction of the EIT in the next three consecutive years.

On 16 March 2007, the National People's Congress passed the PRC EIT Law, with effect from 1 January 2008. The PRC EIT Law adopted a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises) and revoked the current tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises. However, according to the Notice of the State Council on the Implementation of the Enterprise Income Tax Transitional Preferential Policy (國務院關於實施企業所得稅過渡優惠政策的通知) issued on 26 December 2007 and effective on 1 January 2008, there is a transition period for enterprises, whether foreign-invested or domestic, that received preferential tax treatments granted by relevant tax authorities prior to the effectiveness of the PRC EIT Law. Enterprises that were subject to an enterprise income tax rate lower than 25% before the effectiveness of the PRC EIT Law may continue to enjoy the lower rate and gradually transit to the new tax rate within five years after the effective date of the PRC EIT Law. Enterprises that were granted preferential EIT treatments before the effectiveness of the PRC EIT Law may continue to enjoy the preferential EIT treatments until their expiration.

Under the PRC EIT Law, enterprises are classified as either "resident enterprises" or "non-resident enterprises." Pursuant to the PRC EIT Law and its implementation rules, besides enterprises established within the PRC, enterprises established outside China whose "de facto management bodies" are located in China are considered "resident enterprises" and subject to the uniform 25% EIT rate for their global income. According to the implementation rules of the PRC EIT Law, "de facto management body" refers to a managing body that exercises, in substance, overall management and control over the manufacture and business, personnel, accounting and assets of an enterprise. In our circumstance, substantially our management is currently based in China and is expected to remain in China in the future. It is not clear whether we would be deemed as "resident enterprises" or not. In addition, although the PRC EIT Law provides that dividend income between "qualified resident enterprises" is exempted income, and the implementing rules refer to "qualified resident enterprises" as enterprises with "direct equity interest," it is not clear whether dividends we receive from our subsidiary are eligible for such exemption if we are deemed to be a PRC "resident enterprise." If we are considered a PRC "resident enterprise" and thus required to withhold income tax for any dividends we pay to our non-PRC resident enterprise investors, the amount of dividends we can pay to our Shareholders could be materially reduced. In addition, any gain realized on the transfer of ordinary shares by our non-PRC resident investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC.

Furthermore, the PRC EIT Law provides that a non-resident enterprise refers to an entity established under foreign law whose "de facto management bodies" are not within China but which have an establishment or place of business in the PRC, or which do not have an establishment or place of business in the PRC but have income sourced within the PRC. The implementation rules of the PRC EIT Law provide that after 1 January 2008, an income tax rate of 10% will normally be applicable to dividends declared to non-PRC resident investors which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends are derived from sources within the PRC. The income tax on the dividends may be reduced pursuant to a tax treaty between China and the jurisdictions in which our non-PRC Shareholders reside.

Tax Collection for Share Transfer by Non-PRC Resident Enterprises

Pursuant to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises (國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知) or SAT Circular 698, issued by the State Administration of Taxation on 10 December 2009 with retroactive effect from 1 January 2008, except for the purchase and sale of equity through a public securities market, where a foreign investor transfers its indirect equity interest in a PRC resident enterprise by disposing of its equity interests in an overseas holding company, or an Indirect Transfer, and such overseas holding company is located in a tax jurisdiction that: (i) has an effective tax rate less than 12.5% or (ii) does not tax foreign income of its residents, the foreign investor shall report to the competent tax authority of the PRC resident enterprise this Indirect Transfer. If the tax authority, upon examining the nature of the Indirect Transfer, deems that the Indirect Transfer has no reasonable commercial purpose other than to avoid PRC tax, the tax authority may disregard the existence of the overseas holding company that is used for tax planning purposes and re-characterize the Indirect Transfer.

Tax on dividends from PRC Enterprise with foreign investment

According to the Circular of Ministry of Finance and the State Taxation Administration on Several Preferential Policies Relevant to Enterprise Income Tax (財政部、國家稅務總局關於企業所得稅若干優惠政策的通知), the undistributed profits earned by foreign investment enterprises prior to 1 January 2008 and distributed to foreign investors later shall be exempt from PRC withholding tax, whereas the profits earned and distributed after 1 January 2008 shall be subject to PRC withholding tax pursuant to the New EIT Law.

The New EIT Law prescribes a standard withholding tax rate of 20% on dividends and other China-sourced passive income of non-resident enterprises. The Implementation Regulations reduced the rate from 20% to 10% which was effective from 1 January 2008. The PRC and Hong Kong signed Arrangement between the Mainland of the PRC and Hong Kong for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (中國內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排) on 21 August 2006. According to the arrangement, no more than 5% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong tax resident, provided that the recipient is a company that holds at least 25% of the capital of the PRC company in any time for the past 12 months before the dividend distribution. The 10% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident if the recipient is a company that holds less than 25% of the capital of the PRC company.

In accordance with the circular issued by the State Administration of Taxation in relation to How to Understand and Determine "Beneficial Owners" under Tax Conventions (國家稅務總局關於如何理解和認定稅收協定中「受益所有人」的通知), a beneficial owner is a person who has both ownership and right of control over the income or the assets or rights generating the income and generally must be engaged in substantive business. A Hong Kong resident entity also needs to be a beneficial owner so as to enjoy the preferential tax treatment.

Value Added Tax

The Provisional Regulations of the People's Republic of China Concerning Value Added Tax (中華人民共和國增值稅暫行條例) (the "VAT Regulations") was promulgated by the State Council on 10 November 2008 and came into effect on 1 January 2009. Under the VAT Regulations, value added tax is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC. Unless stated otherwise, for VAT payers who are selling or importing goods, and providing processing, repairs and replacement services in the PRC, the tax rate shall be 17%.

Business Tax

The Provisional Regulations of the People's Republic of China Concerning Business Tax (中華人民共和國營業稅暫行條例) (the "Business Tax Regulations") was promulgated by the State Council on 10 November 2008 and came into effect on 1 January 2009. Under the Business Tax Regulations, businesses that provide services (including entertainment business), assign intangible assets or sell immovable property are liable to business tax at a rate ranging from 3.0% to 20.0%, of the charges of the services provided, intangible assets assigned or immovable property sold, as the case may be. The formula for calculation of the amount of tax payable is set forth below:

Amount of tax payable = business income × tax rate

The business income shall be calculated in RMB. Taxpayers that settle their amounts of business income in currency other than RMB shall convert the amounts into RMB.

PRC Customs Duties

According to the Customs Law of the PRC (中華人民共和國海關法) adopted by the NPC on 8 July 2000 which came into effect on 1 January 2001, the consignee of the imports, the consignor of exports and the owner of the imports and the exports are the persons obligated to pay customs duties (generally speaking, exports are not subject to customs duties). The Customs is the authorities in charge of the collection of customs duties.

The customs duties in the PRC mainly fall under ad valorem duties, i.e. the price of import/export commodities is the basis for the calculation of the duties. When calculating the customs duties, import/export commodities shall be classified under appropriate tax items in accordance with the category provisions of the Customs Import and Export Tariff and shall be subject to tax levies pursuant to relevant tax rates.

Under the laws of the PRC, raw materials, supplementary materials, parts, components, accessories and packing materials imported for processing and assembling finished products for foreign parties or for manufacturing products for export shall be exempt from import duties pursuant to the actual amount of goods processed for export or import duties may be levied upfront on import materials and parts and subsequently refunded pursuant to the actual amount of goods processed for export.

To encourage the introduction of foreign investment, as of 1992, the PRC exercised exemption and reduction of customs duties on the import of machinery, equipment, parts and other materials within the total investment of foreign investment companies. But after the adjustment of policies as of 1 April 1996, such exemption and reduction has been terminated, while the foreign investment companies incorporated before then can still continue to enjoy such preferential treatment within the grace period.

As from 1 January 1998, according to the Notice of the State Council regarding the Adjustment of Taxation Policy of Import Equipment (國務院關於調整進口設備税收政策的通知), in respect of the foreign investment projects that fall under Encouraging Category and Restricted B Category of the Industrial Guidance Catalogue of Foreign Investment and also involve the transfer of technology, the equipment imported for its own use within the total investment can be exempt from the customs duties, except for the commodities listed in the Catalogue of the Non-tax-exemption Import Commodity of Foreign Investment Projects.

Intellectual Property Laws and Regulations

China has adopted legislation related to intellectual property rights, including trademarks, patents and copyrights. China is a signatory to all major intellectual property conventions, including the Paris Convention for the Protection of Industrial Property, Madrid Agreement on the International Registration of Marks and Madrid Protocol, Patent Cooperation Treaty, Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure and the Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPs").

Regulations on Patents

Under the revised Patent Law of the PRC (中華人民共和國專利法) promulgated on 27 December 2008 and effective on 1 October 2009, there are three types of patents, including invention patents, design patents and utility model patents. Invention patents are valid for twenty years, while design patents and utility model patents are valid for ten years, in each case commencing on their respective application dates. Persons or entities who use patents without the consent of the patent owners, make counterfeits of patented products, or engage in activities that infringe upon patent rights are held liable to the patent owner for compensation and may be subject to fines and even criminal punishment.

According to the Patent Law of the PRC, the "first to file" principle is adopted for the patent application, which means when more than one person files a patent application for the same invention, the patent will be granted to the person who files the application first. In addition, China requires absolute novelty for the sake of an invention to be patentable. Therefore, in general, a patent will be denied if it is publicly known in or outside of China. Furthermore, patents issued in China are not enforceable in Hong Kong, Taiwan or Macau, each of which has an independent patent system.

According to the Patent Cooperation Treaty ("PCT") to which China is a signatory, applications for the protection of inventions in any of the contracting states of the PCT may be filed as international applications.

Regulations on Trademarks

Both Trademark Law of the PRC (中華人民共和國商標法) promulgated by the National People's Congress Standing Committee in 1982 and amended in 2001, and the Regulation on Implementation of Trademark Law of the PRC (中華人民共和國商標法實施條例) promulgated by the State Council in 2002 provide protection to the holders of registered trademarks. In the PRC, registered trademarks include commodity trademarks, service trademarks, collective marks and certificate marks.

The Trademark Office under the State Administration for Industry and Commerce (國家工商行政管理總局商標局) handles trademark registrations and grants a term of ten years to registered trademarks, renewable every ten-years where a registered trademark needs to be used after the expiration of its validity term, a registration renewal application shall be filed within six months prior to the expiration of the term.

Under the Trademark Law of the PRC, any of the following acts may be regarded as an infringement upon the right to exclusive use of a registered trademark, including (i) using a trademark which is identical with or similar to the registered trademark on the same or similar commodities without authorisation; (ii) selling the commodities that infringe upon the right to exclusive use of a registered trademark; (iii) forging, manufacturing the marks of a registered trademark of others without authorisation, or selling the marks of a registered trademark forged or manufactured without authorisation; and (iv) causing other damage to the right to exclusive use of a registered trademark of another person.

Violation of the Trademark Law of the PRC may result in the imposition of fines, confiscation and destruction of the infringing commodities.

Trademark license agreements must be filed with the Trademark Office under the State Administration for Industry and Commerce or its regional counterparts. The licensor shall supervise the quality of the commodities on which the trademark is used, and the licensee shall guarantee the quality of such commodities.

Regulations on Domain Names

The Measures for the Administration of Domain Names for the Chinese Internet (中國互聯網絡域名管理辦法), which were promulgated by the Ministry of Information Industry on 5 November 2004 and effective on 20 December 2004, regulate registrations of domain names with the Internet country code ''.cn'' and domain names in Chinese.

The Measures on Domain Name Dispute Resolution (2006 Edition) (中國互聯網絡信息中心域名爭議解決辦法(二零零六年修訂)), which were promulgated by the Chinese Internet Network Information Center on 14 February 2006 and became effective on 17 March 2006, require domain name disputes to be submitted to institutions authorised by the Chinese Internet Network Information Center for resolution.

Regulations on Labour Protection

Enterprises in China are mainly subject to the following PRC labour laws and regulations: Labour Law of the PRC (中華人民共和國勞動法), PRC Employment Contracts Law (the "Employment Contracts Law") (中華人民共和國勞動合同法), the Regulation of Insurance for Work-Related Injury (工傷保險條例), the Regulations on Unemployment Insurance (失業保險條例), the Provisional Measures on Insurance for Maternity of Employees (企業職工生育保險試行辦法), the Interim Provisions on Registration of Social Insurance (社會保險登記管理暫行辦法), the Interim Regulation on the Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例), the Administrative Regulation on Housing Fund (住房公積金管理條例) and other related regulations, rules and provisions issued by the relevant governmental authorities form time to time.

Pursuant to Labour Law of the PRC companies must enter into employment contracts with their employees, based on the principles of equality, consent and agreement through consultation. Companies must establish and effectively implement a system of ensuring occupational safety and health, educate employees on occupational safety and health, preventing work-related accidents and reducing occupational hazards. Companies must also pay for their employees' social insurance premium.

The principal regulations governing the employment contract is the PRC Employment Contracts Law, which was promulgated by the Standing Committee of the National People's Congress of the PRC (全國人民代表大會常務委員會) on 29 June 2007 and came into effect on 1 January 2008. Pursuant to the Employment Contracts Law, employers shall establish employment relationship with employees on the date that they start employing the employees. To establish employment, a written employment contract shall be concluded, or employers will be liable for the illegal actions. Furthermore, the probation period and liquidated damages shall be restricted by the law to safeguard employees' rights and interests.

As required under the Regulation of Insurance for Work-Related Injury, the Provisional Measures on Insurance for Maternity of Employees, the Interim Provisions on Registration of Social Insurance and the Administrative Regulation on Housing Fund, enterprises in China are obliged to provide employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, injury insurance, medical insurance and housing accumulation fund.

ESTABLISHMENT OF XIWANG STEEL AND THE GROUP

The business of the Group was founded when Xiwang Group (through its wholly owned subsidiary Shandong Xiwang Investment), Mr. Yong Wang and a number of individual investors established Xiwang Steel on 31 December 2003 in the PRC to principally engage in the manufacture and sale of steel products. At the time of the establishment of Xiwang Steel, its registered capital was RMB100 million with Shandong Xiwang Investment and Mr. Yong Wang holding 51% and 25% of the equity interest respectively. The balance of the equity interest was held by eight individuals (the "XS Investors"), each holding a 3% equity interest in Xiwang Steel. The XS Investors were Weihua Lou (樓為華), Jianxin Wang (王建新), Hengfang Liu (劉恒芳), Lijiang Ning (寧立江), Minghe Wang (王明鶴), Chengqing Wang (王呈青), Gang Wang (王剛) and Chun Liu (劉春). Except for Chun Liu (劉春), all of these investors were shareholders of Xiwang Group at the date of the establishment of Xiwang Steel and all of these investors including Chun Liu (劉春) were business associates of Mr. Yong Wang. The XS Investors were invited to invest in Xiwang Steel by Mr. Yong Wang and accepted this invitation as they believed that there was significant growth potential in the steel industry both in Shandong and the wider PRC market. At that time, Shandong Xiwang Investment was a wholly owned subsidiary of Xiwang Group with Mr. Yong Wang holding a 58.4% equity interest in Xiwang Group. The balance of the equity interest in Xiwang Group was held by the Individual Investors, each not holding more than a 5% equity interest in Xiwang Group. Following its establishment, an experienced management team was hired to manage the steel manufacturing business of Xiwang Steel. Xiwang Steel began manufacturing ordinary steel products with its first bar rolling line in June 2004.

ACQUISITION OF XIWANG STEEL BY XIWANG METAL

On 15 August 2006, Xiwang Metal (under the former name Xiwang Savola) entered into a share transfer agreement with each of Shandong Xiwang Investment, Mr. Yong Wang and the XS Investors, pursuant to which each of them agreed to transfer all of their respective equity interest in Xiwang Steel to Xiwang Metal (the "Xiwang Steel Acquisition") for a total consideration of RMB100 million. Such consideration was determined with reference to the paid up capital of Xiwang Steel at that time. Upon completion of the Xiwang Steel Acquisition, the entire equity interest in Xiwang Steel was held by Xiwang Metal. The Xiwang Steel Acquisition was effected with a view to achieving a future listing of the steel business of the Group on an overseas stock exchange.

XIWANG METAL

Xiwang Metal had initially been established (under the former name Xiwang Savola) on 20 April 2004 as a sino-foreign joint venture with the objective of engaging in the production of edible oil and related products. Xiwang Metal had a registered share capital of US$8 million at the time of its establishment which was held as to 50% by Shandong Xiwang Investment (which was wholly owned by Xiwang Group), 25% by Savola Edible Oil Company (沙渥拉食用油公司), 20% by Sumitomo Corporation (住友商事株式會社) and 5% by Sumitomo Corporation (China) Holding Ltd. (住友商事(中國)有限公司).

In July 2006, pursuant to four share transfer agreements entered into between AFIA Xiwang International and each of Shandong Xiwang Investment, Savola Edible Oil Company, Sumitomo Corporation and Sumitomo Corporation (China) Holding Ltd. respectively, each of Shandong Xiwang Investment, Savola Edible Oil Company, Sumitomo Corporation and Sumitomo Corporation (China) Holding Ltd. agreed to transfer their respective equity interest in Xiwang Metal to AFIA Xiwang International (the "Xiwang Metal Transfer") for an aggregate consideration of US$8 million. Such consideration was based on the value of the paid up capital of Xiwang Metal at that time. The transfer was approved by the BFTECB on 12 July 2006. Following completion of the Xiwang Metal Transfer, the registered capital of Xiwang Metal was increased from US$8 million to US$10 million, with such increase being the result of equity investment by AFIA Xiwang International of US$830,000 and by Xiwang Investment of US$1,170,000 (the "Capital Increase"). After completing the Capital Increase, the equity interest in Xiwang Metal was held by AFIA Xiwang International and Xiwang Investment as to 88.3% and 11.7% respectively. A capital verification report issued on 1 August 2006 confirmed that the Capital Increase had been fully paid on 27 July 2006.

AFIA Xiwang International was a joint venture company established by AFIA International and Xiwang Holdings in July 2006. The share capital of AFIA Xiwang International was held as to 51% by AFIA International and 49% by Xiwang Holdings. AFIA International was a Saudi Arabian company that was primarily involved in the sale of edible oils. AFIA International, which was independent from the Group, its shareholders, directors and senior management and their respective associates, entered into the joint venture arrangement with Xiwang Holdings in order to expand its edible oil business in the PRC. The general purpose of the joint venture arrangement was to facilitate an agreement between AFIA International and Xiwang Metal (at that time engaged in the production of edible oils under the name Xiwang Savola) under which AFIA International would sell edible oil products produced by Xiwang Metal.

The terms of the joint venture arrangement were such that while Mr. Yong Wang was the chairman and legal representative of Xiwang Metal and representatives of Xiwang Investment acted as general managers of Xiwang Metal, AFIA International had board representation, in the form of two out of four directors, on the boards of both AFIA Xiwang International and Xiwang Metal. Material decisions taken by the boards of AFIA Xiwang International and Xiwang Metal during the period from July 2006 to March 2009 required the unanimous consent of all directors, however, at no point did AFIA International's representatives fail to give their consent and their representatives played a passive role in the day-to-day operations of Xiwang Metal's business.

In particular, during the period from July 2006 to March 2009, AFIA International did not participate in the daily operations of Xiwang Metal. Xiwang Metal was being controlled by Xiwang Holdings throughout this period. This is supported by the following facts:

(1) throughout this period Xiwang Holdings had the right under the joint venture arrangement to appoint the chairman, legal representative and general manager of Xiwang Metal and was at all times in control of the day-to-day operations, management and administration of Xiwang Metal and the business, management and financial decisions of Xiwang Metal were made by Xiwang Holdings' nominated senior management members;

(2) the directors representing AFIA International did not on any occasion exercise their veto rights which were of limited effect. At the request of Xiwang Holdings, they attended board meetings merely to facilitate the passing of the resolutions;

(3) in February 2009, AFIA International signed a confirmation to confirm that with effect from 1 January 2007 their rights in respect of Xiwang Metal and any obligations and liabilities in respect of Xiwang Metal had ceased;

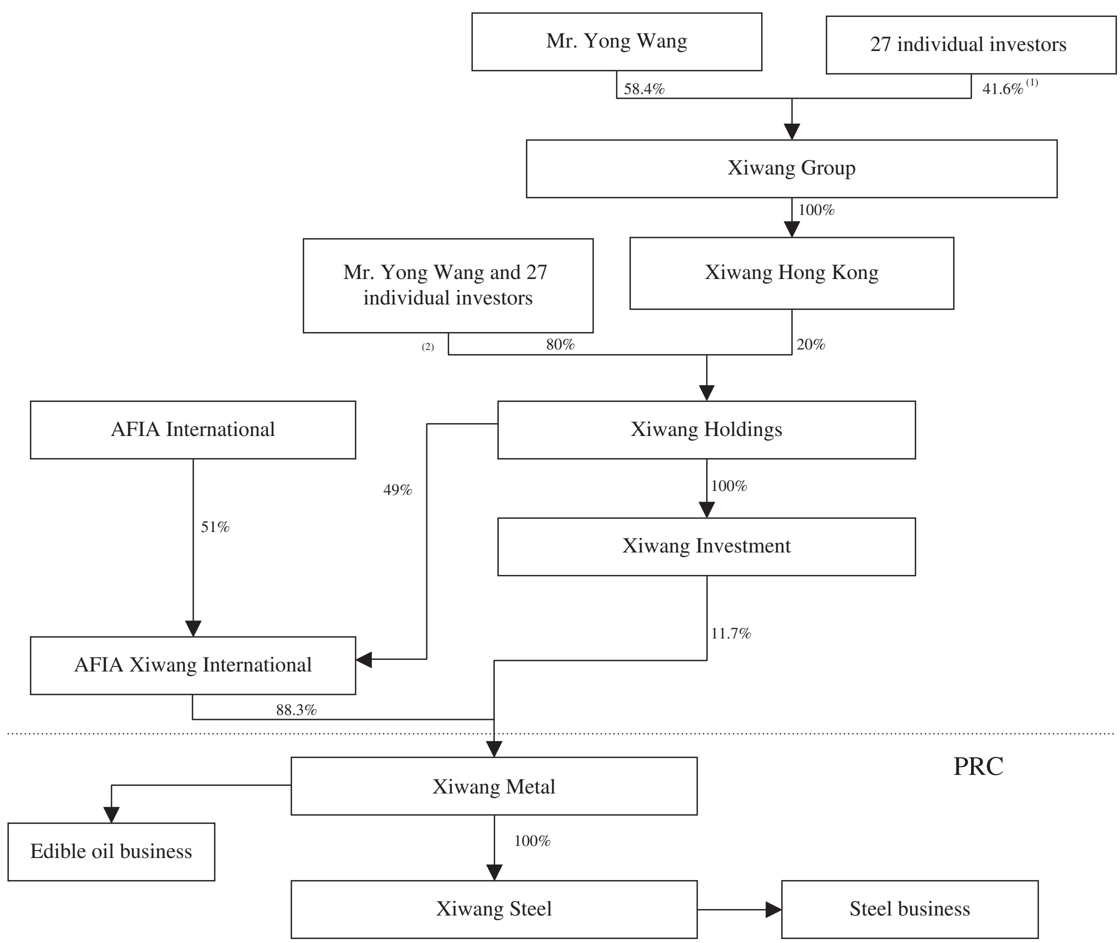
(4) the consideration related to the disposal of AFIA International's interests in AFIA Xiwang International, which was consummated in 2009, was based on the net asset value of Xiwang Metal as at 31 December 2006; and

(5) no dividend was ever declared or paid to AFIA international during the relevant period.

CHANGES TO THE SHARE CAPITAL OF XIWANG HOLDINGS

At the time of the Xiwang Metal Transfer, Xiwang Holdings was wholly owned by Mr. Yong Wang and the Individual Investors. On 25 February 2007, one of the Individual Investors, Mr. Weihua Lou, transferred 2 million and 1 million shares to Di Wang (王棣) and Xinhu Sun (孫新虎) respectively, thus increasing the number of individual investors to 27. On 24 July 2007, Xiwang Holdings issued additional shares to Xiwang Hong Kong (a wholly owned subsidiary of Xiwang Group) constituting 20% of its issued share capital (the "Xiwang Hong Kong Issue").

The following chart sets out the shareholding structure of the Group as at 24 July 2007 following the completion of the Xiwang Steel Acquisition, the Xiwang Metal Transfer, the Capital Increase and the Xiwang Hong Kong Issue:



(1) These investors and their respective shareholding interests in Xiwang Group were: Di Wang (王棣) 1.7730%, Xinhu Sun (孫新虎) 0.8865%, Jianxin Wang (王建新) 1.7730%, Hengfang Liu (劉恒芳) 2.6596%, Lijiang Ning (寧立江) 2.6596%, Minghe Wang (王明鶴) 2.6596%, Gang Wang (王剛) 2.3050%, Dong Wang (王棟) 2.3050%, Liang Wang (王亮) 2.3050%, Fangming Wang (王方明) 1.7730%, Tao Wang (王濤) (not the same individual as our Director Mr. Tao Wang) 1.7730%, Chuanwu Wang (王傳武) 1.7730%, Zhong Han (韓忠) 1.7730%, Chenglin Wang (王呈林) 1.3298%, Wei Li (李偉) 0.8865%, Jiqiang Liu (劉紀強) 0.8865%, Chenglong Wang (王呈龍) 0.8865%, Huiyi Wang (王會議) 0.8865%, Chengjun Wang (王呈軍) 0.8865%, Benfang Han (韓本芳) 0.8865%, Chuanyu Wang (王傳玉) 0.8865%, Xiaoguang He (賀曉光) 0.8865%, Mingshi Wang (王明詩) 0.8865%, Yingchun Zhai (翟迎春) 0.8865%, Yan Wang (王岩) 0.8865%, Weihua Lou (樓為華) 1.7730% and Chengqing Wang (王呈青) 2.3050%.

(2) Mr. Yong Wang's shareholding in Xiwang Holdings was 46.7360%. The 27 individual investors and their respective shareholdings in Xiwang Holdings were: Jianxin Wang (王建新) 1.4160%, Hengfang Liu (劉恒芳) 2.1280%, Lijiang Ning (寧立江) 2.1280%, Minghe Wang (王明鶴) 2.1280%, Gang Wang (王剛) 1.8400%, Dong Wang (王棟) 1.8400%, Liang Wang (王亮) 1.8400%, Fangming Wang (王方明) 1.4160%, Tao Wang (王濤) (not the same individual as our Director Mr. Tao Wang) 1.4160%, Chuanwu Wang (王傳武) 1.4160%, Zhong Han (韓忠) 1.4160%, Di Wang (王棣) 1.4160%, Chenglin Wang (王呈林) 1.0640%, Wei Li (李偉) 0.7120%, Jiqiang Liu (劉紀強) 0.7120%, Chenglong Wang (王呈龍) 0.7120%, Huiyi Wang (王會議) 0.7120%, Chengjun Wang (王呈軍) 0.7120%, Benfang Han (韓本芳) 0.7120%, Chuanyu Wang (王傳玉) 0.7120%, Xiaoguang He (賀曉光) 0.7120%, Mingshi Wang (王明詩) 0.7120%, Yingchun Zhai (翟迎春) 0.7120%, Yan Wang (王岩) 0.7120%, Xinhu Sun (孫新虎) 0.7120%, Weihua Lou (樓為華) 1.4160% and Chengqing Wang (王呈青) 1.8400%.

EXIT OF AFIA INTERNATIONAL

In January 2007, AFIA International decided to discontinue its cooperation with Xiwang Holdings and its investment in AFIA Xiwang International and therefore agreed in principle with Xiwang Holdings to transfer its equity interest in AFIA Xiwang International to Xiwang Holdings for a consideration of US$3,873,447.6. Such consideration was based on the net asset value of the edible oil business of Xiwang Metal as at 31 December 2006. The transfer of AFIA International's interest in AFIA Xiwang International was completed in March 2009. The delay in effecting the proposed acquisition of AFIA International's interest in AFIA Xiwang International occurred due to Xiwang Holdings, as a result of the prevailing economic conditions at that time, being unable to secure the funding for the acquisition until early 2009. From January 2007, AFIA International's participation in the joint venture arrangement effectively ceased and the representatives of AFIA International on the boards of AFIA Xiwang International and Xiwang Metal did not attend board meetings or participate in any way in the daily operations of the companies since January 2007.

SEPARATION OF XIWANG GROUP'S STEEL AND EDIBLE OIL BUSINESSES

In 2008, it was decided that all steel related businesses within the Xiwang Group would be transferred to Xiwang Metal and the edible oil businesses of Xiwang Metal would be transferred to Xiwang Food.

Xiwang Steel Structure was a company incorporated in 2003 which, rather than being involved in the steel manufacturing business, was instead principally engaged in the assembling of steel products/ready-made steel for construction purpose. In order to transfer the operational side of any steel related businesses then carried on by other divisions of Xiwang Group into Xiwang Metal, Xiwang Metal and Xiwang Steel Structure entered into an asset purchase agreement on 25 January 2008 under which Xiwang Steel Structure agreed to transfer all of the assets and liabilities relating to the steel structure construction business (including fixed assets, raw materials, products, accounts receivable and accounts payable) to Xiwang Metal for a consideration of RMB14,595,715.4, being the net asset value of the steel structure construction business at that time. On 11 February 2008, pursuant to an asset purchase agreement entered into between Xiwang Metal and Xiwang Food, Xiwang Metal then agreed to transfer all of the assets relating to its edible oil business to Xiwang Food for a consideration of RMB122,904,997.3. The consideration and value of the subject assets were determined with reference to the appraised value of these assets as indicated in an appraisal report dated 25 January 2008.

DISPOSAL OF NON-STEEL MANUFACTURING BUSINESSES

In June 2009, in anticipation of the proposed listing of the Group's steel manufacturing business, the Group decided to transfer any business not specifically relating to steel manufacturing out of Xiwang Metal. As such, on 26 June 2009, Xiwang Metal and Xiwang Steel Structure entered into a further asset purchase agreement under which Xiwang Metal agreed to transfer its steel structure construction business back to Xiwang Steel Structure for a consideration of RMB26,049,541.6, being the net asset value at that time. The increase in consideration from the transfer on 25 January 2008 reflected the increase in the net asset value of the steel structure construction business during this period (most notably due to a large increase in accounts receivables due to business transacted during the period). Xiwang Steel Structure generated revenue of RMB15,217,000.0, RMB8,675,000.0, zero and zero for the years ended 31 December 2008, 2009 and 2010, and the nine months ended 30 September 2011, respectively. The steel structure construction business contributed a net profit of RMB3,730,100, a net loss of RMB352,278, zero and zero for the years ended 31 December 2008, 2009 and 2010, and the nine months ended 30 September 2011, respectively.

ESTABLISHMENT OF THE COMPANY

On 6 August 2007, our Company was incorporated as a wholly owned subsidiary of Xiwang Investment and on 12 March 2009, pursuant to a share transfer agreement entered into between the Company, AFIA Xiwang International and Xiwang Investment, AFIA Xiwang International and Xiwang Investment agreed to transfer 88.3% and 11.7% of the equity interest in Xiwang Metal to the Company respectively. It was at this time that the company name of Xiwang Metal was changed from Xiwang Savola to Xiwang Metal. The transfer and the change of company name were approved by the BFTECB on 30 March 2009. The Company became the sole shareholder of Xiwang Metal upon the completion of such transfer.

In June 2009, the registered capital of Xiwang Metal was increased from US$10 million to US$21 million. Such increase in the registered capital of Xiwang Metal was approved by the BFTECB on 10 June 2009. According to a capital verification report issued on 29 June 2009, the increase in the registered capital of Xiwang Metal was fully paid on 29 June 2009 by us.

In September 2009, the Company's first EAF was put into operation with a designed capacity of approximately 500,000 tonnes.

FURTHER CHANGES TO THE SHARE CAPITAL OF XIWANG HOLDINGS

In order to raise additional funds for the business of Xiwang Holdings, on 9 November 2009 Xiwang Hong Kong subscribed for an additional 187,500 shares of US$1.00 each in the capital of Xiwang Holdings at par value, increasing Xiwang Hong Kong's shareholding to 95% of the shares then in issue.

On 8 July 2011, in preparation for the Listing, Xiwang Hong Kong subsequently transferred its 95% equity interest in Xiwang Holdings to Mr. Yong Wang and the Individual Investors for a total consideration of US$190,000. Such consideration was determined with reference to the par value of the shares in question. Upon completion of the above transfer, the equity interest in Xiwang Holdings was held by Mr. Yong Wang as to 64.4% and by the Individual Investors as to 35.6%.

SHANDONG XIWANG SPECIAL STEEL AND XIWANG RECYCLING RESOURCES

Shandong Xiwang Special Steel was established as a sino-foreign joint venture in the PRC on 29 December 2007 with a registered capital of US$11,800,000 and was held as to 51% by Xiwang Steel and as to 49% by the Company. Shandong Xiwang Special Steel has been principally engaged in the production of special steel since its establishment.

Xiwang Recycling Resources was established by Shandong Xiwang Special Steel on 7 May 2009 as a limited liability company in the PRC with a registered capital of RMB30 million. Xiwang Recycling Resources has been principally engaged in the purchase and sale of scrap steel, scrap iron, waste machinery, pig iron, molten iron, metal materials and non-ferrous metal since its establishment.

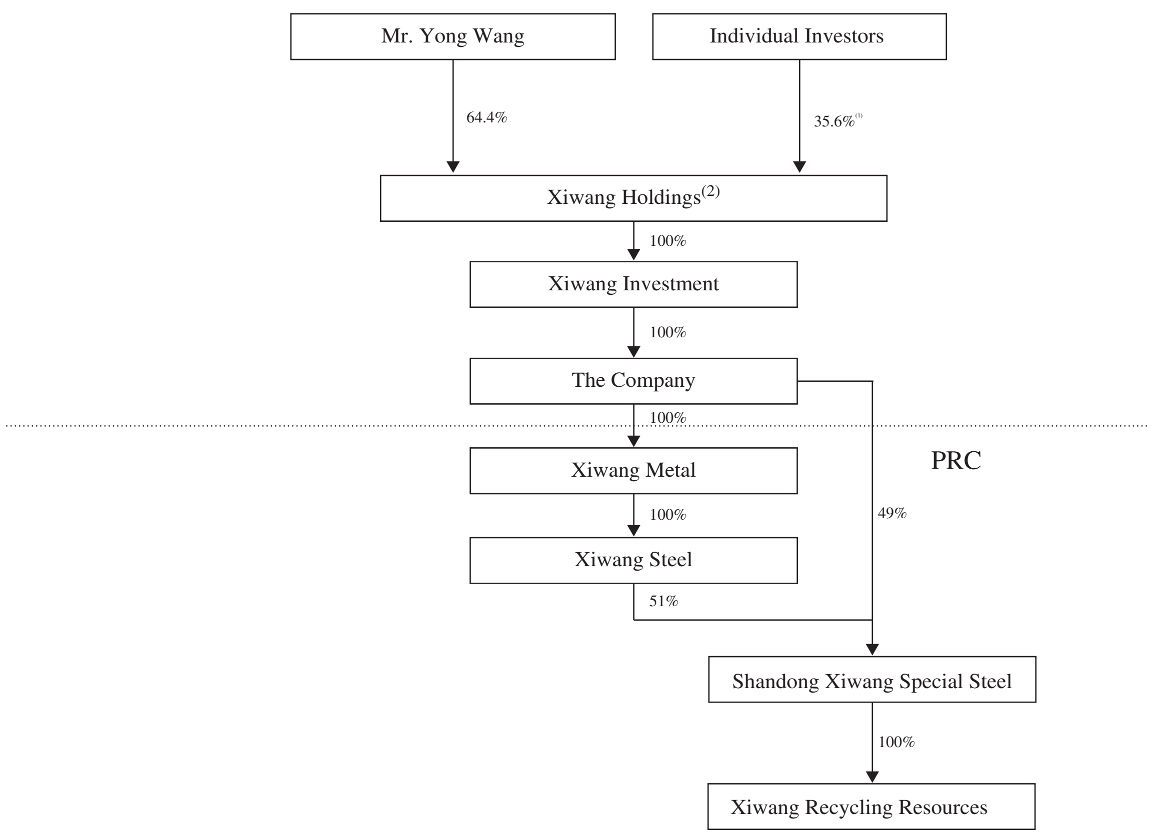
SHENGTANG METAL

Shengtang Metal was incorporated by three independent individual investors in Zouping on 13 August 2008 and was principally engaged in the trading of steel products and related materials. Shengtang Metal recorded a net profit of approximately RMB272,000 and RMB497,000 for the years ended 31 December 2008 and 2009, respectively. On 27 October 2008, in order to expand its sales capabilities in the steel industry, Xiwang Group acquired all of the equity interest in Shengtang Metal held by these individual investors. On 15 June 2009, in preparation for the listing of the steel manufacturing business of the Group, Xiwang Group transferred all of its equity interest in Shengtang Metal to Xiwang Steel for a consideration of RMB100 million, being the registered capital of Shengtang Metal at that date. However, following such acquisition, it was decided that Shengtang Metal was not important for the main business of the Group and Xiwang Group also received advice that the acquisition of the relevant equity interest in Shengtang Metal by Xiwang Steel might potentially have adverse implications under the PRC Provisions on the Acquisition of Domestic Enterprises by Foreign Investors (the "M&A Provisions") as an argument could be raised that the reorganisation of the Group for listing purposes had not been completed before 8 September 2006 (as required under the M&A Provisions). The Company therefore decided to adopt a prudent approach and transfered its interest in Shengtang Metal back to Xiwang Group on 20 January 2010 for the same consideration as the original transfer. The Company's PRC legal advisers have subsequently confirmed that the acquisition and disposal of Shengtang Metal was not in fact a transaction that would be governed by the M&A Provisions on the basis that Xiwang Steel was a domestic company established under PRC Company Law and its equity interest had been held by the Company since 15 August 2006 prior to the enforcement of the M&A Provisions, and that there is no adverse implication under PRC laws arising from such acquisition and disposal.

During the three years ended 31 December 2010 and the period prior to the disposal by Xiwang Group of Shengtang Metal on 13 April 2011, the Group had been engaging Shengtang Metal to sell our products, namely rebars, and source raw materials, namely steel billets, as principal for the Group. Products were sold to Shengtang Metal at market price minus commission to be received by Shengtang Metal at RMB15 per tonne, while raw materials sourced from Shengtang Metal were purchased at market price plus commission to Shengtang Metal at RMB10 per tonne. These commissions which represented less than 0.5% of the sales or purchase price per tonne of the products or raw materials, were calculated on the basis of covering the operating costs of Shengtang Metal. The Directors confirm that the transactions between the Group and Shengtang Metal were on normal commercial terms. The Sole Sponsor confirms that the transactions between the Group and Shengtang Metal were on normal commercial terms and the major terms in the supply and purchase contracts between the Group and Shengtang Metal during the relevant period were substantially the same as the major terms in the contracts between the Group and its other suppliers or purchasers in similar transactions. Further details of such transactions are set out in the section entitled "Connected Transactions" in this prospectus. In April 2011, the Group decided to begin transacting directly with customers and suppliers and ceased dealing with Shengtang Metal. In light of this, the Group enhanced its sales team by hiring certain staff previously employed by Shengtang Metal. As Shengtang Metal ceased to have any active business, on 13 April 2011, Xiwang Group disposed of its entire equity interest in Shengtang Metal to Shandong Shengtang Investment Company Limited (山東盛唐投資有限公司), which was in turn held by three individuals, namely Meng Li (李猛), Lei Chen (陳雷) and Zhenfeng Cheng (程振鳳), all being independent third parties, and ceased any dealing with Shentang Metal from that date. The Company confirms that neither the Group nor its Controlling Shareholders has or has had any current or former relationship with the acquirers of Shengtang Metal, namely Meng Li (李猛), Lei Chen (陳雷) and Zhenfeng Cheng (程振鳳).

STRUCTURE IMMEDIATELY PRIOR TO COMPLETION OF THE GLOBAL OFFERING

The following chart sets out the shareholding structure of our Group immediately prior to the completion of the Global Offering:



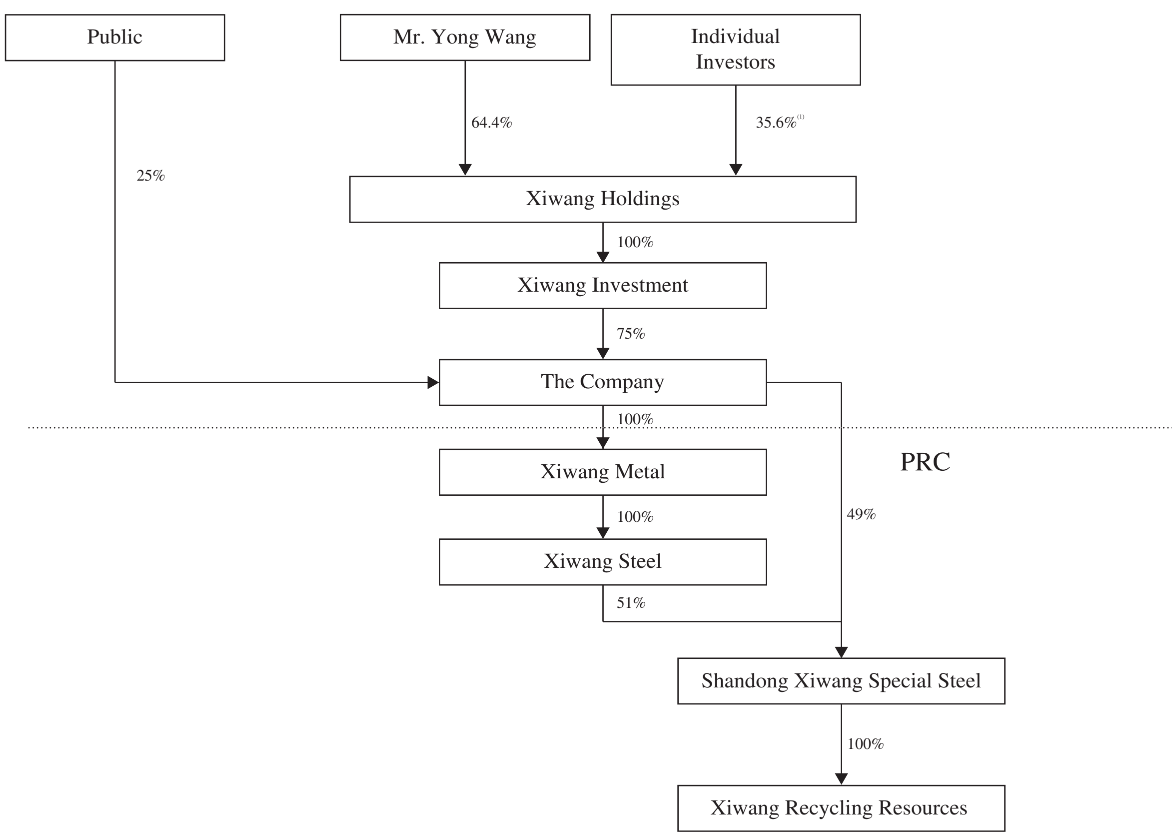
(1) These Individual Investors and their respective shareholding interests in Xiwang Holdings were: Jianxin Wang (王建新) 1.7730%, Hengfang Liu (劉恒芳) 1.2411%, Lijiang Ning (寧立江) 2.2163%, Minghe Wang (王明鶴) 2.6596%, Gang Wang (王剛) 2.3050%, Dong Wang (王棟) 2.3050%, Liang Wang (王亮) 2.3050%, Fangming Wang (王方明) 1.7730%, Tao Wang (王濤) (not the same individual as our Director Mr. Tao Wang) 1.7730%, Chuanwu Wang (王傳武) 1.7730%, Zhong Han (韓忠) 1.7730%, Di Wang (王棣) 1.7730%, Chenglin Wang (王呈林) 1.3298%, Wei Li (李偉) 0.8865%, Jiqiang Liu (劉紀強) 0.8865%, Chenglong Wang (王呈龍) 0.8865%, Huiyi Wang (王會議) 0.8865%, Chengjun Wang (王呈軍) 0.8865%, Benfang Han (韓本芳) 0.8865%, Chuanyu Wang (王傳玉) 0.8865%, Xiaoguang He (賀曉光) 0.8865%, Mingshi Wang (王明詩) 0.8865%, Yingchun Zhai (翟迎春) 0.8865%, Yan Wang (王岩) 0.8865% and Xinhu Sun (孫新虎) 0.8865%.

(2) Pursuant to a voting agreement dated 27 September 2011 and as supplemented by a supplemental voting agreement dated 7 February 2012, it was agreed that the Individual Investors shall only vote, when in the capacity of a shareholder of Xiwang Holdings, in accordance with the instruction of Mr. Yong Wang at any shareholders meeting of Xiwang Holdings.

Note: Weihua Lou and Chengqing Wang sold their equity interest in Xiwang Holdings to Mr. Yong Wang on 5 May 2011 and 17 January 2011 respectively, thus reducing the number of the Individual Investors from 27 to 25.

PROPOSED STRUCTURE FOLLOWING THE GLOBAL OFFERING

The following chart sets out the shareholding structure of our Group immediately after the completion of the Global Offering (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option):



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BUSINESS MILESTONES

Set out below are the major business milestones of our Group:

June 2004	Xiwang Steel began manufacturing ordinary steel products with its first bar rolling line with an annual designed capacity of approximately 500,000 tonnes
May 2006	Xiwang Steel started to use the rolling technology applicable to Φ16mm products, which dramatically increased production efficiency
December 2006	The hot rolled bars produced by Xiwang Steel were credited as a "Shandong Famous Brand" jointly by the Shandong Bureau of Quality and Technical Supervision and the Shangdong Famous Brand Strategy Promotion Committee (西王鋼鐵生產的熱軋帶肋鋼筋榮獲山東省質量技術監督局及山東省名牌戰略推進委員會聯合頒發「山東名牌」榮譽稱號)
	The hot rolled bars produced by Xiwang Steel were awarded Product Exemption from Quality Surveillance Inspection by the General Administration for Quality Supervision and Inspection and Quarantine of the PRC (西王鋼鐵生產的熱軋帶肋鋼筋榮獲國家質量監督檢驗檢疫總局頒發國家免檢產品榮譽稱號)
August 2007	Xiwang Steel's second bar rolling line commenced operations with an aggregate annual designed capacity of approximately 500,000 tonnes
February 2009	Xiwang Steel obtained the ISO 9001 Certification for quality management, the ISO 14001 Certification for environmental management and GB/T28001-2001 Certification for occupational health and safety management (西王鋼鐵取得ISO 9001質量管理認證、ISO 14001環境管理認證及GB/T28001-2001職業健康安全管理認證)
July 2009	Xiwang Metal's wire production line commenced operations with an aggregate annual designed capacity of approximately 600,000 tonnes
September 2009	The Company's first EAF commenced operations with an annual designed capacity of approximately 500,000 tonnes
March 2010	Xiwang Steel was listed among the ten key scheduling and research steel enterprises by the Shandong Government (西王鋼鐵被山東省政府列為重點調度和調研的十家鋼鐵企業之一)
June 2010	Shandong Xiwang Special Steel and Xiwang Metal started to use the smelting and rolling technique applicable to steel for welding

July 2010	Xiwang Steel succeeded in trialling the production of special steel billets, which marked the transition of our products from mainly focusing on construction materials to focusing on mechanical process materials
October 2010	Shandong Xiwang Special Steel entered into a High Level Management and Production Maintenance Employees Training Agreement with BSE
November 2010	Shandong Xiwang Special Steel's project for the development and application of self-breathing regenerative combustion technology in mill furnaces was honoured as "High-tech Achievement" by the Department of Science & Technology of Shandong Province (山東西王特鋼「自呼吸式蓄熱燃燒技術在加熱爐的開發與應用」項目榮獲山東省科學技術廳頒發「高新技術成果」榮譽)
December 2010	The hot rolled bars produced by Xiwang Steel were credited as a "Shandong Famous Brand" jointly by the Shandong Bureau of Qaulity and Technical Supervision and the Shandong Famous Brand Strategy Promotion Committee (西王鋼鐵生產的熱軋帶肋鋼筋榮獲山東省質量技術監督局及山東省名牌戰略推進委員會聯合頒發「山東名牌」榮譽稱號)
January 2011	The Company's second EAF commenced operations with an annual designed capacity of approximately 500,000 tonnes
November 2011	The Company's large bar rolling line commenced operations with an annual designed capacity of approximately 500,000 tonnes

OVERVIEW

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

As an EAF-based integrated steel manufacturer, we operate an integrated production process from steel smelting to secondary metallurgy, continuous casting and steel rolling. Since the commencement of our EAF operation, we have been able to manufacture both ordinary and special steel, which has significantly reduced our reliance upon third parties for the supply of ordinary steel billets. Ordinary steel billets are raw material critical to our rolling production of our ordinary steel products. As of 30 September 2011, we had an aggregate designed annual EAFs smelting capacity of approximately 1.0 million tonnes, and an aggregate designed annual rolling capacity of 1.6 million tonnes. We have been focusing on enhancing the operating efficiency of our EAFs and rolling production lines through constant technical improvements. As a result, our EAFs and rolling lines were generally operated at more than 100% of their utilization rate as of the Latest Practicable Date, which has reduced our unit production cost.

During the Track Record Period, we have derived the majority of our revenue from selling our steel products to customers, primarily distributors, based in Shandong Province. We typically require most of our customers to pay the full purchase price for our products in advance. At the same time, we typically make prepayments to our suppliers for some of our raw materials, such as steel billets, molten iron and pig iron, which accounted for a majority of our cost of sales during the Track Record Period. During the Track Record Period, we were able to finance a portion of our working capital, including our prepayments to our suppliers, from the proceeds of advance payments made by our customers.

While the steel industry in China is very competitive, we achieved significant revenue and earnings growth and improved our profitability during the Track Record Period. For the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, we had revenue of RMB3,858.3 million, RMB3,776.9 million, RMB5,387.3 million and RMB6,350.4 million, respectively, representing a compound annual growth rate, or CAGR, of 18.2% from 2008 to 2010. Our gross profit for the same periods was RMB125.6 million, RMB246.5 million, RMB601.0 million and RMB1,004.2 million, respectively, representing a CAGR of 118.7% from 2008 to 2010. Our gross profit margin increased from 3.3% in 2008 to 6.5%, 11.2% and 15.8% in 2009, 2010 and for the nine months ended 30 September 2011. Our net profit for the same periods was RMB79.7 million, RMB198.9 million, RMB492.8 million and RMB701.8 million, respectively, representing a CAGR of 148.6% from 2008 to 2010. Our net profit margin for the same periods increased from 2.1% in 2008 to 5.3%, 9.1% and 11.1% in 2009, 2010 and for the nine months ended 30 September 2011 respectively.

The key factors affecting our gross profit margin during the Track Record Period were the change of our product mix and improvement in our cost structure through our in-house production of steel billets. By increasing the proportion of high value-added products in the product mix, we were able to improve our profit margin. For example, the percentage of revenue generated by high margin wire rods increased from 22.6% in 2009 to 51.7% in 2010. The percentage of revenue generated by high margin special steel products increased from 7.8% in 2010 to 41.7% in the nine months ended 30 September 2011. In addition, with the commencement of operations of our first EAF in 2009 and our second EAF in 2011, we were able to produce steel billets in-house, thus reducing our reliance on third parties for steel billet supply and improving the unit cost of production.

Our Directors are of the view that, in this competitive industry where the prices of steel products may decrease, our customers may reduce their demand for our products or our customers may refuse to make prepayments, any of which may adversely affect our net profit margin. For more information, see "Risk Factors — Risks Relating to Our Business — Any decrease in the selling prices of our steel products may have a material adverse effect upon our profit margin" and "Risk Factors — Risks Relating to Our Business — Any change in the practice of advance payments from customers to us may adversely affect our financial position and our net profit margin." Given the intensity of competition in the steel industry, our Directors believe we need to continue to maintain and improve our cost efficiency, and continue to identify and develop high gross margin products in order to maintain our profit margin.

OUR COMPETITIVE STRENGTHS

Largest designed EAF capacity in Shandong Province with a focus on special steel production

As of 30 September, 2011, we had an aggregate designed annual EAF production capacity of approximately 1.0 million tonnes, which is the largest in Shandong Province. Since the commencement of our EAF operation in 2009, we have quickly ramped up our special steel production and effectively transited from a pure ordinary steel manufacturer to a steel manufacturer with a focus on special steel production. The percentage of our revenue generated by high margin special steel products increased from 7.8% in 2010 to 41.7% in the nine months ended 30 September 2011. The PRC government highly encourages EAF-based steel manufacturing as part of its policies on steel industry reform and its commitment to energy efficiency, because EAF-based steel manufacturing greatly reduces energy consumption as compared to BOF. In June 2011, we were recognized by the Shan Dong Economic and Information Technology Committee in its Twelfth Five-Year Developing Plans as one of the leading special steel producers in Shandong Province for special steel products such as alloy structural steel and bearing steel.

Our EAF operation provides us with the capability of small batch melting and accurate control of smelting temperatures and composition, which enables us to diversify our product mix and produce high quality and high value-added steel products. In addition, the integrated rolling lines of our EAF operation provide us with the capability to produce a wide range of high value-added steel products of different chemical compositions with cross sectional diameters ranging from 5.5 to 500 millimetres. Our special steel products include quality carbon structural steel, alloy structural steel, bearing steel and steel welding wire. Moreover, our operation integrates steel scrap processing, steel smelting, secondary metallurgy, and continuous casting and rolling, as a result enabling us to complete the production cycle of raw materials to finished products within 3.5 hours. The ultra-high power of our EAFs are characterized by continuous feed, continuous warm-up and continuous smelting, which enable us to further save energy consumption and reduce production costs.

We operate the two largest EAFs in Shandong Province. According to a certification from China Metallurgical Industry Planning and Research Institute (冶金工業規劃研究院), a PRC government organisation under the jurisdiction of the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) (國務院國有資產監督管理委員會) dated 15 June 2011, there were 19 EAFs in Shandong Province, among which only six had the ability to produce at least 70 tonnes per batch. Of these six EAFs, the two EAFs operated by us were capable of producing 80 tonnes per batch, as compared to the other four EAFs operated by three separate entities, which were only capable of producing 70 tonnes per batch. According to a report from China Metallurgical Industry Planning and Research Institute dated March 2010, 11 of the smaller EAFs in Shandong Province would be shut down by the end of 2011, which we believe will further enhance our leading position in Shangdong Province.

Operational efficiency and competitive cost advantage

We are committed to constantly improving our production capacity and utilisation rate by undertaking a variety of measures, such as upgrading our production facilities and equipment, optimizing our production process, and improving our technology know-how.

We are committed to improving the operating efficiency of our EAFs in order to produce a larger volume of steel billets in-house to satisfy the increasing needs for steel billets, resulting from the growth in our rolling capacity. We have engaged BSE, a German consulting company affiliated to Badische Stahlwerke GmbH ("BSW"), which is known for its expertise in improving EAF operating efficiency and productivity, to help us achieve this goal. With the technical support from BSE, we were able to achieve a utilisation rate of more than 100% for both of our EAFs for the nine months ended 30 September 2011.

We have reduced our per batch smelting cycle from 75 minutes to approximately 70 minutes, and effectively increased our EAF production from the designed capacity of 80 tonnes per batch to the actual output of 95 tonnes per batch. We have also increased the EAF annual operating days from 300 days to 310 days. These factors have enabled us to operate our EAFs at more than 100% utilisation rate as compared, to its annual designed capacity. The increase in our EAF utilisation rate has effectively reduced our unit production cost.

We have shortened the ramp-up period of our production lines and reduced the time between commencement of operations and commencement of commercial production. The time between commencement of operations and commencement of commercial production was reduced from seven months for our first bar rolling line to three months for our second bar rolling line. The time between commencement of operations and commencement of commercial production was reduced from four months for our first EAF to three months for our second EAF. We believe that the experience and know-how we obtained in achieving these improvements will continue to benefit us in future ramp-up and operations.

Our ability to produce steel billets in-house at a cost that is lower than purchasing such steel billets from third party suppliers provides us with a competitive cost advantage and increases our gross profit margin. We satisfied 0%, 4.5%, 39.2% and 55.6% of our total steel billets requirements through in-house production for the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, respectively, which contributed to the high gross profit margin for special steel products and the increase in gross profit margin for ordinary steel products. We expect to further increase our capability of producing steel billets in-house and to lower our production costs.

In addition, we are recognized as a large industrial electricity user in Binzhou City, Shandong Province, and according to an electricity price policy issued by Shandong government, we are entitled to purchase electricity supplied by State Grid (國家電網) at price of approximately RMB0.56 per Kwh. This price is at the low end of the price range of approximately RMB0.56 per Kwh to approximately RMB0.69 per Kwh charged to large industry electricity users in Shandong Province during the Track Record Period. We have also entered into a five-year electricity supply contract with Binzhou Electricity Supply Company to purchase our electricity at approximately RMB0.56 per Kwh, which may be subject to price adjustments by the competent price administration authority.

We believe that our high utilisation rate and strict cost control have resulted in a competitive cost structure, which contributed to our gross profit margin improvement.

Strong capability in building customer and supplier relationships

We have developed a loyal customer base with a high level of customer retention. Our top five customers, each of whom has been with us for more than three years, accounted for 31.0%, 31.1%, 36.7% and 38.1% of our total revenues in 2008, 2009 and 2010 and the nine months ended 30 September 2011, respectively. Since we commenced operations in 2004, we have accumulated significant customer service experience which we believe strengthens our existing customer relationships and will assist us to obtain new customers, including end-user customers for our special steel products.

We believe that providing quality sale and post-sale customer service is important for building customer loyalty and enhancing our market share. We have adopted a practice of making regular customer visits and participating in industry events to better serve our customers' needs, resolve their problems, gain insights into industry trends and thereby enhance our brand awareness. We plan to leverage our customer base for ordinary steel products and our customer service experience to acquire additional special steel customers in the future.

We have built strong business relationships with our raw material suppliers to support our future growth. Ordinary steel billets are the primary raw materials for our ordinary steel products. Steel scraps and, to a lesser extent, molten iron and pig iron are the primary raw materials used by our EAFs. We have established long-term relationships with our major suppliers of ordinary steel billets. Our top three steel billet suppliers supplied us with approximately 97.4%, 88.3%, 72.2% and 85.5% of our ordinary steel billets purchased from third parties in 2008, 2009, 2010 and the nine months ended 30 September 2011, respectively. In 2010, we procured approximately 36.3% of our steel scraps from China Recycling in terms of procurement cost of steel scraps paid by us. We have established a strategic partnership with China Recycling pursuant to a letter of intent dated 1 January 2011, under which we have the right to adjust actual purchase prices of steel scraps supplied by China Recycling. Pursuant to the letter of intent, China Recycling agrees to provide us with a minimum of 800,000 tonnes of steel scraps per year or a minimum of 70,000 tonnes of steel scraps per month upon request from 1 January 2011 to 1 December 2015. The purchase prices of steel scraps from China Recycling are continuously adjusted by our on-going purchase price adjustment notifications to China Recycling during the term of our business cooperation. We typically make purchase price adjustments by taking into account both the prevailing national market prices of our steel products and the regional market prices, primarily the market prices of steel scraps and our steel products in Shandong Province. On 30 December 2011, we entered into a steel scrap purchase agreement with China Recycling, under which China Recycling agrees to provide us with 800,000 tonnes of steel scraps from 1 January 2012 to 31 December 2012. In addition to this steel scrap purchase agreement, we also enter into purchase orders for each purchase to be made, which set forth the purchase price, type and quantity of steel scraps. With respect to the supply of molten iron and pig iron, we have established long-term relationships with nearby molten iron and pig iron suppliers. We believe our suppliers are able to provide sufficient raw materials to us to support our continuous growth.

Strategic location close to an abundant supply of raw materials and to end markets with high growth potential

Our strategic location is one of our key competitive strengths. Transportation costs are typically one of the major components of costs in the steel industry. To reduce the transportation cost for the delivery of raw materials and finished steel products, steel producers normally locate their production facilities close to their raw material suppliers and customers or within easy access to economical transportation facilities. We operate our production facilities in Zouping County, Shandong Province with convenient access to railways, highways and waterways, which facilitates efficient transportation of raw materials to us from suppliers and products from us to our customers and reduce transportation costs.

We are situated close to the Jinan-Qingdao Highway and the Jiaoji Railway, and are located within 260 kilometres of the Qingdao port. Our production facilities are located in the central region of Shandong Province, one of the major steel manufacturing regions in eastern China. We are located in a geographic location in eastern China which is rich in crude steel and steel scrap, with developed processing and manufacturing industries and growing infrastructure constructions. Our proximity to suppliers lowers our transportation costs.

In addition, we believe there is a strong demand for our products in other parts of Shandong Province and in nearby major special steel markets. For instance, Tai'an in Shandong Province is one of the largest steel markets in northern China. Liaocheng in Shandong Province, well-known for steel pipe production, has a large demand for steel billets. Henan Province is an important market for bearing steel products because of the development of the heavy machinery industry in the area, and there is a significant concentration of machinery processing for automobile industry in Zhejiang Province and Fujian Province, which serve as large potential markets for our special steel products. We believe we are well positioned to capitalise on the potential growth opportunities available in eastern China, including Shandong Province, Jiangsu Province, Zhejiang Province, Anhui Province and Fujian Province, as well as Henan Province in central China.

Experienced management and technical team, and result-driven corporate culture

Our senior management team, comprised of capable and experienced professionals, will continue to lead our growth. Our management has played a key role in fostering a corporate culture focused on delivering consistently high quality products that respond to market needs at affordable prices.

We have also built up a strong technical team, led by our lead engineer, Mr. Fusheng Zhao (趙福生), who has 26 years of experience in the steel industry. Experienced engineers are crucial to our business growth. Some of our engineers, prior to joining us, were technical team members of other top tier special steel manufacturers in China.

As a non-State owned enterprise, we have benefited from the flexibility of being able to provide competitive compensation and employee benefits, including overtime compensation and performance-based bonuses. We believe this motivates our employees and aligns their interests with the interests of our Company.

Our senior management's in-depth understanding of and expertise in business management, together with our experienced engineers' efforts to lead our technology upgrade and the results driven corporate culture, have been critical to our success and continue to be important factors driving our future growth.

OUR BUSINESS STRATEGIES

Our goal is to meet the increasing demand for our products while maintaining and enhancing our profit margin. We intend to achieve these objectives by adopting the following strategies:

Improve product mix by increasing production of high value-added special steel products

We plan to continue to increase our production of high quality and high value-added special steel products. We also plan to leverage our integrated steel manufacturing process to expand into production of new downstream products. For example, we plan to construct a production line for high-duty alloy pipes which will use the large bars of special steel to be produced by our new large bar rolling line. The proposed high-duty alloy pipe production line will be built on our current land parcels. 75% of the net proceeds from the Global Offering has been earmarked for this high-duty alloy pipe production line, and the remaining funding will come from our cashflow of operations. The planned production capacity of this line is 500,000 tonnes per year. We expect this line to commence commercial production by October 2013. As of the Latest Practicable Date, no capital expenditures have been incurred nor have any commitments been made in relation to this line. The estimated capital expenditures for this expansion are RMB1.06 billion and RMB0.18 billion for 2012 and 2013, respectively. High-duty alloy pipes are high value-added special steel products for specialised uses and require sophisticated skills for production. These pipes are used in boiler pipes, corrosion-, pressure- and temperature-resistant oil well drill pipes and high corrosion-resistant chemical pipes. As of Latest Practicable Date, the market price for similar products is approximately RMB6,700 per tonne (or RMB8,300 including VAT and sales tax). We believe increasing the production and sales of higher value-added special steel products will increase our sales revenue and further improve our profit margin.

The construction of the high-duty alloy pipe production line project (i) is expected to be in line with the development direction and general guidance stated in the Development Policy for the Iron and Steel Industry (鋼鐵產業發展政策) and Blueprint for the Adjustment and Revitalization of the Steel Industry (鋼鐵產業調整和振興規劃), (ii) is expected to meet the technical qualification and requirement specified in Rules and Qualifications for Production and Operation of Steel Industry (鋼鐵行業生產經營規範條件) and the Decision of the State Council on Reforming the Investment System (國務院關於投資體制改革的決定), and (iii) should be in compliance with PRC laws and regulations related to environmental protection and production safety. The project is subject to obtaining the planning permit and construction permit from the local government authorities before commencing the construction. According to the Development Policy for the Iron and Steel Industry, special steel enterprises are encouraged to carry out research on, develop and produce special steel products to be used in the military industry, bearings, gears and models, and special steel with heat resistant, cold resistant, corrosion resistant, etc. According to the Guideline for Current Priorities for Development in Key Sectors of High-Tech Industry (2007) (當前優先發展的高技術產業化重點領域指南(2007)), the production of high-duty, heat-resistant and other similar alloy steel is one of the current priorities for development in the key sectors of high-tech industry. The alloy pipe production line will be constructed through a series of technological renovations to expand the variety and improve the quality and benefit of our steel products. The alloy pipe production line will engage in the production of deep processing products, such as special steel to be used in boiler pipes, corrosion-, pressure- and temperature-resistant oil well drill pipes and high corrosion-resistant chemical pipes, which fall into the category of the encouraged products stipulated in the Development Policy for the Iron and Steel Industry. The technological renovation of the alloy pipe production line will be carried out by adopting domestic advanced technology such as ex-furnace refining, continuous casting and continuous rolling which are recommended in the Development Policy for the Iron and Steel Industry. According to the results of consultation with the Shan Dong Economics and Information Technology Committee (山東省經濟和信息化委員會), the construction of the alloy pipe line is in line with the development policy and direction of the steel industry. According to the Twelfth Five-Year Developing Plans for Steel Industry of Shandong Province (山東省鋼鐵工業"十二五"發展規劃) ("Twelfth Five-Year Developing Plans") dated 2 June 2011, our PRC subsidiaries are listed as key enterprises in manufacturing and developing the special steel. These key enterprises listed in the Twelfth Five-Year Developing Plans will be supported by the governments at all levels, especially in financing (such as issuing bonds and stocks listing), technology innovation and reorganisation. Our expansion plan is in accordance with the directions and goals of the steel industry polices outlined in the Twelfth Five-Year Developing Plans. Based on the above, our PRC legal advisers, Jingtian & Gongcheng, expect that, there will be no legal impediments for us to obtain all the approvals to construct the alloy pipe production line.

Based on the above, our Directors are of the view that this expansion plan is feasible and reasonable in light of the expected proceeds from the Global Offering, and are not aware of any operational, legal or regulatory constraints or change in demand and supply as of the Latest Practicable Date which may affect the feasibility of this expansion plan. Our Directors expect that, if we submit the application materials for initiation of this project, all approvals required for the commencement of its construction will be obtained within three to six months after the application. In addition, the required land space and infrastructure for the project is in place and the negotiation with the suppliers for the introduction of the relevant technology and equipment is in process.

We believe our ability to offer a broader range of products with different grades and specifications will allow us to meet customer demands for tailored products to be used in the machinery, equipment, and automobile industries. With the increase in our production of special steel products and expansion into higher value-added product lines, we expect to become one of the leading special steel manufacturers in the PRC.

Increase direct sales to end users

We aim to increase the portion of our sales sold directly to end-user customers in eastern China primarily through increased sales of special steel products. We believe this will add value to our brand name and help create a stable demand for our products. We intend to achieve this strategic goal by capturing the marketing opportunities offered by various national and provincial special steel industry events, such as the China Special Steel Annual Meeting, where we plan to showcase our products and technologies to a large number of potential end-user customers. In addition, our marketing personnel will also increase their visits to existing and potential end-user customers to promote our products. Furthermore, we intend to offer our end-user customers competitive prices while maintaining the quality of our products.

Strengthen our market positioning in the Shandong Province market and enter additional markets in eastern China

We believe we have established market recognition of our brand name in Shandong Province over years of operation in the province. We intend to strengthen our leading position in Shandong Province by continuing to deliver high quality products, further optimizing our production process, expanding our manufacturing chain downstream and expanding our sales network. We believe that by strengthening our market position, we will be able to better capitalise on future economic growth in Shandong Province. In addition, we intend to increase our presence in eastern China through increased sales and marketing force and further improvements to our post-sale customer service in the major provinces of eastern China.

Increase training opportunities and attract industry specialists

We believe that maintaining a team of well-trained technicians and engineers, including leading industry specialists, is critical to our growth. In October 2010, we entered into a three-year technical services program with BSE to acquire operational know-how to improve our production utilisation rates and to enhance our high value-added special steel billet production capability. As part of this program, we have sent 18 engineers to BSE's German production facilities for technical training and expect to send at least another 28 engineers and technicians to Germany for such technical training. In addition, we have invited and intend to continue to invite experts from BSE to provide onsite training at our production facilities. We also intend to expand our technical team led by our lead engineer.

We organize regular on-site training programs to share information and skills with our new employees and offer technical training programs. In addition, we will continue to actively recruit specialists in special steel industry by direct contact or referral. To attract industry specialists, we will offer competitive compensation and benefits and provide a supportive work and research environment.

OUR PRODUCTS

We manufacture both ordinary steel and special steel products. Our ordinary steel products, including rebars and wire rods, are primarily used in construction and infrastructure. The special steel products that we currently produce and sell include quality carbon structural steel, alloy structural steel, bearing steel and steel welding wire. We have also produced and sold special steel billets (semi-finished steel products), which are hot-rolled steel billets with customised chemical compositions that are not generally available on market. Our special steel products are primarily used in the machinery, equipment and automobile industries.

During the Track Record Period, we primarily derived our revenue from the sales of ordinary steel products. Since we commenced operations of our first EAF in 2009, we have produced our own steel billets and diversified our product offerings into special steel products. Prior to commencing operations of the first EAF in 2009, it was impractical for us to purchase special steel billets from third party suppliers because (i) special steel billets we use must be tailor-made with various desired chemical compositions to match the customers' specifications for special steel products, and (ii) there are limited special steel billet supplies in Shandong Province because special steel billet manufacturers would roll the steel billets they produce into higher value-added products for sale. Our EAF-based integrated production process offers small batch melting and accurate control of melting temperatures and composition, which enables us to efficiently improve our product mix and increase the portion of sales of high quality and high value-added special steel products.

Some of the our products, such as high strength deformed steel bar and bearing steel, are subject to the "Catalogue of Implementation of Production License Management for Industrial Products" and require a license before production. Our PRC legal advisers have confirmed that we have obtained these licenses, including the Production Licenses for Industrial Products (全國工業品生產許可證) of Hot-rolled Ribbed Steel Bars for the Reinforcement of Concrete (鋼筋混凝土用熱軋帶肋鋼筋) (Certificate No. XK05-001-00276) and Bearing Steel (軸承鋼) (Certificate No. XK05-006-00092).

Our ordinary steel products do not require further processing to be used in construction and infrastructure, while our special steel products require further processing to be suitable for our customers' intended usage in the machinery, equipment and automobile industries.

Our revenue generated from ordinary steel products accounted for 100.0%, 100.0%, 92.2% and 57.9% of our steel revenue derived from our continuing operations for the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011. The following table sets forth the sales revenue, revenue as a percentage of our total steel revenue, actual sales volume and average selling price for each type of our steel products in the Track Record Period:

	Sales revenue (RMB in millions)	Percentage of total steel revenue (%)	Actual sales volume (tonnes)	Average selling price per tonne (RMB)
2008				
Ordinary Steel				
Rebars	3,773.7	100.0%	984,000	3,835.1
Wire rods	–	–	–	–
Total Ordinary Steel	3,773.7	100.0%	984,000	3,835.1
2009				
Ordinary Steel				
Rebars	2,886.9	77.2%	967,978	2,982.4
Wire rods	852.4	22.8%	260,709	3,269.5
Total Ordinary Steel	3,739.3	100.0%	1,228,687	3,043.3
2010				
Ordinary Steel				
Rebars	2,143.9	40.1%	623,443	3,438.8
Wire rods	2,784.6	52.1%	734,792	3,789.6
Subtotal Ordinary Steel	4,928.5	92.2%	1,358,235	3,628.6
Special Steel				
Quality carbon steel	324.9	6.1%	90,123	3,604.6
Alloy structural steel	60.4	1.1%	15,728	3,839.5
Bearing steel	1.9	0.0%	438	4,474.9
Steel welding wire	32.8	0.6%	8,452	3,884.1
Subtotal Special Steel	420.0	7.8%	114,741	3,660.7
Total Steel	5,348.5	100.0%	1,472,976	3,631.1
Nine months ended 30 September 2011				
Ordinary Steel				
Rebars	1,245.6	19.8%	301,294	4,134.1
Wire rods	2,396.3	38.1%	536,418	4,467.2
Subtotal Ordinary Steel	3,641.9	57.9%	837,712	4,347.4

	Sales revenue (RMB in millions)	Percentage of total steel revenue (%)	Actual sales volume (tonnes)	Average selling price per tonne (RMB)
Special Steel				
Quality carbon steel	2,308.2	36.7%	513,192	4,497.8
Alloy structural steel	116.7	1.9%	25,317	4,611.4
Bearing steel	206.1	3.3%	41,926	4,914.9
Steel welding wire	17.3	0.2%	3,881	4,449.9
Subtotal Special Steel	2,648.3	42.1%	584,316	4,532.3
Total Steel	6,290.2	100.0%	1,422,028	4,423.4

In 2008, rebars were our sole steel product, which generated gross profit margin of 2.8%. In 2009, we started to produce wire rods, which generated a gross profit margin of 11.3%. In 2010, the percentage of revenue generated by wire rods increased to 51.7% from 22.6% in 2009. In 2010, we commenced the production of special steel products. However, as the special steel production line was still in the testing phase and the production capacity had not been fully ramped up, the weighted average gross margin of the special steel products in 2010 was only 6.5%, lower than that of wire rods which was 15.9%. For the nine months ended 30 September 2011, as our special steel production line reached full utilisation, which allowed us to enjoy economies of scale, the unit production cost of special steel was lower. During the same period, we had improved our product mix by producing higher value-added special steel products. As a result, the gross profit margin of special steel products increased significantly to 20.2% for the nine months ended 30 September 2011. For more information, see "Financial Information — Principal Components of Consolidated Income Statements — Gross Profit Margin."

Ordinary steel

Rebars and wire rods are our major ordinary steel products. The majority of our ordinary steel products are used in building and bridge construction and infrastructure projects. We manufacture ordinary steel products in various sizes in accordance with the specifications requested by our customers.

Rebars

Rebars were our largest steel product category in terms of production and sales volumes in 2008 and 2009. Our rebars have cross sectional diameters ranging from 12 millimetres to 32 millimetres and conform to national standard GB1499.2-2007.

Wire Rods

Wire rods were our largest steel product category in terms of production and sales volumes in 2010. We produce ribbed and plain wire rods. Our ribbed wire rods have cross sectional diameters ranging from 6 millimetres to 12 millimetres and conform to national standard GB1499.2-2007. Our plain wire rods have cross sectional diameters ranging from 6 millimetres to 12 millimetres and conform to national standard GB1499.1-2008.

Special steel

We commenced the operations of our first EAF in September 2009 and commenced commercial production in January 2010. In January 2011, we commenced the operations of the second EAF and commenced commercial production in April 2011.

Our special steel products include steel welding wire and steel billets, bars and wires of quality carbon structural steel and alloy steel. Our alloy steel products currently comprise alloy structural steel and bearing steel products. We expect to commence producing gear bars in May 2012, which will be categorized as alloy steel when we commence sales of such products. Special steel products are often used in machinery, equipment and automobile industries.

Quality carbon structural steel

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

Alloy structural steel

Alloy structural steel is alloy steel that can be used in machinery structures. We use manganese, silicon, nickel, chromium and molybdenum to adjust the chemical composition of alloy structural steel to reach desired steel properties. Our alloy structural steel products include steel billets with cross sectional diameters ranging from 160 millimetres to 250 millimetres and bars with cross sectional diameters ranging from 22 millimetres to 60 millimetres.

Bearing steel

We manufacture bearing steel bars and wires with cross sectional diameters ranging from 5.5 millimetres to 60 millimetres for use as rollers or ball bearings. Our bearing steel products possess extremely high level of purity. Applying vacuum treatment to the liquid steel, we purge practically all of the non-metallic chemical substances unintentionally introduced during the steel manufacturing process that could otherwise result in low fatigue strength. Our bearing steel products are harder than other ordinary steel products. Our bearing steel conforms to national standard GB/T18254-2002 for high carbon content.

Steel welding wire

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

Gear steel

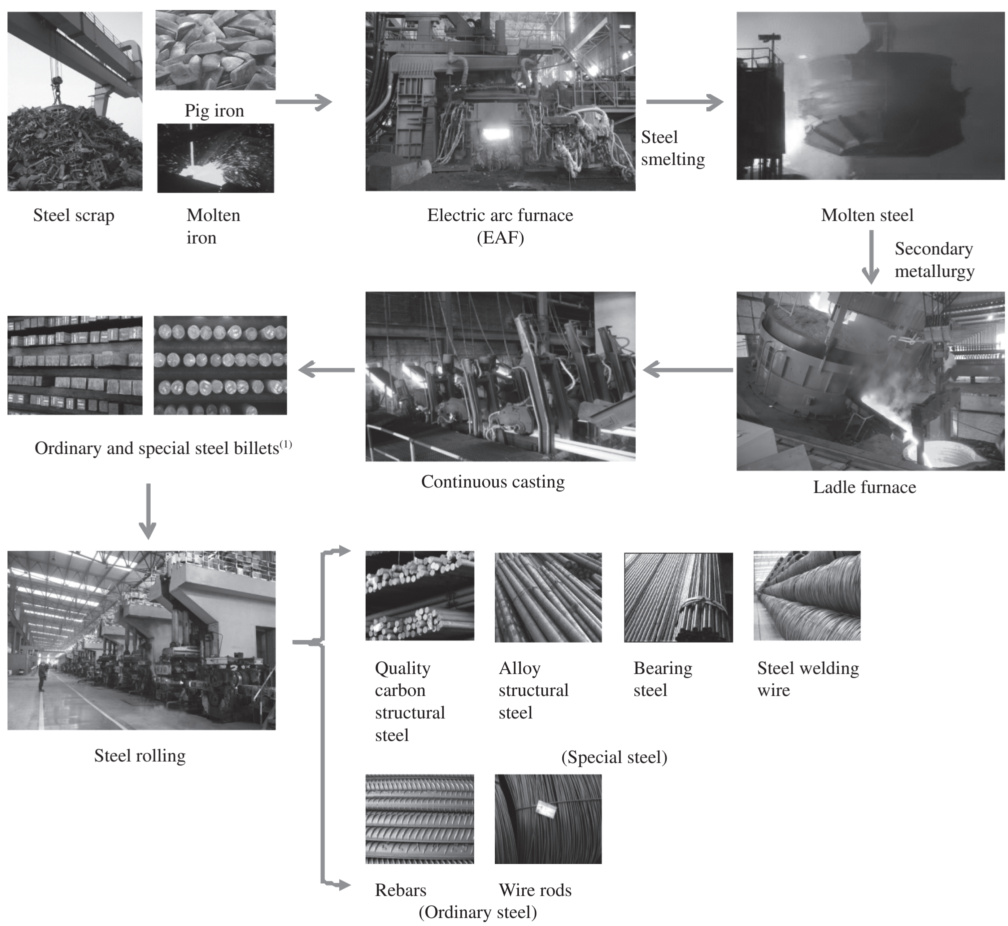
Gear steel products are typically used in vehicle gear manufacturing. We expect to commence our production of gear bars by May 2012.

PRODUCTION

Production Process

Our current production process can be broadly broken down into four stages: steel smelting, secondary metallurgy, continuous casting and steel rolling. We were able to manufacture our own steel billets only after the commencement of operations of our first EAF in September 2009, starting an integrated steel production process. The diagrams below illustrate our production process for steel manufacturing.

Flow chart of steel manufacturing



(1) Ordinary steel billets are purchased from third party suppliers and produced in-house from our EAFs. Special steel billets are all produced in-house from our EAFs.

Steel Smelting

We commenced our own steel smelting process with the implementation of our EAFs which processes steel scraps, molten iron, pig iron and other raw materials into molten steel. In the smelting process, the raw materials are heated to a temperature of approximately 1,600 degrees Celsius to remove impurities. Our ultra-high power EAFs are characterized by continuous charge, continuous heating and continuous smelting, resulting in minimized utility costs and maximized utilisation rate.

Secondary metallurgy

The molten steel produced in the steel smelting process is poured into a ladle furnace. The precise composition of alloy applied in this step determines the properties of the particular type of special steel as specifically requested by our customers. We adjust the temperature and blend approximate amount of alloy to produce the different specifications of special steel.

Continuous casting

Our method of steel casting is continuous casting. In continuous casting, molten steel produced is continuously fed into vessels and then is released at a steady rate into crystalizers and cooled by water to form a continuous solid strand. After it is completely solidified, it is cut into steel billets of various sizes based upon requests from our customers.

Continuous casting offers higher yield rate and shorter production time, and incurs lower energy cost than the ingot casting production method, an alternative to continuous casting method.

Steel rolling

Continuously cast steel billets from the steel casting process are reheated in a heating furnace before they are sent to our rolling lines to be rolled into various kinds of steel products. Prior to shipment to our customers, wire steel products are sent to our coiling equipment to be bundled.

Raw Materials and Supplies

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

We have established strong business relationships with some of raw material suppliers, including both steel billet and steel scrap suppliers. None of our suppliers had been our customers during the Track Record Period, nor vice versa. We have been procuring steel scraps from China Recycling Development Company Limited (中國再生資源開發有限公司) since 2009. China Recycling is one of the largest state-owned steel scrap recycling companies in China with a resource center located within 200 kilometers from our production facilities. In addition, one of our largest suppliers of steel billets during 2008 to 2010, Zibo Hongda Steel Co., Ltd. (淄博宏達鋼鐵有限公司), which is a Shandong Province based company and controlled by Nanjinzhao Group Co., Ltd. (南金兆集團有限公司), a Top 500 China Enterprise recognized by China Enterprise Confederation in 2010, has already been supplying steel billets to us for more than six years as of the Latest Practicable Date.

During the Track Record Period, we were able to obtain adequate supplies of raw materials to meet our increasing demand for raw materials in connection with our production expansion. For the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, the purchases from suppliers to whom we made prepayments accounted for 95.1%, 91.5%, 71.7% and 69.0% of our total purchases of raw materials in terms of value, respectively.

For the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, the purchases from the Group's largest supplier accounted for 81.9%, 49.8%, 23.2% and 17.2% of our total purchases of raw materials in terms of value, respectively. For the same periods, the purchases from the Group's five largest suppliers combined accounted for 94.5%, 84.5%, 53.5% and 59.9% of our total purchases of raw materials in terms of value, respectively. For the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, the purchases from Shengtang Metal, one of our five largest suppliers in 2010, accounted for 3.0%, 18.0%, 13.1% and 5.2% of our total purchases of raw materials in terms of value, respectively. For the relationship between Shengtang Metal and our Group, see "Connected Transactions — Discontinued related party transactions — E. Transactions with Shengtang Metal."

During the Track Record Period, none of the Directors or their associates, or any of our shareholders (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interests in our top five suppliers. As of the Latest Practicable Date, all our suppliers were independent third parties.

Steel billets

We purchase ordinary steel billets for the manufacture of our ordinary steel products from suppliers in our neighbouring area. In the year ended 31 December 2008, 2009, 2010 and the nine months ended 30 September 2011, the aggregate amount of ordinary steel billets that we purchased from our top three steel billet suppliers accounted for 97.4%, 88.3%, 79.5% and 96.6% of our total purchases of ordinary steel billets from third parties, respectively. For the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, respectively, we purchased 100%, 95.5%, 60.8% and 44.4% of our total steel billet requirements from third party suppliers, and with the commencement of operations of the first EAF in 2009 and the second EAF in 2011, we produced 0%, 4.5%, 39.2% and 55.6% of our total steel billet requirements in-house.

We keep the purchase radius of our ordinary steel billets short to lower transportation costs. To further reduce our production costs, we source our raw materials directly from suppliers without the use of any distributors. We have entered into yearly fixed-volume contracts with each supplier, under which prices are negotiated at the time of entry into each of the separate purchase orders pursuant to the yearly fixed volume contracts. We have long-standing relationships with several ordinary steel billet suppliers, four of which have been our suppliers for three to seven years as of June 2011.

Steel scraps

We purchase steel scraps from third party suppliers, including China Recycling Development Co., Ltd. (中國再生資源開發有限公司), one of the largest steel scrap recycling companies in China. China Recycling provided us with approximately 36.3% of our total steel scraps in 2010 in terms of procurement cost of steel scraps paid by us. We have established long-term relationships with our major suppliers of steel scraps. In the year ended 31 December 2008, 2009, 2010 and the nine months ended 30 September 2011, the aggregate amount of steel scraps purchased from our top three steel scraps suppliers accounted for 0%, 30.5%, 50.5% and 55.8% of our total purchases of steel scraps from third parties, respectively. We have established a strategic partnership with China Recycling pursuant to a letter of intent dated 1 January 2011, under which we have the right to adjust actual purchase prices of steel scraps supplied by China Recycling. Pursuant to the letter of intent, China Recycling agrees to provide us with a minimum of 800,000 tonnes of steel scraps per year or a minimum of 70,000 tonnes per month upon request from 1 January 2011 to 1 December 2015. On 30 December 2011, we entered into a steel scrap purchase agreement with China Recycling, under which China Recycling agrees to provide us with 800,000 tonnes of steel scraps from 1 January 2012 to 31 December 2012. The purchase prices of steel scraps from China Recycling may be adjusted by our on-going purchase price adjustment notified to China Recycling during the term of our business cooperation. We typically make purchase price adjustments by taking into account both the prevailing national market prices of our steel products and the regional market prices, primarily the market prices of steel scraps and our steel products in Shandong Province. We obtain information on prevailing market prices from the public domain. Pursuant to the letter of intent, the 25th and the 30th day of each month, we shall notify China Recycling of the quantity and type of steel scraps that we will purchase in the following month based upon the conditions of our business operations. China Recycling meets our monthly purchase requirement by making multiple deliveries. For each purchase to be made, we enter into a purchase order with China Recycling, which reflects the actual purchase price, type and quantity of steel scraps. Pursuant to the letter of intent, if we foresee a decrease in the actual purchase price, we will give China Recycling a one- to two-day prior notice. Payment settlements are made three times each month, at the beginning, middle and end of each month. Either party may amend the scope of co-operation based on market conditions.

We have also set up three steel scrap purchasing centres for steel scraps in Qingdao and Heze in Shandong Province and Cangzhou in Hebei Province, to actively monitor the steel scrap supply market and make purchases from suppliers in the nearby area to ensure we have sufficient supply of steel scraps.

Molten iron

Molten iron is used in the EAF production process to adjust the proportion of carbon according to the specification of the product. We purchase the majority of our molten iron from suppliers located in areas within approximately 50 kilometres to our production facilities. Our top three molten iron suppliers provided us with 68.8%, 21.3% and 9.1% of our total molten iron in 2010, respectively. In order to maintain low transportation cost and the high temperature of molten iron during transportation, we select molten iron suppliers who are in close proximity to our production facilities. In addition, the high temperature of molten iron allows our EAFs to warm up faster, thereby saving our energy costs for production. We estimate that for every 1% of molten iron added into mix in the EAF process, our electricity use may be reduced by approximately 4.0 Kwh per tonne of steel produced. We typically use 40% of molten iron and 60% of steel scraps for each batch of EAF production. Furthermore, the use of molten iron also reduces production time and increases the life of our EAFs because our EAFs do not need to warm up from room temperature as a result.

Pig iron

Pig iron is used as replacement to molten iron when molten iron is not readily available. Pig iron and molten iron have the same composition, except that pig iron, unlike molten iron which must be maintained in liquid form with high temperature, can be stored over time. We maintain sufficient stock of pig iron in our storage facilities. We purchased pig iron from the same suppliers of molten iron.

Alloys

Alloys of maganese, sillicon, nickel, chromium and molybdenum are used in our metallurgy process to regulate the chemical content within the steel and achieve desired steel properties. We used a small amount of alloys in the Track Record Period but expect our alloy requirements to increase when we produce more special steel products.

Energy and Utilities

Since we commenced our production in June 2004, we have not experienced any material electricity shortages. In 2008, 2009, 2010 and the nine months ended 30 September 2011, we consumed 61.5 million Kwh, 99.9 million Kwh, 369.3 million Kwh and 433.8 million Kwh of electricity, respectively, and our electricity costs were RMB22.7 million, RMB39.2 million, RMB180.7 million and RMB203.3 million, respectively. The significant increase from 2009 to 2010 was because we commenced operations of our first EAF in September 2009 and increased utilisation of the EAF in 2010. We enjoy the government preferential policies applicable to large scale industrial electricity users to purchase all of our electricity at reduced prices. For instance, the average electricity price is RMB0.56 per Kwh for large-scale industrial electricity users like us in Binzhou City as set by the Shandong government, which is at the low end of the price range of approximately RMB0.56 per Kwh to approximately RMB0.69 per Kwh charged to large industry electricity users in Shandong Province during the Track Record Period. Historically, we enjoyed preferential electricity prices per our electricity supply contracts with Zouping Power Supply Company (鄒平縣供電公司), a local electricity power company, to purchase electricity primarily supplied by a local power plant. Zouping Power Supply Company is a county level State-owned electricity company responsible for distributing electricity provided by local power plants to the residential and industrial users in Zouping County area according to their voltage requirements. As we sourced electricity directly from a nearby power plant through Zouping Power Supply Company instead of from the State Grid, we enjoyed a direct supply electricity price, lower than the electricity price charged by the State Grid, which represented the national electricity rate. The direct supply electricity price charged by Zouping Power Supply Company was subject to price adjustments in the event of changes to the national electricity rate during the Track Record Period. Our average unit electricity cost was RMB0.37, RMB0.39, RMB0.49 and RMB0.47 per Kwh in 2008, 2009, 2010 and the nine months ended 30 September 2011, respectively.

In February 2011, we signed a five-year electricity supply contract with Binzhou Electricity Supply Company, which is renewable upon mutual consent. As we consume a large volume of electricity and have become a significant customer of this local electricity power company, we can, under this contract, purchase electricity at RMB0.56 per Kwh, the favourable price set by the Shangdong government for large-scale industrial electricity users located in Binzhou City, Shandong Province. The reduced price may be subject to adjustments by the competent price administration authority. Binzhou Electricity Supply Company has built a 220kV substation to improve power supply reliability for and to meet power supply requirements of large-scale industrial electricity users including us in the areas where our production facilities are located.

Other resources used in our steel-making production process include water for industrial use, argon, nitrogen and oxygen. The total costs of water, argon, nitrogen and oxygen for the years ended 31 December 2008, 2009, 2010 and the nine months ended 30 September 2011 were zero, RMB4.1 million, RMB19.7 million and RMB29.4 million, respectively, as water, argon, nitrogen and oxygen are mainly consumed in EAFs and we only incurred such costs after our commencement of operations of the EAFs in September 2009. We purchase these resources from suppliers in close proximity to our production facility.

Production Facilities

We conduct all of our production activities in our facilities located in Xiwang Industrial Area, Zouping County, Shandong Province, China. Our steel production facilities, as of the Latest Practicable Date, consisted of:

- two EAFs which convert raw materials, primarily consisting of steel scraps, molten iron and pig iron into molten steel which is then cast to produce ordinary steel billets and special steel billets, as semi-finished products. The ordinary steel billets are rolled into rebars and wire rods. The special steel billets are made into higher value-added special steel products, such as quality carbon structural steel, alloy structural steel, bearing steel and steel welding wire;

- two bar rolling lines for manufacturing small to medium-size steel bars, including rebars, quality carbon structural steel, alloy structural steel and bearing steel;

- a large bar rolling line, which is expected to commence commercial production in February 2012, for manufacturing large bar special steel products, including bearing steel bars and gear steel bars; and

- a wire rolling line for manufacturing wire rods, quality carbon structural steel, alloy structural steel, bearing steel and steel welding wire.

Our first EAF and the integrated continuous casting facility had a designed annual steel smelting and casting capacity of approximately 500,000 tonnes of steel billets. With the addition of our second EAF in 2011, we have a combined designed annual steel smelting and casting capacity of approximately 1.0 million tonnes of steel billets.

As of 30 September 2011, we had a designed annual steel rolling capacity of approximately 1.6 million tonnes. We expect to commence the commercial operation of our large bar rolling line in February 2012 which we expect to increase our aggregate designed annual steel rolling capacity to approximately 2.1 million tonnes. As of 30 September 2011, our total budgeted capital expenditures for this construction project were RMB941.6 million and actual expenditures incurred for this construction project were RMB708.0 million. The estimated capital expenditures for this expansion are RMB134.1 million and RMB99.5 million for the period from 1 October to 31 December 2011 and for the year ended 31 December 2012, respectively. The capital expenditures will be funded using cash flows from operations and part of the net proceeds from the Global Offering.

For this large bar rolling line project, we obtained (i) an investment letter issued by Binzhou Development and Reform Commission on 27 June 2007 (《關於中外合資改造西王鋼鐵有限公司年產50萬噸軋鋼項目的核准意見》(濱發改外資[2007]479號)); (ii) an environmental assessment opinion letter issued by Shandong Environmental Protection Bureau on 10 October 2007 (《山東西王鋼鐵有限公司年產50萬噸軋鋼技改項目環境影響報告表》(魯環報告表[2007]282號)); (iii) an approval letter issued by Binzhou Production Safety Supervision and Administration Bureau with respect to the safety pre-assessment report of the project (《關於對山東西王鋼鐵有限公司年產50萬噸軋鋼技改(80噸電爐配套年產50萬噸大棒材)專案安全預評價報告的審批意見》(濱安監函字[2009]12號)) and (iv) an approval letter issued by Binzhou Production Safety Supervision and Administration Bureau with respect to design review on the safety facilities of the project (工業生產建設項目安全設施審查意見書(濱安監項目[設計]審字[2011]2號)). For the approval letter with respect to design review on the safety facilities of the project, according to the Measures on Management and Supervision of Safety Facilities in Industrial Manufacturing Projects in Shandong Province (山東省工業生產建設項目安全設施監督管理辦法), we were required to obtain such approval before we commenced the construction of our large bar rolling line in May 2010 while we only obtained it later in December 2011. However, as of the Latest Practicable Date, the relevant authority has not impose any penalties on our failure to timely obtain the approval letter. For more information, see "Our Business — Safety and Environmental — Production Safety."

For the operations of our large bar rolling line, we have to obtain the Approval Opinion of Check and Acceptance on the Safety Facilities Completion (安全設施竣工驗收審批) and the Approval Opinion of Check and Acceptance on the Environmental Protection Facilities Completion (環境保護設施竣工審批). We commenced operations on a trial basis in November 2011 and we are in a process of obtaining these approvals. Our PRC legal advisers, Jingtian & Gongcheng, advised that the possibility that we will not obtain such approvals is remote. In addition, we also have to pass the review by relevant authorities according to the Rules and Qualifications for Production and Operation of Steel Industry (鋼鐵行業生產經營規範條件) promulgated by the MIIT on 21 June 2010. As of the Latest Practicable Date, we have obtained the preliminary approval from Shan Dong Economic and Information Technology Committee (SEIC), which is the provincial branch of the MIIT, and such approval subject to review by the MIIT. Our PRC legal advisers, Jingtian & Gongcheng, expect that, there will be no legal impediments for us to complete the construction of this large bar rolling line project or to obtain the requisite approvals.

The following table sets out, for each of our current and expected production lines, the respective dates of commencement of operations, the types of products manufactured and the uses of these products.

Production line	Commencement of operations(1)	Commencement of commercial production(2)	Types of Products	Use of Products
Steel Smelting and Casting				
EAF I	September 2009	January 2010	Ordinary and special steel billets	For rolling into ordinary and special steel products
EAF II	January 2011	April 2011	Ordinary and special steel billets	For rolling into ordinary and special steel products

Production line	Commencement of operations(1)	Commencement of commercial production(2)	Types of Products	Use of Products
Steel Rolling				
Wire.	July 2009	September 2009	Ordinary steel: Wire rods Special steel: Steel welding wires, quality carbon structural steel wires and alloy steel wires	For construction and welding
Bar I(*)	June 2004	January 2005	Ordinary steel: Rebars Special steel: Quality carbon structural steel bars and alloy steel bars	For construction, mechanical elements and the manufacture of bearings and gears used in machineries
Bar II(*)	August 2007	November 2007	Ordinary steel: Rebars Special steel: Quality carbon structural steel bars and alloy steel bars	For construction, mechanical elements and the manufacture of bearings and gears used in machineries
Large bar	November 2011	Expected February 2012	Special steel: Quality carbon structural steel large bars and alloy steel large bars	For the manufacture of bearings and gears

(*) Bar I and Bar II rolling lines use the same equipment and production technology.

(1) The time we started to feed raw materials into the manufacturing lines and started to record production.

(2) The time our monthly production volume has reached 80% of the designed capacity for three consecutive months.

We have been able to shorten the ramp-up period of our production lines. The time between commencement of operations and commencement of commercial production decreased from seven months for our Bar I to three months for Bar II, and from four months for our EAF I to three months for our EAF II.

Our large bar rolling line commenced operations in November 2011 and is expected to commence commercial productions in February 2012. Industry practice classifies large bars as bars with cross sectional diameters of at least 50 millimeters. Our large bar rolling line is expected to produce large bars of special steel with cross sectional diameters ranging from 100 to 350 millimeters.

The following table sets forth, for each of our current production lines, designed capacity, effective capacity, actual production volume and effective utilisation rate in 2008, 2009, 2010 and the nine months ended 30 September 2011, respectively.

Production line		2008	2009	2010	Nine months ended 30 September 2011
		(tonnes except for percentage)			
EAF I	Designed capacity(1)	–	500,000	500,000	500,000
	Effective capacity(2)	–	125,000	500,000	375,000
	Actual production	–	67,541	585,769	496,924
	Utilisation rate(3)	**–**	**54.0%**	**117.2%**	**132.5%**
EAF II	Designed capacity(1)	–	–	–	500,000
	Effective capacity(2)	–	–	–	333,333
	Actual production	–	–	–	373,678
	Utilisation rate(3)	**–**	**–**	**–**	**112.1%**
Wire	Designed capacity(1)	–	600,000	600,000	600,000
	Effective capacity(2)	–	300,000	600,000	450,000
	Actual production	–	279,884	750,929	562,548
	Utilisation rate(3)	**–**	**93.3%**	**125.2%**	**125.0%**
Bar I	Designed capacity(1)	500,000	500,000	500,000	500,000
	Effective capacity(2)	500,000	416,667	291,667	375,000
	Actual production	452,463	402,846	264,586	421,695
	Utilisation rate(3)	**90.5%**	**96.7%**	**90.7%**	**112.5%**
Bar II	Designed capacity(1)	500,000	500,000	500,000	500,000
	Effective capacity(2)	500,000	500,000	440,278	375,000
	Actual production	531,650	533,449	362,073	383,154
	Utilisation rate(3)	**106.3%**	**106.7%**	**82.2%**	**102.2%**
Smelting	Total designed capacity	–	500,000	500,000	1,000,000
	Total effective capacity	–	125,000	500,000	708,333
	Total actual production	–	67,541	585,769	870,602
	Overall utilisation rate	**–**	**54.0%**	**117.2%**	**122.9%**
Rolling	Total designed capacity	1,000,000	1,600,000	1,600,000	1,600,000
	Total effective capacity	1,000,000	1,216,667	1,331,944	1,200,000
	Total actual production	984,113	1,216,179	1,377,588	1,367,397
	Overall utilisation rate	**98.4%**	**100.0%**	**103.4%**	**113.9%**

Note:

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

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

(3) Utilisation rate equals actual production volume divided by effective capacity times 100%.

In 2010, our utilisation rate for EAF I and wire production lines exceeded 100%. For the nine months ended 30 September 2011, our utilisation rate for EAF I, EAF II, wire and Bar I also exceeded 100%. For our EAFs, we improved the utilisation rates by increasing the designed smelting capacity per batch from approximately 80 tonnes to approximately 95 tonnes, reducing the time required for smelting from approximately 75 minutes to approximately 70 minutes and expanding working days from 300 days to 310 days per year. We managed to increase our EAF smelting capacity in several ways. We increased our designed smelting capacity to approximately 95 tonnes per batch by using better quality refractory bricks for our EAFs to optimize the EAF production, thereby reducing the effect of molten steel slag which interferes with the volume of molten steel that can be produced. In addition, we reduced the thickness of the refractory bricks at the bottom of the EAF from the originally designed 900 millimeters to approximately 600 millimeters, thereby increasing the volume of raw materials that can be fed into the EAF and consequently increasing the production volume of the steel. We managed to reduce the time required for the smelting of each batch by preheating steel scraps so that steel scraps can melt faster in the EAF, by optimising the supply of electricity and oxygen balance, by upgrading our EAF parts, including improving the furnace cover rotational mechanism and by stressing the foaming slag process resulting in a significant increase in temperature toward the end of the smelting cycle. For our rolling lines, we achieved utilisation rates of over 100% for the nine months ended 30 September 2011 by expanding working day periods and increasing production efficiency. We expanded working day periods from the designed 300 working days to approximately 320 working days and increased production efficiency by improving our foaming slag process and enhancing our procedures for resolving any issues that may arise with regard to the operation of the lines, ensuring that all on-site personnel at the lines are responsible for operations, inspections and maintenance, thereby decreasing operational downtime by promptly addressing any failures and by making substantial upgrades to our equipment.

We improved the utilisation rate of our EAFs and wire production lines, including the increase in the actual smelting capacity per batch of the EAF I, by optimizing our operation technology, by which, the running reliability of the EAFs was elevated and the capacity of the EAFs was made full use of, without introducing any new production equipment or constructing any new facilities. Based on the above, the PRC legal advisers have confirmed that the utilisation improvement, including the increase of the smelting capacity of EAF I, is not subject to any examination and approval from government authorities.

As we have increased our actual production capacity primarily through upgrading technique, optimizing production process and increasing manpower rather than overly utilising our facilities, we have been able to conform to the specifications of the respective facilities. In addition, for the projects that are currently in operation, we have passed the inspection on the design of safety facilities and obtained the approval letters from the relevant safety production bureaus in respect to the check and acceptance upon the completion of these projects. For more details, see "— Safety and Environmental — Production Safety" of this Prospectus.

SALES AND MARKETING

Overview

We sell all of our products in the domestic Chinese market. For the Track Record Period, substantially all of our customers were based in Shandong Province, and the majority of them were distributors. Our customers for ordinary steel products were distributors as it is common practice in the industry for ordinary steel products to be sold by distributors. In order to expand our presence in the special steel market, we will leverage our distribution network to increase our market share. The end-user customers for our special steel products are mainly in the machinery, equipment and automobile industries whereas the end-user customers for our ordinary steel products are mainly construction developers for housing and infrastructures. Standard form purchase orders are used for each sale transaction. As we expand our presence in the special steel market, we plan to increase our direct sales to end-user customers. In addition, as we are increasing the production of special steel products, we also expect to further expand our customer base in eastern China.

Customers

During the Track Record Period, we sold our steel products primarily in the Shandong markets through our distributors. For the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, our top five customers, all of whom were distributors of ordinary steel, accounted for 31.0%, 31.1%, 36.7% and 38.1% of our total revenues, respectively, and the percentage of revenues attributable to sales to our largest customer was 9.0%, 8.7%, 13.1% and 14.0%, respectively. During the Track Record Period, none of the Directors or their associates or any of our shareholders (which, to the knowledge of the Directors, owns more than 5% of the Company's share capital) had any interests in our top five customers. As of the Latest Practicable Date, all of our customers were independent third parties.

Distributors

We choose our distributors based on their customer base, reputation and payment ability. We offer preferential prices to large and reputable distributors. Each distributor signs a purchase order with us to confirm, amongst other items, the unit price, purchase volumes, and types and specifications of products ordered. One of our largest customers, Xinboda Material Industry and Trade Co., Ltd. (新博大物資工貿有限公司), is engaged in the trading of construction materials and has long-term relationships with the leading steel manufacturers in Shandong Province. As of the Latest Practicable Date, we had maintained a business relationship with Xinboda Material Industry and Trade Co., Ltd. for more than 3 years.

For the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, we had sold steel products to 252, 293, 114 and 188 distributors, respectively. For the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, the revenue attributable to sales to distributors was 99.3%, 97.6%, 87.7% and 88.7% of our total revenue, respectively. The number of distributors increased from 252 in 2008 to 293 in 2009 because our increased sales volume required more distribution channels. The number of distributors decreased from 293 in 2009 to 114 in 2010 as we began to adopt long-term contracts and to sell a larger volume of steel products to customers with long-term contracts, including distributors and end-user customers, in order to establish and strengthen long-term cooperation relationships to maintain a stable sales network and secure our revenue growth. As a result, we eliminated a number of small distributors based on certain criteria, such as experience in the steel industry, connection with end-user customers, and financial strength. For the nine months ended 30 September 2011, the number of distributors increased from 114 in 2010 to 196 as a result of our increased sales volume.

The term and condition of our sales to distributors are in line with industry practice. Our agreements with our distributors do not contain exclusivity clauses and do not specify the types of customers to whom our distributors may sell our products. Under these agreements, our distributors must either (i) purchase steel products in a minimum monthly amount ranging from RMB15 million to RMB46 million or (ii) purchase a minimum monthly volume of steel products ranging from 800 tonnes to 10,000 tonnes. If the stipulated minimum monthly payment or order volume is not met pursuant to the respective contracts, we may terminate the preferential terms provided to these distributors. Such preferential terms are in the form of a discount to the selling price of RMB30 to RMB60 per tonne. In line with industry practice, we currently require most of our customers to pay in advance the full purchase payment for our products, in the form of either cash or bank acceptance notes (a form of bank guarantee in China) issued by reputable banks in China with maturity periods of up to 180 days. The duration of the contracts is typically between nine months and one year. Distributors bear the losses and profits associated with the steel products that they purchase from us and have no right to return any unsold products to us. Our distributors currently operate their distribution networks in Shandong, Jiangsu, Hebei, Henan, Anhui, Zhejiang and Fujian Provinces. As of the Latest Practicable Date, our distributors were independent of us, our shareholders, directors, senior management and respective associates.

End-user customers

In June 2010, we began to sell special steel products, the majority of which are special steel billets, to end-user customers who are typically downstream steel manufacturers producing pipes. For the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, revenues attributable to sales to our end-user customers accounted for 0.7%, 2.4%, 12.3% and 11.3% of our total revenues, respectively. The special steel billets that we sold to end-user customers, which were mainly used to produce seamless steel tubes, are different from the ordinary steel billets we bought from our raw material suppliers, which were mainly used to produce steel wire and bar. As of 30 September 2011, we had engaged with 54 end-user customers. Among them, 43 were located in Shandong Province. During the year ended 31 December 2010 and the nine months ended 30 September 2011, revenues attributable to sales to end-user customers located in Shandong Province were RMB644.1 million and RMB693.0 million, respectively.

Because we have increased our special steel production capacity and improved our product mix to include more high quality and high value-added special steel products, we expect to increase our direct sales to end-user customers in the following industries: (1) the machinery industry, in which the majority of our customers are expected to be manufacturers of accessory parts; (2) the equipment industry, in which our customers may include marine equipment and component manufacturers, and (3) the automobile industry, in which our customers may include bearing manufacturers. We mainly target end-user customers in Shandong Province and plan to extend our customer base to include customers neighbouring provinces, such as Jiangsu Province, Hebei Province and Henan Province.

Customers with long-term contracts

Because some of our principal customers require a stable, regular supply of our products, we enter into long-term contracts with such customers. As of the Latest Practicable Date, our outstanding long-term contracts had terms ranging from nine months to one year. These long-term contracts generally operate as framework contracts pursuant to which we and our customers enter into separate standard form purchase orders throughout the term of the contract to confirm the price, quantity and time of delivery for each order. We determine the price under these purchase orders on a monthly basis based on the prevailing market rates in Shandong Province. Our selling price to customers with long-term contracts is usually lower than our selling price to other customers. Customers obtain rebates if they purchase certain products or if they provide advance payments for certain products. Some long-term contracts require our customers to pay an upfront deposit as security in exchange for our guarantee to supply products. For more information regarding the deposits paid by our customers, see " — Prepayments, advance payments, credit terms and deposits." As of the Latest Practicable Date, 34 customers had entered into long-term contracts with us. Some of our long-term contracts require minimum purchase quantities ranging from 800 tonnes to 10,000 tonnes per month and failure to meet the minimum purchase quantities may result in termination of discounts.

For the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, the proportion of revenues attributable to customers with long-term contracts was 55.1%, 72.1%, 65.4% and 68.6%, respectively.

Customers without long-term contracts

We use standard form purchase orders for smaller orders and for customers who have not entered into long-term contracts with us. The prices of our products under these purchase orders are based on the prevailing market rates in Shandong Province. The other commercial terms relating to quantity, delivery time and methods and other matters are subject to negotiation between us and individual customers.

For the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, the proportion of revenues attributable to customers without long-term contracts was 44.9%, 27.9%, 34.6% and 31.4%, respectively.

Prepayments, advance payments, credit terms and deposits

Consistent with industry practice, we typically made prepayments to suppliers for steel billets, molten iron and pig iron, which accounted for the majority of our cost of sales during the Track Record Period. We have not adopted any policy regarding the coverage period of prepayments. Our management makes decisions on the coverage periods of our prepayments based upon several factors, including the suppliers' requests and conditions of our business operations. The prepayments we made to suppliers during the Track Record Period typically covered approximately 30 days of purchases. In line with the industry practice, we currently require most of our customers to pay in advance the full purchase price for our products, in the form of either cash or bank acceptance notes (a form of bank guarantee in China) issued by reputable banks in China with maturity periods of up to 180 days. During the Track Record Period, our customers from Shandong Province who have long-term contracts with us, distributors in particular, maintained sufficient balance for their anticipated purchases of approximately seven days in their advance payment accounts based on their business needs, whereas our customers based outside of Shandong Province who have long-term contracts with us, representing a small portion of our customers, maintained sufficient balance for approximately 30 days of anticipated purchases. For the years ended 31 December 2008, 2009 and 2010, and the nine months ended 30 September 2011, 99.6%, 99.9%, 99.4% and 98.8% of our revenue was attributable to the sales to those customers who have made advance payment to us, respectively. Our customers make purchase orders based on the spot market prices of the products and we subsequently deduct the actual purchase payments made from the customers' advance payment accounts. When the balance in the advance account is low, the customer is expected to make another advance payment. For more information regarding the advance payment made by customers, see "Risk Factors — Risks Relating to Our Business — Any change in the practice of customer advance payments from customers to us may adversely affect our financial position and our net profit margin."

We may grant customers credit terms in order to build customer relationship based upon customer needs and our management's business decisions. Our Directors have confirmed that during the Track Record Period, we provided three-month credit terms to some ordinary steel customers with whom we had long term relationships of more than three years and to certain new end-user customers of ordinary steel with whom we intended to develop long-term business relationships. As of the Latest Practicable Date, we had not provided credit terms to any of our special steel customers. For the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, our revenue attributable to sales to ordinary steel customers to whom we had granted three-month credit terms, accounted for 0.4%, 0.1%, 0.6% and 1.2% of our total revenue, respectively.

During the Track Record Period, we required most of our new customers, primarily distributors, to pay an upfront deposit of approximately RMB1.0 million for ordinary steel customers and approximately RMB2.0 million for special steel customers, before we entered into long-term contracts with such customers. Upon the termination of the relevant long-term contracts with such customers, the deposits were refunded in full and would not be used to offset any subsequent purchases made by such customers. For the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, the amount of deposits we received from our customers were RMB0.7 million, RMB32.8 million, RMB29.7 million and RMB46.4 million, respectively. These upfront deposits were recorded as other payables.

The payment of customer security deposits and full advance payment for purchase orders are common practice in China's steel market. Historically, domestic demand for steel products was significantly higher than the domestic supply in China. Therefore, the steel manufacturers had strong bargaining power and could choose to transact only with those customers who were willing to make advance payments. As the steel industry has gradually developed, the advance payment system has become a common practice in China's steel industry. Because the steel industry is capital-intensive, the steel manufacturers normally prefer advance payments from their customers if practicable to enhance their working capital position and liquidity.

Sales & Marketing Personnel

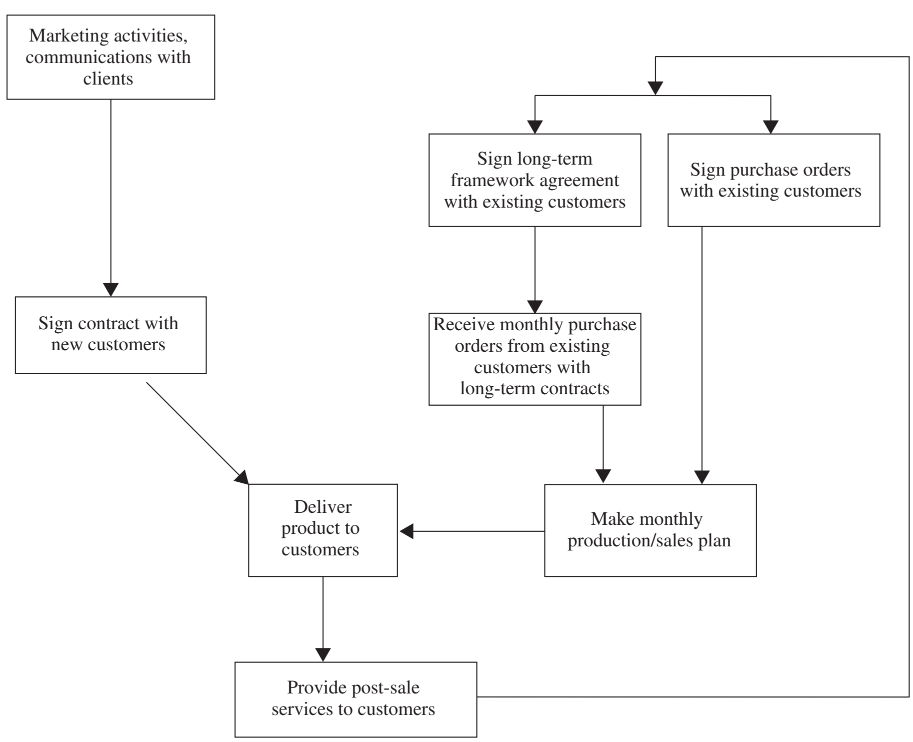
Our goal is to foster and maintain close relationships with our customers, including distributors and end user customers, and we have a dedicated sales and marketing team to serve this purpose. As of 30 September 2011, we had 32 employees in our sales and marketing departments whose principal activities include marketing research, sales planning, marketing strategy, purchase order consultation with customers and sales coordination and control.

Monthly Sales Meetings

As part of our ongoing policy, we regularly reach out to all of our existing customers, including the ultimate end-users through our distributors, in order to encourage further purchases of our products and maintain our long-term relationship with them. We also promote the consumption of higher quality steel products in China through seminars, conferences and other marketing activities for steel customers. Since the commencement of our special steel production, we have actively approached end users in addition to distributors to sell our special steel products.

We generally determine our production schedule on a monthly basis in response to orders that have been placed. Details such as the price, volume and product specifications will be confirmed in the monthly purchase orders submitted by our customers in the immediately preceding month. We then confirm their orders and adjust our monthly sales budget based on these monthly purchase orders. We also adjust our procurement budget to ensure that there will be sufficient raw material supplies to satisfy our customers' demand for our products. The volume of products we produce is based on our customers' demand.

The following diagram summarises process by which we serve our customers.



Delivery Logistics

We typically arrange for the transportation of our products to our customers because our delivery is generally more cost efficient for our customers. We work with third party logistics companies to make deliveries to our customers, and our customers pay third party logistics companies for the delivery costs incurred. In circumstances where ordered products are in stock, it typically takes one day from order placement to product delivery to customers in Shandong Province.

Pricing Policy

Since 1993, pricing for most steel products in China has been market-driven and has not been regulated by the government authorities. In setting our product prices, we refer to the product prices published on mysteel.com and other public sites recognized in the steel industry to estimate the general price range of our products. We make adjustments to such product prices by taking into account the sales prices of other steel manufacturers in Shandong Province and other surrounding areas, as well as our own product inventory levels and production costs. We mitigate the impact of changes in market conditions and cost fluctuations by adjusting our product prices largely in line with the market trend. For example, when the Chinese steel market experienced a rebound in 2009 and 2010, the unit price of steel billets increased from RMB2,639 per tonne in 2009 to RMB3,038 per tonne in 2010 and the unit price of steel scraps increased from RMB1,786 per tonne in 2009 to RMB2,179 per tonne in 2010. In line with this market trend, we were able to adjust our ordinary steel product price upward from RMB3,043 per tone in 2009 to RMB3,629 per tone in 2010.

Under the five-year letter of intent with respect to steel scrap supply by China Recycling, we have the right to adjust actual purchase prices of steel scraps supplied by China Recycling based upon the prevailing national market price of our steel products, and the regional market prices of steel scraps and our steel products in Shandong Province. If we find the prevailing market price decreases, our actual purchase prices will decrease as well, under which circumstances, we will give China Recycling a one- to two-day prior notice. See "— Production — Raw Materials and Supplies — Steel scraps".

Post-sale Customer Service

We value customer loyalty, and are keen to provide technical advisory services to our customers and responsive post-sale services to enhance the value of our products. In the event that our customers are not satisfied with our products, we are willing to accept exchanges or refunds on a case-by-case basis.

After receiving a request for an exchange or refund, our sales and marketing personnel will work with the quality control team will provide immediate technical advisory service by telephone. If such request comes from an end-user customer who purchased the product from our distributors, we will obtain the information of the end-user customer from the relevant distributor. If there are quality issues, the post-sale service team from the sales and marketing department will review the feedback and request for onsite examination. The quality control team will collect samples on site and examine in detail. Our management will then review the quality control report and decide whether to grant a replacement or provide refund as requested by our customers. In 2010 and the nine months ended 30 September 2011, there was only one customer complaint which we resolved to the satisfaction of that customer within two days of receipt of this complaint.

RESEARCH AND DEVELOPMENT

Our research and development activities are generally directed toward five development goals: improving product quality, developing new products, improving production efficiency, reducing production cost and enhancing environmental pollution control technology. Our research and development team works together with our production team for these activities.

We have entered into a cooperation agreement with BSE on 28 October 2010 for their services provided in the three years from 2010 to 2013. BSE will offer technical support services and consulting work with respect to our manufacturing process and technology. A team of industry experts from BSE have visited our facilities to provide on-site technical consulting and training to our production personnel on four occasions since 20 September 2010, with each group consisting of two to nine experts. BSE also provides training in Germany for our engineers. Our first group of 18 engineers have obtained on-site training in Kehl, Germany, and we expect two more groups of our engineers to obtain such training by the end of 2013. One of the groups of engineers will be from our manufacturing department and the other one will be from our management team. The main purpose of this arrangement with BSE is to improve our production efficiency and enhance our capability to produce higher value-added products. In addition, BSE will also assist us in improving the effectiveness of our steel smelting process.

We dedicate our resources and effort in developing the production of special steel. Our research and development strategy in the coming years will be focused on the improvement of products such as bearing steel and gear steel to meet the increased market demands. In addition, with our three-year technical service program with BSE, we expect our operational know-how toward achieving greater efficiency in the steel production process to be further advanced, thereby improving our ability to produce high value-added special steel products. For the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, total expenditures for research and development were zero, RMB22,442, RMB1.0 million and RMB3.8 million, respectively. The expected expenditure for research and development for the year ended 31 December 2011 is RMB4.7 million and will be utilized primarily towards improving product quality.

COMPETITION

The market for steel products is highly competitive and evolving rapidly. China has emerged as a major special steel producer and consumer. The eastern China region where Shandong Province is located is one of the major steel manufacturing bases in China. Our business mainly focuses on the steel market within Shandong Province.

The three largest steel producers in Shandong in terms of a combined production volume of special and ordinary steel are Shandong Steel Group (山東鋼鐵集團有限公司), Jinghua Rizhao Steel Group International Trade Company (京華日照鋼鐵控股集團有限公司) ("Rizhao Iron & Steel") and Qingdao Iron & Steel Group Co., Ltd. (青島鋼鐵控股集團有限責任公司) ("Qingdao Iron & Steel"). Established in March 2008, Shandong Steel Group, operating through its subsidiaries Jinan Iron & Steel Company Ltd. (濟南鋼鐵有限公司) and Laiwu Steel Group Limited (萊蕪鋼鐵集團有限公司), is a major SOE in Shandong Province, primarily engaged in manufacturing and selling both ordinary and special steel products. Established in 2003, Rizhao Iron & Steel is one of the largest private steel manufacturers in the Shandong Province in terms of a combined production volume of special and ordinary steel, engaged in manufacturing steel products with BOF technology. Established in 1958, Qingdao Iron & Steel is also a major SOE in Shandong Province, primarily engaged in manufacturing and selling wire steel products including steel welding wire, carbon structure steel, alloyed structure steel and spring steel using BOF technology. Shandong Steel Group, Rizhao Iron & Steel and Qingdao Iron & Steel produced 21.0 million tonnes, 9.6 million tonnes, and 3.2 million tonnes of steel products in 2009, respectively possessing 35.8%, 16.3% and 5.5% of the market share in Shandong Province, respectively, according to China Steel Yearbook 2010.

The key entry barriers to the steel industry in Shandong Province are governmental approval, capital requirements and technological know-how. We believe that we have several advantages over our existing competitors.

As of the Latest Practicable Date, our aggregate designed annual rolling capacity was approximately 1.6 million tonnes and is expected to increase to 2.1 million tonnes with the commencement of commercial production of our large bar rolling line by February 2012. We produced 1.0 million tonnes and 1.2 million tonnes of ordinary steel products in 2008 and 2009, respectively, accounting for 1.8% and 2.1% market share of ordinary steel production in Shandong Province, respectively. However, we consider such market share based on ordinary steel production volume may not accurately reflect our competitive landscape as we are in a transition from an ordinary steel manufacturer to a special steel-focused manufacturer. In addition, market share based on special steel production volume was not available as of the Latest Practicable Date as we only started scale production of special steel in 2011, and market share based on a combined production volume of ordinary steel and special steel would not be meaningful because these two kinds of steel products serve different markets, where the underlying drivers, market trends, competitive landscape and regulatory incentive policies differ substantially.

We focus on establishing and strengthening our competitive position in Shandong steel market by using advanced equipment and technology. We currently own two of the largest EAFs in Shandong Province. According to a certification from China Metallurgical Industry Planning and Research Institute dated 15 June 2011, there were 19 EAFs in Shandong Province, six of which had the ability to produce at least 70 tonnes per batch. Our two EAFs were capable of producing 80 tonnes per batch. The remaining four were operated by the three separate steel companies. According to a report from China Metallurgical Industry Planning and Research Institute dated March 2010, among the 13 smaller EAFs, 11 EAFs, which had the capacity of producing only 30 tonnes per batch, would be shut down by the end of 2011.

EAF Installed in Shandong Province

Specification	**Number**	**Capacity/batch**	**Annual designed capacity(1) (approximate)**
		(tonne)	**('000 tonne)**
70 tonne/batch and above	**6**		
Xiwang Special Steel	2	80	1,000
Shandong Taishan Steel Group	2	70	800
Shandong Shouguang Juneng Special Steel Co., Ltd.	1	70	400
Shandong Iron and Steel Group Co., Ltd. (Shandong Shiheng Special Steel Group Co., Ltd.)	1	70	400
Between 30 tonne to 70 tonne/batch	2		
30 tonne/batch and below	11		(to be shut down by the end of 2011)
Total	19		

Source: China Metallurgical Industry Planning and Research Institute

Note: (1) Annual designed capacity is calculated based on an annual production of 300 days times 24 hours per day times 60 minutes per hour, divided by the time required for per batch production which is 75 minutes, times capacity per batch.

Compared to BOF technology, our EAF-based steel smelting process represents a more advanced steel manufacturing technology in terms of product quality, production efficiency and energy saving. Featuring small batch melting, and accurate control of melting temperature and chemical composition, our EAF technology allows us to flexibly change our production settings and adjust alloy composition based upon our customers' requirements on product specifications. As such, we have enjoyed more technological flexibility and advantages in adjusting and expanding our product mix, and in producing high quality and high value-added steel products with various chemical compositions than our existing competitors using BOF technology. EAF technology is energy efficient, and therefore highly encouraged by the PRC government. We save energy and reduce production costs by using EAFs.

Compared to other EAF-based steel manufacturers in Shandong Province, we are benefiting from our scale of production. With a sizeable production, we can maintain optimum level of production volume for each product, so that we can ensure smooth production and lower fixed cost when we adjust our product mix. Our smaller EAF-based competitors may not have the flexibility in adjusting product mix as they are restrained by their production capacity, thus diversifying their product portfolio may cause the production for each product to fall below the feasible volume. In addition, as the largest EAF-based steel manufacturer in Shandong Province, we have higher bargaining power in terms of raw material procurement, which helps reduce our cost of production. We have also cooperated with BSE to acquire the technology know-how from world leading steel manufacturers to improve our operational efficiency. Our smaller EAF-based competitors may not process sufficient level of technology know-how to achieve the same level of operational efficiency like us.

In addition, we are strategically located in Shandong Province with convenient access to highways, railroads and ports, enabling us to transport our products economically. We have a strong sales and marketing team and an experienced management team and technical team with a proven track record. We also maintain good relationships with customers and are able to provide them with comprehensive post-sale customer service.

EMPLOYEES AND EMPLOYEE BENEFITS

We had 2,548 employees as of 30 September 2011, of whom 93 were intermediate to management level personnel. As of that date, approximately 10.8% of our workforce consisted of engineers and technicians who had completed technical school or higher education. We have 12 employees with a master's degree or higher. In order to improve our productivity and further enhance the quality of our workforce, we have implemented continuing education and training programs for both the management staff and factory workers.

As of 30 September 2011, our employees' deployment by function was as follows:

Functions	Total
Production	2,050
Technical	22
Maintenance	25
Quality Control	165
Storage	100
Purchasing	27
Sales and marketing	32
Finance	62
Administration and other	65
	2,548

Our staff costs are low largely due to our streamlined workforce and the generally low wages prevailing in China. In 2008, 2009, 2010 and the nine months ended 30 September 2011, we incurred employee benefit expenses, including directors' remuneration, of RMB24.0 million, RMB37.7 million, RMB58.4 million and RMB79.1 million, respectively, which as a percentage of our revenue was 0.62%, 1.00%, 1.08% and 1.25%, respectively. The income of our senior and mid-level managers generally consists of a basic salary based on the seniority of the position, overtime fees, a bonus based on seniority and a performance-based bonus. We enter into individual employment contracts with our employees to cover matters such as wages, employee benefits, training programs, safety and sanitary conditions at the workplace, confidentiality obligations for commercial secrets, and grounds for termination.

In accordance with the relevant PRC social security and housing provident fund laws and regulations, we are required to pay, in respect of each of our employees, a monthly social insurance premium covering job-related injury insurance, pension insurance, medical insurance, unemployment insurance and birth insurance separately.

Based on the compliance certificates issued by the relevant PRC Bureaus of Labour and Social Security, we have paid such social insurance premium in compliance with all applicable social security insurance laws and regulations as of the issuance dates of the relevant certificates, and no fines, demand payment or other penalty had been imposed on us, except that we have temporarily not provided certain housing provident fund to our employees as explained below. Our PRC legal advisers have advised us that the Zouping County Labour and Social Security Bureau and Administration Center of Binzhou City for Housing Provident Fund are the competent authorities to issue such confirmation.

Our PRC subsidiaries have temporarily not made any provision of housing provident fund to their employees. The Binzhou Housing Fund Management Center has for the time being postponed the implementation of housing provident fund provision with respect to enterprises located in the rural area of Binzhou City, as the housing provident fund system which covers all the rural and urban areas of Binzhou City in Shandong Province where our PRC subsidiaries are located, has not been fully established.

We have contacted the relevant PRC authorities supervising the housing provident fund, to state and clarify our difficulties in administering such housing provident fund contributions. These authorities have confirmed in writing that (i) in light of the fact that the collecting and depositing system of the housing provident fund had not yet been established fully in the regions where our PRC subsidiaries are located and the actual situation, we are permitted to postpone the contribution of housing provident fund until after such system has been fully established in those regions; and (ii) no fines, demand payment or other penalty had been or will be made or imposed on us by these authorities. As confirmed by the confirmation letter issued by the Administration Center of Binzhou City for Housing Provident Fund (濱州市住房公積金管理中心) on 17 May 2011, we will start to contribute to the housing provident fund upon the notice of this administration center and the contributions due and payable will accrue from the date of the notice. As of the day this confirmation letter was issued, no fines, demand payment or other penalty has been imposed on us, and no fines, demand payment or other penalty would be imposed on us in relation to the non-contribution of the housing provident fund before the notice. As of the Latest Practicable Date, we had not received such notice, and had made no provision for the housing provident fund.

Although we currently do not make any contributions to any housing provident fund, we provide free housing to all employees. The apartments are in the Xiwang Industrial Area and are properties of the Xiwang Group.

We currently do not have a stock option plan.

We have a trade union which is a member of the All China General Trade Union. In accordance with applicable regulations, we are required to set aside an amount of 2% of our employees' aggregate basic salaries for a union fund. We have not experienced any strikes, major labour disputes or stoppages. We consider our relationship with our employees to be good.

QUALITY CONTROL

The ability to deliver consistently high quality steel products to our customers is critical to our business. We have implemented a quality control system to ensure that our products meet the relevant national standards, including those standards for the chemical compositions of our steel billets and other special steel products.

Pursuant to our internal quality control procedures, we ensure that the quality of purchased raw materials will allow us to meet the specifications of our products. We also inspect raw materials to determine whether they contain significant amounts of chemical residuals or other environmental pollutants, which we expect our suppliers or others in the supply chain to remove before the relevant raw materials are delivered to us, and to verify compliance with environmental protection control standards for imported solid wastes as raw materials based on the national standards of the PRC (中華人民共和國國家標準 — 進口可用作原材料的固體廢物環境保護控制標準). At the end of our production process, we conduct physical, chemical and metallographic analyses on our steel products on a selective basis to verify that their mechanical and dimensional properties, strength and chemical composition meet relevant national quality standards before delivery to our customers. We also provide comprehensive post-sale customer service to our customers.

We have obtained ISO 9001:2000 certificates for our quality control system, the ISO4001:2004 certificate for our environmental protection system and the GB/T28001-2001 certificate for our industrial health and safety management system from Beijing NGV Certificate Center in December 2005. Our rebars were awarded the designation of “Shandong Top Brand” by the Shandong Bureau of Quality and Technical Supervision in November 2006 for a period of four years. The award was renewed in December 2010 for an additional period of three years.

INTELLECTUAL PROPERTY

Our operating subsidiary Shandong Xiwang Special Steel currently owns 12 patents in the PRC and has one patent application pending with the State Intellectual Property Office of the PRC for our manufacturing facilities. In addition, pursuant to an agreement dated 6 May 2011 entered into between Xiwang Group and us, Xiwang Group agreed to transfer five utility model patents to us for zero consideration and the assignment of these patents was ratified by the State Intellectual Property Office of the PRC on 17 June 2011. We also utilize confidentiality procedures and contractual provisions to protect our proprietary information. All our key employees are required to execute confidentiality and non-compete/non-disclosure agreements with us. Additionally, access to our proprietary data is limited to our key engineering and technical staff in order to prevent unintended disclosure or improper usage of data. We believe that the success of our business depends more on the technical competence and creativity of our employees and we intend to seek patents on a selective basis in respect of inventions concerning new products and product improvements as part of our ongoing research, development and manufacturing activities.

We have registered the trademark of “” in Hong Kong and the trademark of “” and “西王” in the PRC. Pursuant to two agreements dated 6 May 2011 and 9 May 2011, respectively, Xiwang Properties has transferred a registered trademark and a registered trademark application to the Company for zero consideration. Details of this registered trademark and registered trademark application are set out more particularly in Appendix VI of this prospectus. While such transfers are pending, we are entitled to use such trademarks at no cost pursuant to a license granted by Xiwang Properties.

SAFETY AND ENVIRONMENTAL

We have personnel overseeing our safety compliance and to regulate labour, hygiene and safety conditions. We impose basic safety and anti-pollution measures as well as regular internal safety and environmental inspections to minimize the possibility of work-related accidents, injuries and professional illness and environmental contamination. We monitor compliance with statutory environmental regulations relating to air, water, noise and solid waste pollution.

Production Safety

For the production lines which are in operation currently, we have passed the inspections and review in respect to the design of the safety facilities and obtained the necessary approval letters in respect to the safety facilities of such production lines upon their completion, by and from the competent work safety supervision bureau.

For the large bar rolling line project which is expected to commence commercial production in February 2012, we have obtained (i) an approval letter issued by Binzhou Production Safety Supervision and Administration Bureau with respect to the safety pre-assessment report (《關於對山東西王鋼鐵有限公司年產50萬噸軋鋼技改(80噸電爐配套年產50萬噸大棒材)專案安全預評價報告的審批意見》濱安監函字[2009]12號)) and (ii) an approval letter issued by Binzhou Production Safety Supervision and Administration Bureau with respect to design review on the safety facilities (工業生產建設項目安全設備審查意見書(濱安監項目[設計]審字[2011]2號)). For the approval letter with respect to design review on the safety facilities, according to the Measures on Management and Supervision of Safety Facilities in Industrial Manufacturing Projects in Shandong Province (山東省工業生產建設項目安全設施監督管理辦法), we were required to obtain such approval before we commenced the construction of our large bar rolling line in May 2010 while we only obtained it later in December 2011. According to the Measures, if a company commences the construction of a project without passing the design review by the relevant authority on its safety facilities, it shall be ordered to make corrections within a time limit and a penalty may be imposed in the range of RMB10,000 to 30,000. As of the Latest Practicable Date, we had passed the review and obtained the approval letter from the relevant authority with respect to design review on the safety facilities for our large bar rolling line and had not been required to pay any penalties for our failure to timely obtain the approval letter before we had commenced the construction of our large bar rolling line. Our PRC legal advisers, Jingtian & Gongcheng, advised that the possibility that a penalty would be imposed on us is remote. In addition to passing the design review of the safety facility, upon the completion of the construction of this project, we are required to apply for inspection and obtain approval from the relevant authority for the safety facility of this project.

Workplace Safety

We follow government regulations in adopting our own safety rules and require that all employees follow these safety rules. Our safety rules include general workplace safety compliance measures, such as conducting regular workplace safety meetings, conducting safety-related training and education, having a management system for on-site work safety utilities, having a monitoring system to ensure workers return home safely from work and having self-correction mechanisms for any potential safety-related issues. We also have extensive on-site protection equipment and measures in place to prevent work-related injuries at our production site, such as protection nets and boards in our high speed rolling lines, fixed and portable carbon monoxide alarms for on-site workers and inspection personnel in the coal gas area, warning signs for high-hazardous working area. We have also adopted safety operation protocols for the operations for each production site, including operations such as ignition and entry into restricted space. Any excavation must be conducted in full compliance with our safety protocols.

We have a workplace safety department as well as dedicated personnel and workplace safety groups to oversee workplace safety at each of our production lines. Each of the production lines for our two EAFs, bar rolling lines and our wire rolling line has its own dedicated workplace safety patrol. In addition to the dedicated workplace safety patrol personnel, a production manager is also appointed to head the workplace safety for our three different production functions, i.e., the smelting and casting EAF production lines, the bar rolling lines, and the wire rolling line. All safety patrol personnel for our production lines possess relevant workplace safety licenses.

Mr. Peng Wang (王鵬), the head of our workplace safety department, is a licensed national workplace safety engineer and has more than seven years of workplace safety management experience.

Mr. Tao Wang (王濤), the vice president of our production department, has more than ten years of on-site workplace safety supervision experience, and heads the workplace safety of our smelting and casting lines. Mr. Chao Qun Wang (王超群), our director for workplace safety, has four years' experience in workplace safety maintenance, and oversees the workplace safety of our first EAF. Mr. Jinnchuan Zhao (趙景川), our director for workplace safety, has more than two years' experience in workplace safety maintenance, and oversees the workplace safety of our second EAF.

Mr. Tao Gao (高濤), our production manager, has more than ten years of experience in workplace safety maintenance, heads the safety of our rolling lines. Mr. Pei Zhu Li (李培柱) and Mr. Tao Chen (陳濤), our directors for workplace safety, oversee of workplace safety for our Bar I and Bar II rolling lines, respectively. Mr. Li has more than three years of experience and Mr. Chen has more than three years of in workplace safety maintenance.

Mr. Dong Wang (王棟), who heads the workplace safety for our wire rolling line, and Mr. Chenguang Wang (王晨光), are the production manager and production director of our wire line, respectively. Each has more than ten years of on-site workplace safety supervision experience.

We also provide safety-related education to employees and have established safety standards in connection with matters such as purchasing new equipment, constructing new facilities and improving existing facilities. However, the nature of our business is such that inherent risk of injury to employees in the production process is relatively high. We have not had any work-related fatalities or serious injuries at our production facilities since the commencement of our operations.

Environmental Protection

Our business is subject to China's national environmental laws and regulations as well as the local environmental protection regulations of Shandong Province. These include regulations on waste discharge, land repair and emissions disposal. Because we are in the business of producing steel products, we necessarily discharge pollutants from our production process, including waste emission of gases and dust. The amount of pollutants that we may release is subject to applicable State or local discharge limits, the maximum discharge limits stipulated in the Rules and Qualifications for Production and Operation of Steel Industry (綱鐵行業生產經營規範條件) and the Blueprint for the Adjustment and Revitalization of the Steel Industry (鋼鐵產業調整和振興規劃). Local discharge limits may be stricter than such maximum discharge limits under the state laws and regulations.

We believe our operations are in compliance with applicable environmental laws and regulations as currently in place. See "Regulatory Overview" for the environmental laws and regulations under which we are required to comply. We discharge pollutants in reliance on the pollutant discharge permit held by Xiwang Group. Zouping County Environmental Protection Bureau has confirmed on 24 May 2011 that because our PRC subsidiaries and Xiwang Group are affiliated companies, we and Xiwang Group may jointly use the pollutant discharge permit held by Xiwang Group (Registration Number: 014). The pollutants we discharge mainly are sulfur dioxide, while the pollutants discharged by Xiwang Group mainly are chemical oxygen demand (COD) and the total permitted discharge quantity provided in the permit is adequate for both Xiwang Group and us to conduct the production operations. There will be no conflicts between each other in the category and quantity of the pollutants discharged when sharing the pollutant discharge permit. The bureau has confirmed on 24 May 2011 that (i) Xiwang Group has complied with the parameter and quantity limitation provided by the pollutant discharge permit, and has paid all required fees pursuant to all applicable laws and regulations, and (ii) our PRC subsidiaries have not been found violating any environmental protection laws, regulations and provisions of the provincial and municipal environmental protection authorities. Zouping County Environment County Bureau confirmed in its confirmation letter dated 9 December 2011 that we had been in compliance with the PRC Environment Law and its related environmental protection rules and regulations.

According to the confirmation letter from Xiwang Group to our PRC subsidiaries on 27 May 2011, Xiwang Group and our PRC subsidiaries will each be responsible to pay their own pollutant charges and other charges to the relevant environmental protection authorities. If Xiwang Group violates the provisions of PRC environmental protection regulations and the requirements of the relevant environmental protection authorities, or violates the parameters such as pollutants discharge categories and total discharge quantity provided in the permit such that the pollutant discharge permit is revoked by the relevant authorities, or if other administrative penalties or measures arise, Xiwang Group will be responsible for the resulting penalties independently and will also compensate our PRC subsidiaries for the relevant losses.

The current pollutant discharge permit (Registration Number: 014), on the basis of which our PRC subsidiaries discharge pollutants, is valid through 31 December 2011. Our PRC subsidiaries have reported this situation to the relevant authority and sought to renew the pollutant discharge permit upon its expiration. According to a written confirmation dated 9 December 2011 by Zouping County Environmental Protection Bureau which issued the permit, the bureau was aware of the situation of our PRC subsidiaries, but since that the bureau was in the process of re-allocating the total discharge quantity of pollutants to all the entities within the scope of its authority according to the requirements of the Twelfth Five-year Developing Plans for National Environmental Protection (環境保護"十二五"發展規劃), during such transition period of the aforementioned re-allocation, the pollutant discharge permit would be extended or reissued, as the case may be, pursuant to the new total discharge quantity of pollutants when such quantity determined. The bureau confirmed that (i) there would be no impediment to the extension or reissue of the pollutant discharge permit to our PRC Subsidiaries by March 2012, (ii) there would be no decrease in the pollutant discharge quantities under the extended or reissued permit, and (iii) our PRC Subsidiaries may rely on the original pollutant discharge permit to discharge pollutants before such permit extended or a new one reissued.

The major pollutants produced in our operations are waste gas, waste water and waste slag. We recycle our waste water to quench the burning steel billets, during which process all waste water evaporates. As a result, we discharge no waste water. The following table sets forth the discharge limits and actual discharge of pollutants for 2009, 2010 and the six months ended 30 June 2011.

	Year ended 31 December 2009		Six months ended 30 June 2010		Year ended 31 December 2010		Six months ended 30 June 2011	
Pollutants discharged[(1)]	Discharge limits[(2)]	Actual discharge[(3)]	Discharge limits[(2)]	Actual discharge[(3)]	Discharge limits[(2)]	Actual discharge[(3)]	Discharge limits[(2)]	Actual discharge[(3)]
	(units in per tonne of steel produced)							
Waste water (m^3)	2.0	–	2.0	–	2.0	–	2.0	–
Smoke dust (kg)	1.0	0.492	1.0	0.061	1.0	0.033	1.0	0.056
Sulfur dioxide (kg) . . .	1.8	1.698	1.8	0.268	1.8	0.140	1.8	0.257

Notes: (1) Since our first EAF began operating in 2009, the discharge has been calculated on the basis of amounts of pollutants discharged in production of each tonne of steel.

(2) The discharge limits were stipulated by the Rules and Qualifications for Production and Operation of Steel Industry (鋼鐵行業生產經營規範條件).

(3) The supporting data for 2010 and 2011 was abstracted from the monitoring reports issued by the relevant environmental protection authority and the supporting data for 2009 was provided by the Group.

The following table sets forth the discharge limits and actual discharge of pollutants for 2008.

	Year ended 31 December 2008	
Pollutants discharged[1]	**Discharge limits[2]**	**Actual discharge[3]**
Concentration of smoke dust (mg/m^3)	20	19
Concentration of sulfur dioxide (mg/m^3)	150	79

Notes: (1) Before our first EAF began operating in 2009, the discharge was calculated on the basis of concentration of emission of the pollutants.

(2) The discharge limits are stipulated by the Emission Standard of Air Pollutants for Industrial Kiln and Furnace (工業爐窯大氣污染排放標準) and Integrated Emission Standard of Air Pollutants (大氣污染物綜合排放標準).

(3) The supporting data was provided by the Group.

Our PRC legal advisers, Jingtian & Gongcheng has confirmed that we have obtained clearance letters from the Zouping County Environmental Protection Bureau which is the competent authority to issue such clearance letters, and based on such clearance letters, our operations were in compliance with the applicable environmental laws and regulations and the local requirements during the Track Record Period.

We have adopted a number of practices to reduce the impact of our operations on the environment. We have installed several dust removing systems dedicated to reduce the sulfur dioxide discharge and smoke dust discharge in each of our plants to meet the requirement of the Emission Standard Pollutants for Iron and Steel Industry (鋼鐵工業污染物排放標準 (DB37/ 990-2008)), the Rules and Qualifications for Production and Operation of Steel Industry (綱鐵行業生產經營規範條件) and the Blueprint for the Adjustment and Revitalization of the Steel Industry (鋼鐵產業調整和振興規劃). We have collected all our waste water and transported it to the sewage treatment plant for recycling utilisation. In addition, we continue to explore opportunities to further improve resource optimization and efficiency. We made improvements and repairs to old facilities and equipment to enhance the utility rate of resources as well as reduce the waste produced during the process. These practices meet the national standards for environmental protection.

We are continuing to strengthen our environmental compliance efforts, including obtaining relevant environmental approvals for our large bar rolling line. We have not received any notice of environmental non-compliance since commencement of our operations. Zouping County, Environmental Protection Bureau conducts a comprehensive inspection of our environmental protection facilities to confirm that our discharge level of all pollutants complies with the applicable national standards twice per year. In addition to these regular inspections, the Bureau of Environmental Protection also performs random checks.

We incur ongoing costs to comply with current standards under the State and local environmental laws, such as cost of providing waste treatment facilities on site. The annual cost of compliance with applicable rules and regulations was approximately RMB0.1 million, RMB0.4 million, RMB0.3 million and RMB0.1 million in 2008, 2009, 2010 and the nine months ended 30 September 2011, respectively. We expect to maintain our cost of compliance at approximately RMB0.2 million for the year ending 31 December 2012. Although our policy requires us to comply with all environmental laws, environmental laws may become more stringent in the future and, there can be no assurance that we will not incur material environmental liabilities or that compliance with environmental laws (whether those currently in effect or those that may be enacted in the future).

INSURANCE

We maintain insurance policies covering our fixed assets in a total amount of RMB1,021.7 million. We do not maintain business interruption insurance in respect of our operations. We do not maintain product liability insurance, directors' and officers' liability insurance or key-man life insurance on our executive officers. This practice is consistent with what we believe to be the industry practice in China. Accordingly, there may be circumstances in which we will not be covered or compensated for losses, damages and liabilities, which may in turn adversely affect our financial condition and results of operations. See "Risk Factors — Risks Relating to Our Business — We may suffer certain losses not covered by insurance."

REAL PROPERTY

We are located at a site in Xiwang Industrial Zone in Zouping, Shandong Province in China. See " — Production — Production Facilities." As of 30 September 2011, we owned all 494,810.4 square metres of land for our production facilities and our principal executive offices at this location. All of our production facilities are on this parcel of land. Our principal executive offices are located in the headquarter building at a site adjacent to our steel production facilities.

We also lease four parcels of collectively-owned land (the "Premises") adjacent to our production facilities from Xiwang Group for the purpose of situating our some auxiliary equipment, including a substation, a gas station, a weight station and a steel scrap storage yard, in accordance with the general layout of our production. The total area of the Premises is 61,461 square meters and the term of the lease is 20 years, expiring on 10 April 2031. As confirmed by our PRC legal advisers, the validity of the lease agreement for the Premises remains uncertain. If the lease agreement is null and void, we will need to vacate the Premises. Other than the required relocation, we, as the lessee, will not be subject to any legal liabilities or penalties for using the Premises, according to the Land Administration Law of PRC and its implementation rules. We have a detailed relocation plan and a spare site with sufficient space ready to place these facilities. Such relocation, if occurs, will not interrupt our production or reduce our production volume because the facilities on the Premises are only ancillary to our main production facilities and we can rely on another substation with higher power and another two gas stations to continue our production without any interruption. However, if we are required to vacate the Premises, our Directors estimate that we may incur relocation expenses of approximately RMB10.0 million and carrying out the plan will take approximately two months. For further details regarding to these real properties, see "Risk Factors — Risks Relating to Our Business — We face certain risks relating to the real properties we lease."

LEGAL PROCEEDINGS AND COMPLIANCES

We are not and have not been involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which we are aware) against any of our directors. We are not and have not been involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which we are aware) which may have, or have had, individually or taken as a whole, a significant effect on our financial position. We are not involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which we are aware) relating to claims or amounts which are material in the context of this initial public offering.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Immediately after the completion of the Global Offering (without taking into account the Shares which may be issued upon the exercise of the Over-allotment Option), Xiwang Investment will hold approximately 75% of our Company's issued share capital and control the exercise of the voting rights attached to such shareholding. As Xiwang Holdings is the sole shareholder of Xiwang Investment and as Mr. Yong Wang and the Individual Investors are parties acting in concert with respect to their shareholding interest in Xiwang Holdings, each of Xiwang Holdings, Mr. Yong Wang and the Individual Investors will be regarded as Controlling Shareholders of our Company after Listing.

Xiwang Investment and Xiwang Holdings are both non-trading holding companies.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Having considered the following factors, we believe that our Company is capable of carrying on its business independently from our Controlling Shareholders after Listing:

Management Independence

Our Board consists of nine Directors, of whom three are executive Directors, three are non-executive Directors and three are independent non-executive Directors. As at the Latest Practicable Date, only the three non-executive Directors of the Company held positions in Xiwang Group or its subsidiaries, or the subsidiaries of Xiwang Holdings as follows:

Name	Positions and responsibilities within our Company	Positions and responsibilities within Xiwang Group or Xiwang Holdings or their respective subsidiaries
Mr. Yong Wang (王勇)	Non-executive Director and chairman	Director and chairman of Xiwang Group, Xiwang Sugar, Xiwang Food and Xiwang Biochem; director of Xiwang Foodstuffs
		Responsible for overall management of the strategic plan and development blueprint for Xiwang Group and all of its subsidiaries
Mr. Di Wang (王棣)	Non-executive Director	Director of Xiwang Group, Xiwang Sugar, Xiwang Food, Xiwang Cereal & Oil and Xiwang Sugar (Beijing) Company; director and chairman of Xiwang Foodstuffs
		Responsible for overseeing the branding for Xiwang Group and all of its subsidiaries
Mr. Xinhu Sun (孫新虎). . . .	Non-executive Director	Director of Xiwang Sugar and vice general manager of Xiwang Group
		Director and secretary of Xiwang Foodstuffs
		Responsible for investor relations

The principal businesses of the companies listed above in which the non-executive Directors of the Company hold positions are as follows:

Company name	Principal business
Xiwang Biochem	Production and sale of starch sugars and corn co-products
Xiwang Cereal & Oil	Wholesale of edible oil
Xiwang Food	Production and sale of edible oil
Xiwang Foodstuffs	Production and sale of edible oil
Xiwang Group	Holding company
Xiwang Sugar	Refining corn to a variety of sweetener products and corn co-products that are widely applied in food and beverage, animal feed, and many other consumer and industrial products
Xiwang Sugar (Beijing) Company	Sale of crystallised starch sugars

The Directors will be remunerated as follows after Listing:

Name	Remuneration from our Company after Listing	Remuneration from Xiwang Group and its subsidiaries after Listing
Mr. Yong Wang (王勇)	zero	RMB900,000 per annum
Mr. Di Wang (王棣)	zero	RMB450,000 per annum
Mr. Xinhu Sun (孫新虎)	zero[(1)]	RMB120,000 per annum
Mr. Liang Wang (王亮)	RMB300,000 per annum	zero
Mr. Gang Wang (王剛)	RMB200,000 per annum	zero
Mr. Tao Wang (王濤)	RMB200,000 per annum	zero
Mr. Shu Sun Sunny Leung (梁樹新)	HK$150,000 per annum	zero
Mr. Kou Yu (于叩)	RMB50,000 per annum	zero
Mr. Gongxue Zhang (張公學)	RMB50,000 per annum	zero

Note:

(1) As Mr. Xinhu Sun (孫新虎) is the secretary to the board of Xiwang Foodstuffs, he is not permitted under PRC law to receive remuneration from any connected entity, as such his remuneration is paid in full by Xiwang Foodstuffs.

Mr. Yong Wang, Mr. Di Wang (王棣) and Mr. Xinhu Sun (孫新虎) do not participate in the day-to-day management of our Company and the non-Group companies in which they currently hold positions do not operate any business that competes or might potentially compete with the business of our Company. Our three executive Directors, Mr. Liang Wang (王亮), Mr. Gang Wang (王剛) and Mr. Tao Wang (王濤), and our senior management team are responsible for the management and decision making processes of our Company. Our senior management team comprises Mr. Liang Wang (王亮), Mr. Kwokmo Chung, Mr. Tao Wang (王濤), Mr. Ming Dong, Mr. Honggang Wang, Mr. Baomin Wang, Mr. Qingsheng Zhang, Mr. Dong Wang (王棟) and Mr. Fusheng Zhao, who are responsible for general management, finance, production, sales, procurement, administration, technology, quality control and engineering respectively. See the section headed "Directors, Senior Management and Employees" in this prospectus for more details on the background of our Directors and members of our senior management team.

Save as disclosed above, none of our Directors or members of our senior management team hold directorships in Xiwang Group or Xiwang Holdings or their respective subsidiaries (other than members of our Group), or are employed by any of such companies. None of our other executive Directors or members of our senior management team have any family or other relationship with Mr. Yong Wang or his son Mr. Di Wang (王棣) or with each other.

Notwithstanding the fact that three of the Directors are also directors of one or more of Xiwang Group or Xiwang Holdings or their respective subsidiaries, our Directors are of the view that our Company is managed independently of the Controlling Shareholders on the following grounds:

(i) With regard to the information of our Group or relating to our business obtained by Mr. Yong Wang, Mr. Di Wang (王棣) and Mr. Xinhu Sun (孫新虎) in discharging their duties as non-executive Directors, Mr. Yong Wang, Mr. Di Wang (王棣) and Mr. Xinhu Sun (孫新虎) have undertaken to us that they will only use such information in the best interests of our Company and our Shareholders as a whole.

(ii) Mr. Yong Wang, Mr. Di Wang (王棣) and Mr. Xinhu Sun (孫新虎) will abstain from all discussions or voting on resolutions involving transactions between the Group and Xiwang Group or Xiwang Holdings (and their respective associates other than members of our Group) and each of our Directors is aware of his fiduciary duties as a director of our Company which require, amongst other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest.

    According to our Articles of Association, in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant Board meetings in respect of such transactions and shall not be counted in the quorum at such meetings. In addition, we have a senior management team to carry out our business decisions independently. Our three independent non-executive Directors who have the requisite qualifications, experience, integrity, impartiality and absence of conflict of material interests to act in the best interests of our Company will also bring independent judgment to the decision-making process of our Board.

(iii) Our executive Directors and senior management team have served us for an extended period of time and have substantial experience in the industry in which our Group is engaged. In the event that Mr. Yong Wang, Mr. Di Wang (王棣) or Mr. Xinhu Sun (孫新虎) have to abstain from voting on any matter because of any conflict of interest, there will remain sufficient members on our Board with the requisite qualification, integrity, experience and impartiality who would be able to fully share the interest of our Company and of the Shareholders as a whole. See the section headed "Directors, Senior Management and Employees" in this prospectus for more details on the background of our Directors and members of our senior management.

(iv) None of Mr. Yong Wang, Mr. Di Wang (王棣) or Mr. Xinhu Sun (孫新虎) are involved in the day-to-day management of the Company.

(v) Save in respect of the lease of land from Xiwang Group as more particularly described in the section headed "Connected Transactions" in this prospectus, all dealings between the Company and its Connected Persons have now ceased and it is not envisaged that any future dealings will take place. If any future dealings were to take place they would be subject to the rules and regulations relating to connected transactions set out in the Listing Rules including rules relating to announcements, reporting and independent shareholders' approval.

(vi) Neither Xiwang Group or Xiwang Holdings or their respective subsidiaries (other than members of our Group) operate any business that, directly or indirectly, competes with or potentially competes with the business of our Company.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently and our Directors, including our independent non-executive Directors, are of the view that we are capable of managing our business independently from the Controlling Shareholders after Listing.

Independence from the Individual Investors

The Company regards Mr. Yong Wang and the Individual Investors as a single group of Controlling Shareholders pursuant to a voting agreement dated 27 September 2011 and as supplemented by a supplemental voting agreement dated 7 February 2012. Details of the voting agreement is more particularly set out in the section headed "History, Reorganisation and Group Structure" in this prospectus.

The following family relationships exist amongst the Individual Investors:

(i) Mr. Di Wang (王棣) is Mr. Yong Wang's son;

(ii) Mr. Tao Wang (王濤) (not the same individual as our Director Mr. Tao Wang) and Mr. Liang Wang (王亮) are brothers; and

(iii) Mr. Minghe Wang (王明鶴) and Mr. Huiyi Wang (王會議) are brothers.

The following table sets forth the directorships and management positions in the Group held by Mr. Yong Wang and the Individual Investors as at the Latest Practicable Date:

Name	Positions within the Group
Mr. Yong Wang (王勇)	Non-executive Director and chairman of the Company, executive director of Xiwang Metal, chairman of Xiwang Steel
Mr. Di Wang (王棣)	Non-executive Director of the Company, director and chairman of Shandong Xiwang Special Steel
Mr. Xinhu Sun (孫新虎)	Non-executive Director of the Company, supervisor of Xiwang Metal, director of Shandong Xiwang Special Steel
Mr. Liang Wang (王亮)	Executive Director and general manager of the Company, director and general manager of Xiwang Steel, director and general manager of Shandong Xiwang Special Steel and general manager of Xiwang Metal
Mr. Gang Wang (王剛)	Executive Director of the Company, director of Xiwang Steel and supervisor of Shandong Xiwang Special Steel
Mr. Dong Wang (王棟)	Executive director and general manager of Xiwang Recycling Resources
Mr. Jianxin Wang (王建新)	Director of Xiwang Steel
Mr. Lijiang Ning (寧立江)	Director of Xiwang Steel
Mr. Minghe Wang (王明鶴)	Director of Xiwang Steel
Mr. Zhong Han (韓忠)	Supervisor of Xiwang Steel

The remaining 16 Individual Investors do not hold any directorships or management positions within the Group.

Operational Independence

Our organisational structure is made up of individual departments, each with specific areas of responsibility. Our Group owns its production facilities and other principal operational facilities and has independent access to sources of supplies of raw materials for production and independent customers. We have also established a set of internal controls to facilitate the effective operation of our business.

Save and except for the lease of land as more particularly described in the section headed “Connected Transactions” in this prospectus, there is no continuing connected transaction between us and our Connected Persons.

Our Controlling Shareholders have no interest in any company which competes with or is likely to compete with the business of our Group. Although our Controlling Shareholders will retain a controlling interest in our Company after Listing, our Company has full rights to make all decisions on, and to carry out, its own business operations independently. Our Group holds all relevant licenses and/or registrations necessary to carry on its businesses and has sufficient capital, equipment and employees to operate its business independently from our Controlling Shareholders.

Administrative Independence

We have our own capabilities and personnel to perform all essential administrative functions including financial and accounting management, inventory management and research and development.

Our senior management staff are independent of our Controlling Shareholders.

Financial Independence

We have an independent financial accounting system and make financial decisions according to our own business needs. As at the Latest Practicable Date, we did not have any outstanding balance owed to or from, or any guarantee or other security from or to, our Controlling Shareholders. We believe we are capable of obtaining financing from independent third parties, if necessary, without reliance on our Controlling Shareholders. Therefore, we are financially independent from our Controlling Shareholders.

NON-COMPETITION UNDERTAKING

We have entered into the Non-competition Deed with each of the Controlling Shareholders pursuant to which each of the Controlling Shareholders has jointly and severally undertaken to our Company (for itself and for the benefit of other members of the Group) that, during the Non-compete Period (as defined below), 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 our Group from time to time (the "Restricted Business").

Notwithstanding the foregoing, each of the Controlling Shareholders may:

(a) have interest in shares or other securities (whether or not listed on any stock exchange) of a company conducting any Restricted Business, provided that:

    (i) the Controlling Shareholders and its/his/her respective associates taken together are not so interested as to be able to exercise or control the exercise of 5% or more of the voting power at general meetings of such company or control the composition of a majority of the board of directors of such company; and

(ii) at all times there is another independent shareholder who either alone is, or together with its/his/her associates are, directly or indirectly interested so as to be able to exercise or control the exercise of a greater amount of voting power at general meetings of such company than the Controlling Shareholders and its/his/her associates are able to, or control the composition of a majority of the board of directors of such company;

(b) carry on, engage, invest, participate or otherwise be interested in such Restricted Business where the opportunity to carry on, engage, invest, participate or otherwise be interested in such Restricted Business has first been offered or made available to our Company in writing and the relevant Controlling Shareholders has provided such information as may reasonably be required by our Company in order to make an informed assessment of such business opportunity within 30 Business Days upon receipt of such business opportunity in writing, and our Company, after review and approval by our independent non-executive Directors, has declined such opportunity to carry on, engage, invest, participate or otherwise be interested in such Restricted Business, provided that the principal terms by which any Controlling Shareholders (or any of its/his/her associate(s)) subsequently carries on, engages, invests, participates or otherwise is interested in such Restricted Business are not more favourable in any material aspect than those offered or made available to our Company. The 30-day period can be extended to a date mutually agreed between our Company and the relevant Controlling Shareholder. The independent non-executive Directors may, at the cost of our Company, appoint any professional adviser as they consider necessary to advise them on the terms of any such business opportunity. In considering to take up such business opportunity, the independent non-executive Directors will take into account the followings:

(i) whether such business opportunity in relation to the relevant business of our Company is of a considerable size;

(ii) whether such business opportunity will enhance our Company's profitability and competitive advantages in the core business of our Company;

(iii) whether such business opportunity will attain profit within a reasonable period;

(iv) whether such business opportunity will be in line with the strategic development of our Company from time to time;

(v) whether our Company's funding capability and/or capital expenditure projections would allow the taking up of such business opportunity; and

(vi) whether Shareholders' value will be maximized by taking up such business opportunity.

The "Non-compete Period" for each Controlling Shareholder stated in the Non-competition Deed refers to the period during which:

(a) the relevant Controlling Shareholder and its/his/her associates individually or taken as a whole, is a controlling shareholder of the Company within the meaning of the Listing Rules in force from time to time; and

(b) the Shares are and remain listed on the Hong Kong Stock Exchange.

Under the Non-competition Deed, in the event that, during the Non-compete Period, any of the Controlling Shareholders intends to dispose of any Restricted Business or any interest in any Restricted Business, such Controlling Shareholder shall first offer to our Company the right to acquire such business or interest and it may only proceed with such disposal to any third party, on terms not more favourable than those offered to our Company, following the rejection of such offer by our Company.

Further, any transaction that is proposed between our Group and the Controlling Shareholders or their respective associates will be required to comply with the requirements of the Listing Rules, including, where applicable, the announcement, reporting and independent shareholders' approval requirements.

None of our Controlling Shareholders or any of our 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.

CORPORATE GOVERNANCE MEASURES

The Directors believe that there are adequate corporate governance measures in place to manage the conflict of interests arising from any competing business and to safeguard the interests of the Shareholders, including:

- the independent non-executive Directors will review, on an annual basis, the compliance with the undertaking by the Controlling Shareholders under the Non-competition Deed;

- the Controlling Shareholders have undertaken to provide all information requested by our Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Non-competition Deed;

- the Controlling Shareholders have undertaken to use their reasonable endeavours to procure that their associates shall provide all information and access to the financial records of the Controlling Shareholders and their associates as necessary subject to confidentiality restrictions owed by them to any third party for the annual review by the independent non-executive Directors and professional advisers of the Company with regard to the compliance with and enforcement of the Non-competition Deed;

- our Company will disclose the review results and decisions with basis on matters reviewed by the independent non-executive Directors relating to compliance with and enforcement of the undertaking of the Controlling Shareholders under the Non-competition Deed in the annual report of our Company or by way of announcement to the public;

- the Controlling Shareholders will make an annual confirmation on compliance with their undertaking under the Non-competition Deed in the annual report of our Company;

- in the event that potential conflicts of interest may materialise, i.e. where a Director has an interest in a company that will enter into an agreement with our Group, the Director(s) with an interest in the relevant transaction(s) will not be present at the relevant board meeting, and will be excluded from the board deliberation and abstain from voting and will not be counted towards quorum in respect of the relevant resolution(s) at such board meeting in accordance with the Articles; and

- in the event that potential conflicts of interest may materialise, the Shareholder(s) with an interest in the relevant transaction(s) will abstain from voting in the shareholders' meeting of the Company with respect to the relevant resolution(s).

CONNECTED TRANSACTIONS

Exempt continuing connected transactions

The following continuing connected transaction will constitute exempt continuing connected transaction for us under Rule 14A.33(3) of the Listing Rules and will be exempted from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules as each of the relevant percentage ratios (other than profits ratio) for the following transaction on an annual basis is less than 0.1%.

Lease Agreement between the Group and Xiwang Group

We have been leasing from Xiwang Group four parcels of land at Handian Town, Zouping County, Shandong Province for use as a substation, a gas station, a weight station and a steel scrap storage yard (the "Premises"). Xiwang Group was a company owned as to 64.4% by Mr. Yong Wang and as to 35.6% in aggregate by the Individual Investors as at the Latest Practicable Date. As Mr. Yong Wang and such Individual Investors collectively are regarded as Controlling Shareholders (for details, see the section headed "Relationship with Controlling Shareholders" in this prospectus), Xiwang Group is an associate of the Controlling Shareholders and therefore our Connected Person after Listing. Such lease arrangement is expected to continue after Listing and therefore would constitute a continuing connected transaction of our Group after Listing.

Under the lease agreement dated 11 April 2011 entered into by us and Xiwang Group (the "Lease Agreement"), we have paid an amount of RMB174,000 to Xiwang Group in respect of lease of Premises for the nine months ended 30 September 2011. Xiwang Group agreed to lease the Premises to us for a term of 20 years commencing from 11 April 2011 at a rent of RMB368,766 per year. In the event that we wish to renew the lease, we are obliged to provide not less than three months written notice in advance before the expiry of the Lease Agreement.

CBRE HK Limited, the Company's independent property valuer, has reviewed the Lease Agreement and conducted market research on the leasing market in Zouping County and collected some rental evidence of comparable properties in the locality as well as similar locations in Zouping County. The opinion of CBRE HK Limited is that the rental value set out in the Lease Agreement was fair and reasonable and consistent with the prevailing market levels for properties of a similar status in a similar location as at the Latest Practicable Date.

The term of the lease of the Premises is for a period of more than three years so that the Company can continue to operate its production facilities without interruption within the term. The Sole Sponsor has confirmed that it is a normal business practice for lease arrangements of this kind to have a duration of more than three years.

Discontinued related party transactions

During the Track Record Period, the Group had entered into certain transactions with certain parties who would be our Connected Persons after Listing. These transactions have discontinued and their details are summarised as below:

A. Transactions with Xiwang Group

(a) sale of products

During the Track Record Period, we sold rebars to Xiwang Group in the amount of RMB141,000, RMB4,000, RMB134,000 and zero for each of the three years ended 31 December 2008, 31 December 2009 and 31 December 2010 and for the nine months ended 30 September 2011, respectively. The rebars were purchased by Xiwang Group as construction materials for its projects. These sale transactions have completed and we have ceased selling products to Xiwang Group.

(b) financial transactions

During the Track Record Period, the Group loaned to and borrowed from Xiwang Group. As at 31 December 2008, 2009, 2010 and 30 September 2011, the total outstanding loan amount due from Xiwang Group was RMB236.1 million, RMB114.1 million, RMB174.6 million and zero, respectively. As at 31 December 2008, 2009, 2010 and 30 September 2011, the total outstanding loan amount due to Xiwang Group was RMB291.7 million, RMB433.6 million, RMB558.8 million and zero, respectively. The funds borrowed by us were used as working capital and carried an interest rate ranging between 6.9% to 9.6%. In May 2011, we settled all the balances with Xiwang Group. See "Discontinued financial transactions with related parties" in this section for further details.

According to the "General Provision of Loans" (《貸款通則》), enterprises should not conduct lending and borrowing business or lending and borrowing business in disguised form. According to the "Official Reply of the Supreme People's Court on How to Handle a Case Where the Borrower Does Not Repay the Loan within the Time Limit in Loan Contract between Corporations" (《最高人民法院關於對企業借貸合同借款方逾期不歸還借款的應如何處理的批復》), illegal income of a loan, i.e., interests, shall be confiscated by the court if any dispute arises and the contracted parties file a suit in the court. As confirmed by our PRC legal advisers, our PRC subsidiaries' loans to and borrowings from Xiwang Group during the Track Record Period did not comply with the "General Provision of Loans" (《貸款通則》). As a result, our PRC subsidiaries were subject to forfeiture of all the interest income of approximately RMB26.8 million that our PRC subsidiaries received in connection with their loans to Xiwang Group, and immediate repayment of all the borrowings from Xiwang Group. Our PRC subsidiaries recovered all their loans to Xiwang Group in May 2011 and repaid all their borrowings from Xiwang Group, and our PRC subsidiaries have not been punished for such non-compliance with the "General Provision of Loans" (《貸款通則》). Our PRC legal advisers further confirmed that, as all the borrowings and loans which did not comply with the "General Provision of Loans" (《貸款通則》) had been settled and rectified without any actual or pending disputes or matters, no penalties or any other punishment will be imposed by the relevant authorities on our PRC subsidiaries.

During the Track Record Period, Xiwang Group also provided guarantees in respect of certain of our borrowings. See the paragraph headed "Discontinued related party transactions — G. Provision of Financial Assistance" in this section for further details.

(c) transfer of land use right

Pursuant to an agreement dated 26 December 2009 entered into between Xiwang Metal and Xiwang Group, Xiwang Metal transferred land use rights to a parcel of land with an area of 37,220 square metres in Handian Town, Zouping County, Shandong Province to Xiwang Group for a consideration of RMB8,331,306. Such consideration was determined with reference to the market value of the land use right. The parcel of land was used by Xiwang Metal to operate its edible oil business. As Xiwang Metal had ceased its edible oil business from January 2007, Xiwang Metal decided to transfer the land use right to Xiwang Group.

(d) transfer of patent right

Pursuant to an agreement dated 6 May 2011 entered into between the Group and Xiwang Group, Xiwang Group transferred five patent rights to the Group for zero consideration.

The Directors have confirmed that all of the above transactions between the Group and Xiwang Group were carried out in the ordinary course of business of the Group and on normal commercial terms.

B. Transactions with Xiwang Investment

During the Track Record Period, the Group incurred borrowings from Xiwang Investment, one of our Controlling Shareholders. As at 31 December 2008, 2009, 2010 and 30 September 2011, the total outstanding loan amount due to Xiwang Investment was RMB108.4 million, RMB120.6 million, RMB132.3 million and zero, respectively. See "Discontinued financial transactions with related parties" in this section for further details. The funds borrowed by us were used as working capital and carried no interest rate. Pursuant to a debt settlement deed dated 27 July 2011, the Company allotted and issued to Xiwang Investment 1,599,999,990 Shares as payment in kind of these shareholder's loan amounting to RMB134.5 million.

The Directors have confirmed that all of the above transactions between the Group and Xiwang Investment were carried out in the ordinary course of business of the Group and on normal commercial terms.

C. Transactions with Xiwang Food

Xiwang Food was wholly owned by Xiwang Foodstuffs and Xiwang Foodstuffs was a subsidiary of Xiwang Group as at the Latest Practicable Date. Accordingly, Xiwang Food is an associate of our Controlling Shareholder and therefore our Connected Person after Listing.

(a) sale of products

During the Track Record Period, we sold rebars to Xiwang Food in the amount of approximately RMB326,000, RMB356,000, RMB28,000 and zero for each of the three years ended 31 December 2008, 31 December 2009 and 31 December 2010 and for the nine months ended 30 September 2011, respectively. The rebars were purchased by Xiwang Food as construction materials for its projects. These sale transactions have now completed and we have ceased selling products to Xiwang Food.

(b) lease of land

Pursuant to a lease dated 1 January 2008 entered into between Xiwang Metal and Xiwang Food, we leased the land use right in respect of a particular parcel of land in Handian Town, Zouping County, Shandong Province to Xiwang Food. The lease to Xiwang Food was terminated in March 2009 and then the land use right was transferred by us to Xiwang Group in December 2009. For the two years ended 31 December 2008 and 31 December 2009, the rent paid by Xiwang Food amounted to RMB419,000 and RMB80,000, respectively.

All of the above transactions between the Group and Xiwang Food have completed and we have ceased selling products and leasing land to Xiwang Food. The Directors have confirmed that these transactions between the Group and Xiwang Food were carried out in the ordinary course of the business of the Group and on normal commercial terms.

D. Transactions with Xiwang Biochem

Xiwang Biochem was owned as to 55.6% by Xiwang Investment as at the Latest Practicable Date. Accordingly, Xiwang Biochem is an associate of a Controlling Shareholder and therefore our Connected Person after Listing.

(a) sale of products

During the Track Record Period, we sold rebars to Xiwang Biochem in the amount of approximately zero, RMB132,000, RMB3,830,000 and zero for each of the three years ended 31 December 2008, 31 December 2009 and 31 December 2010 and for the nine months ended 30 September 2011, respectively. The steel products were purchased by Xiwang Biochem as construction materials for its projects. These sale transactions have completed and we have ceased selling products to Xiwang Biochem.

The Directors have confirmed that these transactions between the Group and Xiwang Biochem have been carried out in the ordinary course of business of the Group and on normal commercial terms.

E. Transactions with Shengtang Metal

Shengtang Metal was owned as to 100% by Xiwang Group from October 2008 to June 2009. On 15 June 2009, Xiwang Group transferred its 100% equity interest in Shengtang Metal to Xiwang Steel. On 20 January 2010, Xiwang Steel transferred its 100% equity interest in Shengtang Metal back to Xiwang Group and in April 2011 Xiwang Group transferred its 100% equity interest in Shengtang Metal to Shandong Shengtang Investment Company Limited (山東盛唐投資有限公司), which is in turn held by three individuals, namely Li Meng (李猛), Chen Lei (陳雷) and Cheng Zhenfeng (程振鳳), all being independent third parties. Accordingly, if the last transfer did not occur, Shengtang Metal would be an associate of a Controlling Shareholder and therefore our Connected Person after Listing.

(a) sale of products/purchase of raw materials

During the Track Record Period, we sold our rebars to and purchased steel billets from Shengtang Metal. Shengtang Metal was an indirectly wholly owned subsidiary of the Company in 2008 and 2009 and became a subsidiary of Xiwang Group in 2010. During the year ended 31 December 2010 and for the nine months ended 30 September 2011, the sale of our products to Shengtang Metal amounted to approximately RMB159,492,000 and zero, respectively, and our purchase of steel billets from Shengtang Metal amounted to RMB605.3 million and RMB277.4 million, respectively. All of the above transactions between the Group and Shengtang Metal have completed and we have ceased any dealing with Shengtang Metal since April 2011.

(b) lease of property

Pursuant to a lease dated 23 August 2009 entered into between us and Shengtang Metal, we agreed to lease a warehouse in Zouping County, Shandong Province to Shengtang Metal for a term of three years commencing from 23 August 2009 at a rent of RMB100,000 per year. For the year ended 31 December 2010 and for the nine months ended 30 September 2011, the rent paid by Shengtang Metal amounted to RMB100,000 and RMB25,000, respectively.

The above lease between the Group and Shengtang Metal was terminated in April 2011.

The Directors have confirmed that all the above transactions between the Group and Shengtang Metal during the period when it was a subsidiary of Xiwang Group were carried out in the ordinary course of business of the Group and on normal commercial terms.

F. Transactions with Shandong Xiwang Functional Sugar Co., Ltd. (山東西王功能糖有限公司)

Shandong Xiwang Functional Sugar Co., Ltd. ("Xiwang Functional Sugar"), was wholly owned by Xiwang Biochem until August 2010 when it was deregistered with the competent authority. Accordingly, Xiwang Functional Sugar, if it had not been deregistered, would be an associate of a Controlling Shareholder and therefore a Connected Person after Listing.

During the year of 2009, Xiwang Functional Sugar purchased steel products from the Group in the amount of RMB4.1 million. There were no other transactions between the Group and Xiwang Functional Sugar during the Track Record Period. The steel products were purchased by Xiwang Functional Sugar as construction materials for its projects.

The above transactions between the Group and Xiwang Functional Sugar have completed and we have ceased selling products to Xiwang Functional Sugar. The Directors have confirmed that these transactions between the Group and Xiwang Functional Sugar were carried out in the ordinary course of the business of the Group and on normal commercial terms.

G. Provision of Financial Assistance

Xiwang Group, two of its subsidiaries and Mr. Yong Wang have provided guarantees in respect of certain of the Company's borrowings during the Track Record Period, further details of which are set out below:

During the Track Record Period, Xiwang Group provided guarantees in respect of certain of our borrowings. As at 31 December 2008, 31 December 2009, 31 December 2010 and for the nine months ended 30 September 2011, the borrowings in respect of which such guarantees were provided amounted to RMB115.0 million, zero, RMB195.2 million and zero respectively.

During the Track Record Period, Mr. Yong Wang provided guarantees in respect of certain of our borrowings. As at 31 December 2008, 31 December 2009, 31 December 2010 and for the nine months ended 30 September 2011, the borrowings in respect of which such guarantees were provided amounted to RMB45.0 million, zero, RMB195.2 million and zero, respectively.

During the Track Record Period, two subsidiaries of Xiwang Group also provided guarantees in respect of certain of our borrowings. As at 31 December 2008, 31 December 2009, 31 December 2010 and for the nine months ended 30 September 2011, the borrowings in respect of which such guarantees were provided amounted to RMB70.0 million, zero, zero and zero, respectively.

No fee was paid by us to the respective guarantors in respect of the above guarantees.

The Directors have confirmed that all of the above guarantees were released in January 2011.

H. Transactions with Xiwang Import & Export

Xiwang Import & Export was wholly owned by Xiwang Group as at the Latest Practicable Date. Accordingly, Xiwang Import & Export is an associate of a Controlling Shareholder and therefore our Connected Person after Listing.

During the Track Record Period, the Group had engaged Xiwang Import & Export to import steel scrap and equipment from overseas and the amount paid to Xiwang Import & Export for such import for the three years ended 31 December 2008, 31 December 2009, 31 December 2010 and the nine months ended 30 September 2011 was zero, zero, zero and RMB122.4 million, respectively, among which RMB100.2 million related to the import of steel scrap and the remaining RMB22.2 million related to the import of equipment.

The above transactions between the Group and Xiwang Import & Export have completed and we no longer engage Xiwang Import & Export to import steel scrap and equipment. If and when necessary, we will engage an independent agent to import steel scrap and equipment. The Directors have confirmed that all the above transactions between the Group and Xiwang Import & Export were carried out in the ordinary course of the business of the Group and on normal commercial terms.

Discontinued financial transactions with related parties

(i) During the Track Record Period, the Group provided loans to Xiwang Group. Details of the outstanding loan amount as at the dates specified below are as follows:

	As of 31 December			As of 30 September
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Outstanding loan amount due from Xiwang Group	236,114	114,061	174,632	–

	Year ended 31 December			Nine months ended 30 September
	2008	2009	2010	2011
Interest rate	6.57% to 9.48%	5.35% to 9.70%	–	–

	Year ended 31 December			Nine months ended 30 September
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Interest income received by the Group	18,378	8,408	–	–

Xiwang Group has repaid and settled all the above loan amounts with the Group in May 2011.

(ii) During the Track Record Period, the Group borrowed funds from Xiwang Group which were used as working capital. Details of the outstanding loan amount as at the dates specified below are as follows:

	As of 31 December			As of 30 September
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Outstanding loan amount due to Xiwang Group	291,673	433,615	558,821	–

	Year ended 31 December			Nine months ended 30 September
	2008	2009	2010	2011
Interest rate	7.4%	9.6%	6.9%	6.9% to 7.8%

	Year ended 31 December			Nine months ended 30 September
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Interest expenses paid by the Group	14,977	18,005	9,559	17,542

The Group has repaid and settled all the above loan amounts with Xiwang Group in May 2011.

(iii) During the Track Record Period, the Group borrowed funds from Xiwang Investment which were used as working capital. Details of the outstanding loan amount as at the dates specified below are as follows:

	As of 31 December			As of 30 September
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Outstanding loan amount due to Xiwang Investment	108,380	120,626	132,332	–

Pursuant to a debt settlement deed dated 27 July 2011, the Group and Xiwang Investment have settled all the above loan amounts by way of the Company issuing 1,599,999,990 Shares to Xiwang Investment as payment in kind.

The Group received interest-free borrowings from Xiwang Investment. The effective interest rate of our interest-bearing bank and other borrowings was 8.2%, 5.2%, 7.8% and 6.7% for the three years ended 31 December 2010 and nine months ended 30 September 2011 respectively, assuming our Group was required to pay interest expenses for inter-company borrowings at such effective interest rates, it would increase the finance costs to approximately RMB8.9 million, RMB5.9 million, RMB9.8 million and RMB8.9 million respectively for the same periods. However, such increase in finance costs would have insignificant impact on the Group's profitability during the Track Record Period.

BOARD OF DIRECTORS

Except as otherwise disclosed in this prospectus, none of the directors have had directorships in listed companies within the past three years of the date of this prospectus. In addition, except as otherwise disclosed in this prospectus, none of the directors, when joining the Group, have had relationships with our directors, senior management or substantial shareholders. The table below sets forth information regarding the Board of Directors:

Name	Age	Position
Yong Wang (王勇)	61	Chairman and non-executive Director
Liang Wang (王亮)	40	Executive Director
Gang Wang (王剛)	51	Executive Director
Tao Wang[(1)] (王濤)	33	Executive Director
Di Wang (王棣)	27	Non-executive Director
Xinhu Sun (孫新虎)	36	Non-executive Director
Shu Sun Sunny Leung (梁樹新)	48	Independent non-executive Director
Gongxue Zhang (張公學)	46	Independent non-executive Director
Kou Yu (于叩)	63	Independent non-executive Director

Note:

(1) Mr. Tao Wang, our executive director, and Tao Wang, one of our individual investors, are not the same individual.

Executive Directors

Mr. Liang Wang (王亮), aged 40, was appointed as our executive Director and General Manager on 2 June 2011. Mr. Wang is responsible for our overall management. He started to work at the Group on 1 April 1988 and has been the general manager of Xiwang Sugar from 2001 to 2008, the president of Xiwang First Industrial Area (西王集團第一工業園) from 2008 to 2009, and the executive vice president of Xiwang Group from 2009 to 2010. Mr. Wang studied mechanical engineering at Zouping Secondary School (鄒平成人中專) in the PRC and graduated in July 1998. Mr. Wang was a director of Xiwang Sugar (Stock Code: 2088) from 2005 to 2010, and resigned as a director of Xiwang Sugar in November 2010.

Mr. Gang Wang (王剛), aged 51, was appointed as our executive Director on 2 June 2011. Mr. Wang is mainly responsible for the management of energy and utilities and environmental protection for our Company. Mr. Wang joined the Group on 1 October 1986, and has served as head of several factories of the subsidiaries of Xiwang Group. Since May 2001, Mr. Wang has been serving as the member of the Communist Party Council of Xiwang Group (西王集團共產黨委員會) and vice president of the Group. He received a diploma from Huang Shan High School (黃山中學) in July 1977.

Mr. Tao Wang (王濤), aged 33, is our vice president of the production department and was appointed as an executive Director on 2 June 2011. He has been leading the production department since 2007. Mr. Wang joined the Group on 15 August 1998 and has served as the head of factory at a variety of production lines within the Group. Mr. Wang studied and completed in the graduate program in business administration at Shandong University (山東大學) in December 2005 and received a professional diploma in mechanical engineering from Harbin Institute of Technology (哈爾濱工業大學) in July 1998.

Non-Executive Directors

Mr. Yong Wang (王勇), aged 61, was appointed as our chairman and non-executive Director in June 2011. He is father of Mr. Di Wang (王棣). Mr. Wang is one of our founders. As a non-executive director, Mr. Wang regularly attends our board meetings responsible for the strategic planning of the Group, but does not engage in the day-to-day management of the Company. 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 and the managing director of the Group from 1996 to 2001. Mr. Wang has been the chairman of the board of directors of the 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. Mr. Wang was awarded The National Labour Role Model (全國勞動模範) by the State Council in April 2000 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.

In addition to serving as a non-executive Director of the Group, Mr. Wang is also a director and the chairman of Xiwang Group. He is responsible for overall management of the strategic plan and development blueprint of Xiwang Group and all of its subsidiaries. Xiwang Group and all of its subsidiaries had been excluded from the Group.

Mr. Wang was awarded prizes and titles, including The National Advanced Worker in Quality Management of Township Enterprise awarded by the Ministry of Agriculture of the PRC in Year 2000[(1)] (中華人民共和國農業部二零零零年全國鄉鎮企業質量管理先進工作者), The Fourth National Township Entrepreneur Award of the Ministry of Agriculture of the PRC in 2001 (中華人民共和國農業部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 awarded by the Ministry of Agriculture of the PRC[(1)] (中華人民共和國農業部「八五」全國鄉鎮企業科技進步先進工作者). Mr. Wang received secondary education in the PRC in July 1968. Mr. Wang is a director and the chairman of Xiwang Sugar, a company publicly listed on the Main Board of the Hong Kong Stock Exchange since 2005. Mr. Wang has also been a director and the chairman of Xiwang Foodstuffs, a company publicly listed on the Main Board of the Shenzhen Stock Exchange since 2010.

Mr. Di Wang (王棣), aged 27, was appointed as our non-executive Director in November 2007. He is a son of Mr. Yong Wang. Mr. Wang has been serving as the head of branding of the Group since March 2010. Mr. Wang has been granted various awards and honors, including outstanding worker for enterprise education and training of Shandong Province in 2006, labour model of Binzhou city, labour model of Shandong Province and outstanding entrepreneur in food industry of Shandong Province. Mr. Wang is a director of Xiwang Sugar, a company publicly listed on the Main Board of the Hong Kong Stock Exchange since 2010. Mr. Wang is also a director of Xiwang Foodstuffs, a company publicly listed on the Main Board of the Shenzhen Stock Exchange since 2010.

(1) For identification purposes only.

Mr. Xinhu Sun (孫新虎), aged 36, was appointed as our non-executive Director in June 2011. He has been serving as vice general manager since he joined the Group in March 2003. Mr. Sun earned his master's degree in food science from Southern Yangtze University (江南大學) in July 2004 and bachelor's degree in food science from Shandong Polytechnic University (山東輕工業學院) in July 1997. Mr. Sun is a director of Xiwang Sugar, a company publicly listed on the Main Board of the Hong Kong Stock Exchange since 2008. Mr. Sun is also director and secretary of Xiwang Foodstuffs, a company publicly listed on the Main Board of the Shenzhen Stock Exchange since 2010.

Independent Non-Executive Directors

Mr. Shu Sun Sunny Leung (梁樹新), aged 48, is our independent non-executive Director. He is the Chairman of the Audit Committee and a member of the Nomination Committee and the Remuneration 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. From 2005 to 2007, he served as the financial controller, qualified accountant and company secretary of Xiwang Sugar Holdings Company Limited, the shares of which are listed on the Main Board of the Hong Kong Stock Exchange. 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. Gongxue Zhang (張公學), aged 46, is our independent non-executive Director. Mr. Zhang is currently the director of Tian Jian Attorneys-At-Law (天健律師事務所) in Shandong Province, PRC. Mr. Zhang has been practice law since 1994, and was awarded the title of excellent attorney of Binzhou City in 2008. He is an arbitrator on the Binzhou Arbitration Committee. Mr. Zhang earned his bachelor's degree in laws from East China Institute of Political Science and Law (華東政法學院) in July 2001.

Mr. Kou Yu (于叩), aged 63, is our independent non-executive Director. 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.

Our independent non-executive Directors provide advice to us on compliance, corporate governance, development and business strategies.

Save disclosed above, there are no other matters concerning all our Directors' appointment that need to be brought to the attention of our Shareholders and the Hong Kong Stock Exchange and there are no other matters which shall be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

SENIOR MANAGEMENT

Except as otherwise disclosed in this prospectus, none of the senior management have had directorships in listed companies within the past three years of the date of this prospectus. In addition, except as otherwise disclosed in this prospectus, none of the senior management, when joining the Group, have had relationships with our directors, senior management or substantial shareholders. The table below sets forth information regarding our senior management:

Name	Age	Position	Appointment Date
Liang Wang (王亮) . .	40	General Manager	June 2010
Baoming Wang (王保民)	58	Executive Vice President	July 2003
Tao Wang (王濤)	33	Vice President, Production Department	September 2003
Qingsheng Zhang (張慶生)	32	Vice President, Technical Department	October 2008
Kwokmo Chung (鍾國武)	42	Chief Financial Officer	September 2011
Honggang Wang (王宏剛)	32	Vice President, Purchasing Department	December 2004
Ming Dong (董明). . .	34	Vice President, Sales & Marketing Department	June 2004
Dong Wang (王棟) . .	42	Vice President, Quality Control and Maintenance Department	April 2007
Fusheng Zhao (趙福生)	47	Lead Engineer	August 2008

Mr. Baoming Wang (王保民), aged 58, was appointed as our executive vice president in July 2003. Mr. Wang assists the president of Xiwang Steel to oversee daily operations and is in charge of new projects and product management and development, the supervision of the respective departments within our Company and the management and implementation of our Company's workplace safety rules and policies. Mr. Wang joined Xiwang Steel on 13 July 2003. He earned his bachelor's degree from Shandong Institute of Mining and Technology (山東礦業學院) in July 1977.

Mr. Qingsheng Zhang (張慶生), aged 32, was appointed as the vice president of our technical department in November 2008. Mr. Zhang is responsible for the overall management and supervision for the technical support and issues related to our steel production process and the large bar rolling line project. Mr. Zhang has served as the vice president of Xiwang Special Steel since 2008. Since joining the Group on 1 August 2002, he has been working for Xiwang Sugar overseeing technical issues for its factories and was its vice president from 2005 to 2008. Mr. Zhang earned his bachelor's degree from Liaoning Shihua University (遼寧石油化工大學) in July 2002.

Mr. Kwokmo Chung(鍾國武), aged 42, was appointed as our chief financial officer in September 2011. Mr. Chung has been acting as an independent non-executive director of Zhengye International Holdings Company Limited (a company listed on the Hong Kong Stock Exchange and stock code: 3363) since March 2011. Before joining us, Mr. Chung was the chief financial officer of Xiwang Sugar (a company listed on the Hong Kong Stock Exchange and stock code: 2088) from May 2008 to August 2011. Mr. Chung has about 19 years of experience in auditing, financial management and corporate finance. Mr.

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

Mr. Honggang Wang (王宏剛), aged 32, was appointed as the vice president of our purchasing department in December 2004. Mr. Wang is responsible for the management and supervision of all purchasing related matters within our Company. Mr. Wang joined the Group on 1 July 2003. He earned his a bachelor's degree in finance from Tianjin University of Finance and Economics (天津財經大學) in July 2000.

Mr. Ming Dong (董明), aged 34, was appointed as the vice president of our sales and marketing department in June 2004. Mr. Dong is responsible for the planning and implementation of our sales and marketing initiatives and the supervision of our sales and marketing department. Mr. Dong joined the Group on 1 July 2004. Mr. Dong earned his master's degree in international economy and trade from Wuhan University of Technology (武漢理工大學) in June 2005 and his bachelor's degree in international finance from Wuhan University of Technology (武漢理工大學) in June 1999.

Mr. Dong Wang (王棟), aged 42, was appointed as the vice president of our quality control and maintenance department in June 2010. He is responsible for the managing and supervising quality control and operation maintenance for our operations. Mr. Wang joined the Group on 1 August 1989 and was the general manager of Xiwang Sugar from 2003 to 2010 prior to being appointed as the vice president of our quality control and maintenance department in 2010. Mr. Wang has received various honours, including "Outstanding Advocate of Production Safety" (安全生產先進個人) of Zouping County and "Outstanding Private Entrepreneur" (優秀民營企業家) of Binzhou City. Mr. Wang received a diploma from Huang Shan High School (黃山中學) in July 1987.

Mr. Fusheng Zhao (趙福生), aged 47, was appointed as our lead engineer in August 2008. He is responsible for the research, planning and implementation of all of production related technologies, and the supervision of our technical department. He assists the vice president of our technical department to manage and oversee daily operations. Mr. Zhao has 26 years' experience in the special steel industry and owns three patents in related field in China. Prior to joining the Group, he was the engineer at Xining Special Steel Co., Ltd. (西寧特殊鋼股份有限公司). Mr. Zhao earned his professional diploma in metallurgy with Shanxi Engineering Vocational College (山西冶金工業學院) in August 1985.

COMPANY SECRETARY

Ms. Wai Lin Lam (林惠蓮), aged 42, was appointed as the company secretary of our Company on 2 June 2011. Ms. Lam is a fellow member of the Association of Chartered Certified Accountants and an associate member of Hong Kong Institute of Certified Public Accountants. Ms. Lam has been serving as the company secretary and financial controller of Xiwang Sugar since 2007. She was the finance manager of a media company listed on the Main Board of the Hong Kong Stock Exchange from 2004 to 2007 and was an auditor in KPMG from 2000 to 2004. Ms. Lam earned her bachelor's degree in economics from University of London in August 1994.

Ms. Wai Lin Lam is employed on a full-time basis as required under Rule 3.24 of the Listing Rules and she is ordinarily resident in Hong Kong as required under Rule 8.17 of the Listing Rules.

REMUNERATION POLICY

Our policy concerning remuneration of the executive Directors is that the amount of remuneration is determined on the basis of the relevant executive Director's experience, responsibility, workload and the time devoted to us.

Each of the executive Directors have entered into a service contract with the Company for a fixed term of three years commencing from 1 June 2011 unless terminated by either party by giving to the other not less than three months' prior written notice. Each of the executive Directors will receive a salary which shall be subject to an annual review. Particulars of the terms of the above service contracts are set forth under the heading "C. Further information about the Directors" in Appendix VI to this prospectus.

RELATIONSHIP WITH STAFF

We have not experienced any significant problems with our employees or disruption to our operations due to labour disputes nor have we experienced any difficulty in the recruitment and retention of suitable employees. Our Directors believe that we have a good working relationship with our employees.

BOARD COMMITTEES

We have established the following board committees in compliance with the corporate governance requirements under the Listing Rules, including the new rules and provisions which became effective on 1 January 2012 and those which will become effective on 1 April 2012 under the Listing Rules and the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules.

Audit Committee

We established an audit committee pursuant to a resolution of our Directors passed on 30 January 2012. The primary duties of the audit committee are mainly to make recommendation to the Board on the appointment and removal of external auditor; review the financial statements and material advice in respect of financial reporting; oversight of internal control procedures of our Company. The audit committee consists of three members who are Shu Sun Sunny Leung, Xinhu Sun and Gongxue Zhang. Shu Sun Sunny Leung is the chairman of the audit committee.

Remuneration Committee

We established a remuneration committee pursuant to a resolution of our Directors passed on 30 January 2012. The primary duties of the remuneration committee to make recommendation to the Board with respect to our remuneration policies and structure relating to all Directors and senior management of our Group; review performance based remuneration; ensure none of our Directors determine their own remuneration. The remuneration committee consists of three members, namely Gongxue Zhang, Di Wang and Kou Yu. Gongxue Zhang is the chairman of the remuneration committee.

Nomination Committee

We established a nomination committee pursuant to a resolution of our Directors passed on 30 January 2012. The primary duties of the nomination committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board. The nomination committee consists of three members, comprising Gongxue Zhang, Di Wang and Kou Yu. The chairman of the nomination committee is Gongxue Zhang.

COMPLIANCE ADVISER

We have appointed Guangdong Securities Limited as our compliance adviser upon the Listing in compliance with Rule 3A.19 of the Listing Rules.

We have entered into a compliance adviser agreement with Guangdong Securities Limited prior to the Listing. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us on the following matters:

- the publication of any regulatory announcement (whether required by the Listing Rules or requested by the Hong Kong Stock Exchange or otherwise), circular or financial report;
- whether a transaction, which might be a notifiable or connected transaction under Chapters 14 or 14A of the Listing Rules, is contemplated, including share issues and share repurchases;
- where we propose to use the net proceeds to us from the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and
- where the Hong Kong Stock Exchange makes an inquiry of us in accordance with Rule 13.10 of the Listing Rules regarding unusual movements in the price or trading volume of the Shares.

The material terms of the expected compliance adviser agreement are as follows:

(a) the term of appointment of the compliance adviser shall commence on the Listing Date and end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date, or until the agreement is terminated, whichever is earlier;

(b) the compliance adviser shall provide us with services, including guidance and advice as to compliance with the requirements under the Listing Rules and other applicable laws, rules, codes and guidelines, and to act as one of our principal channels of communications with the Hong Kong Stock Exchange; and

(c) we may terminate the appointment of any compliance adviser if the compliance adviser's work is of an unacceptable standard or if there is a material dispute (which cannot be resolved in 30 days) over fees payable by us to the compliance adviser, as permitted by Rule 3A.26 of the Listing Rules.

OUR SUBSTANTIAL SHAREHOLDERS

So far as we are aware, immediately following the completion of the Global Offering (without taking into account the Shares which may be issued upon the exercise of the Over-allotment Option) and assuming that the obligations of the Underwriters to subscribe and/or purchase, and/or procure the subscription and/or purchases of, Shares under the Underwriting Agreements will terminate on the Listing Date and none of the Underwriters is required to subscribe and/or purchase, and/or procure the subscription and/or purchase of Shares thereunder on or prior to the Listing Date, the following persons will have interests or short positions in the Shares or underlying Shares of our Company which would fall to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be, directly and/or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name	Member of our Group	Nature of interest	Number of Shares held[1]	Approximate percentage of shareholding in the relevant corporation
Mr. Yong Wang and the Individual Investors[2] . . .	the Company	Interest in a controlled corporation	1,500,000,000 (L)	75%
Xiwang Holdings[3]	the Company	Interest in a controlled corporation	1,500,000,000 (L)	75%
Xiwang Investment[4]	the Company	Beneficial interest	1,500,000,000 (L)	75%

Notes:

(1) The letter "L" denotes the person's or corporation's long position in the Shares.

(2) Mr. Yong Wang, our Chairman, and the Individual Investors are the beneficial owners of 64.4% and 35.6% of the issued share capital of Xiwang Holdings, respectively. Mr. Yong Wang and the Individual Investors are deemed to be acting in concert in respect of their shareholding interests in Xiwang Holdings pursuant to a voting agreement dated 27 September 2011 and as supplemented by a supplemental voting agreement dated 7 February 2012. For further information regarding the said voting agreement, see "History, Reorganisation and Group Structure" to this prospectus. Xiwang Holdings in turn holds 100% of the issued share capital of Xiwang Investment and Mr. Yong Wang and the Individual Investors are therefore deemed to be interested in the number of Shares held by Xiwang Investment.

(3) 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 held by Xiwang Investment.

(4) Xiwang Investment will directly hold approximately 75% of the issued share capital of our Company after the completion of the Global Offering.

Save as disclosed above, we are not aware of any person who will, immediately following the completion of the Global Offering (without taking into account the Shares which may be issued upon the exercise of the Over-allotment Option), have an interest or a short position in the Shares or underlying Shares of our Company which would fall to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be, directly and/or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

AUTHORISED AND ISSUED SHARE CAPITAL

The authorised and issued share capital of our Company as of the date of this prospectus is as follows:

Number of Shares comprised in the authorised share capital		Authorised share capital: (HK$)
100,000,000,000	Shares	10,000,000,000.00

Assuming the Over-allotment Option is not exercised at all, our Company's issued share capital immediately following the Global Offering will be as follows:

Issued and to be issued, fully paid or credited as fully paid upon completion of the Global Offering		Issued share capital: (HK$)
1,600,000,000	Shares in issue as at the date of this prospectus	160,000,000.00
400,000,000	Shares to be issued pursuant to the Global Offering	40,000,000.00
2,000,000,000	Shares in total	200,000,000.00

Assuming the Over-allotment Option is exercised in full, our Company's issued share capital immediately following the Global Offering will be as follows:

Issued and to be issued, fully paid or credited as fully paid upon completion of the Global Offering		Issued share capital: (HK$)
1,600,000,000	Shares in issue as at the date of this prospectus	160,000,000.00
400,000,000	Shares to be issued pursuant to the Global Offering	40,000,000.00
75,000,000	Shares to be issued pursuant to the exercise of the Over-allotment Option	7,500,000.00
2,075,000,000	Shares in total	207,500,000.00

ASSUMPTIONS

The table above assumes that the Global Offering becomes unconditional and the issue of Shares pursuant to the Global Offering is made. It does not take into account the Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be issued or repurchased by our Company pursuant to the general mandates given to the Directors to issue or repurchase Shares as described below.

RANKING

The Shares, including the Shares to be issued pursuant to the exercise of the Over-allotment Option, will be Shares in the share capital of our Company and will rank equally with all Shares currently in issue or to be issued as mentioned in this prospectus and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus.

GENERAL MANDATE TO ISSUE SHARES

Conditional on the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares (otherwise than pursuant to, or in consequence of, the Global Offering, a rights issue or any scrip dividend scheme or similar arrangements, or any adjustment of rights to subscribe for Shares under options and warrants or a special authority granted by our Shareholders) with an aggregate nominal value of not more than the sum of:

- 20% of the aggregate nominal value of the share capital of our Company in issue immediately after completion of the Global Offering (without taking into account the Shares which may be issued upon the exercise of the Over-allotment Option); and
- the aggregate nominal value of the share capital of our Company repurchased by our Company (if any) under the general mandate to repurchase Shares referred to below.

This general mandate to issue Shares will remain in effect until:

- the conclusion of our Company's next annual general meeting;
- the expiration of the period within which our Company's next annual general meeting is required to be held by any applicable law or our Articles of Association to be held; or
- it is varied or revoked by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

GENERAL MANDATE TO REPURCHASE SHARES

Conditional on the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all powers of our Company to purchase Shares with a total nominal amount of not more than 10% of the aggregate nominal amount of our Company's share capital in issue immediately after completion of the Global Offering (without taking into account the Shares which may be issued upon the exercise of the Over-allotment Option).

This repurchase mandate only relates to repurchases made on the Hong Kong Stock Exchange, or on any other stock exchange on which the Shares are listed and recognised by the SFC and the Hong Kong Stock Exchange for this purpose, and made in accordance with all applicable laws and the requirements of the Listing Rules. A summary of the relevant terms of the repurchase mandate is set out in the paragraphs headed "A. Further Information about our Company – 4. Written resolutions of our Shareholder passed on 30 January 2012" and "A. Further Information about our Company – 6. Repurchase by our Company of our Shares" in Appendix VI to this prospectus.

The general mandate to repurchase Shares will remain in effect until the earliest of:

- the conclusion of our Company's next annual general meeting;
- the expiration of the period within which our Company's next annual general meeting is required by any applicable law or our Articles of Association to be held; or
- it is varied or revoked by an ordinary resolution of our Company's Shareholders in general meeting.

You should read the following discussion and analysis of our Group's financial condition and results of operations together with our consolidated financial statements as of and for each of the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011 and the accompanying notes included in the accountants' report set out in Appendix I to this prospectus. The accountants' report has been prepared in accordance with HKFRSs. Potential investors should read the whole of the accountants' report set out in Appendix I to this prospectus and not rely merely on the information contained in this section. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, see "Risk Factors" in this prospectus.

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

A reorganisation has been undertaken in preparation for the Global Offering. See "History, Reorganisation and Group Structure" in this prospectus. The companies now comprising the Group were under the common control of the controlling shareholders before and after the reorganisation. Therefore, our financial statements set forth in this prospectus and "Appendix I — Accountants' Report" to this prospectus were prepared under the principle of merger accounting.

The consolidated income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011 include the results, changes in equity and cash flows of all companies comprising the Group as if the current group structure had been in existence since 1 January 2008, or since the respective dates of incorporation or establishment of the companies now comprising our Group, whichever is later. See Note 2.1 "Basis of Presentation" to the Accountants' Report set out in Appendix I to this prospectus for further descriptions of such basis. The consolidated statements of financial position of our Group as at 31 December 2008, 2009 and 2010 and 30 September 2011 have been prepared to present the assets and liabilities of the subsidiaries using the existing book values from the controlling shareholders' perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

Equity interests in companies comprising the Group, which are held by parties other than their respective controlling shareholders prior to the Reorganisation, are presented as non-controlling interests in equity in accordance with the principles of merger accounting.

All intra-group transactions and balances are eliminated on consolidation.

OVERVIEW

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

As an EAF-based integrated steel manufacturer, we operate an integrated production process from steel smelting to secondary metallurgy, continuous casting and steel rolling. Since the commencement of our EAF operation, we have been able to manufacture both ordinary and special steel, which has significantly reduced our reliance upon third parties for the supply of ordinary steel billets. Ordinary steel billets are raw material critical to our rolling production of our ordinary steel products. As of 30 September 2011, we had an aggregate designed annual EAFs smelting capacity of approximately 1.0 million tonnes, and an aggregate designed annual rolling capacity of 1.6 million tonnes. We have been focusing on enhancing the operating efficiency of our EAFs and rolling production lines through constant technical improvements. As a result, our EAFs and rolling lines were generally operated at more than 100% of their utilization rate as of the Latest Practicable Date, which has reduced our unit production cost.

During the Track Record Period, we have derived the majority of our revenue from selling our steel products to customers, primarily distributors, based in Shandong Province. We typically require most of our customers to pay the full purchase price for our products in advance while at the same time, we typically make prepayments to our suppliers for some of our raw materials, such as steel billets, molten iron and pig iron, which accounted for a majority of our cost of sales during the Track Record Period. During the Track Record Period, we were able to finance a portion of our working capital including our prepayments to our suppliers, from the proceeds of advance payments made by our customers.

While the steel industry in China is very competitive, we achieved significant revenue and earnings growth and improved our profitability during the Track Record Period. For the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, we had revenue of RMB3,858.3 million, RMB3,776.9 million, RMB5,387.3 million and RMB6,350.4 million, respectively, representing a compound annual growth rate, or CAGR, of 18.2% from 2008 to 2010. Our gross profit for the same periods were RMB125.6 million, RMB246.5 million, RMB601.0 million and RMB1,004.2 million, respectively, representing a CAGR of 118.7% from 2008 to 2010. Our gross profit margins increased from 3.3% in 2008 to 6.5% in 2009 to 11.2% in 2010 and to 15.8% for the nine months ended 30 September 2011. Our net profit for the same periods was RMB79.7 million, RMB198.9 million, RMB492.8 million and 701.8 million, respectively, representing a CAGR of 148.6% from 2008 to 2010. The net profit margin for the same period increased from 2.1% in 2008 to 5.3% in 2009 to 9.1% in 2010 and to 11.1% for the nine months ended 30 September 2011.

The key factors affecting our gross profit margins during the Track Record Period were the change of our product mix and improvement in our cost structure through the in-house production of steel billets. By increasing the proportion of high value-added products in the product mix, we were able to improve our profit margin. For example, the percentage of revenue generated by high margin wire rods increased from 22.6% in 2009 to 51.7% in 2010. The percentage of revenue generated by high margin special steel products increased from 7.8% in 2010 to 41.7% in the nine months ended 30 September 2011. In addition, with the commencement of operations of our first EAF in 2009 and second EAF in 2011, we were able to produce steel billets in-house, thus reducing our reliance on third parties for steel billet supply. By doing so, we were able to improve our unit cost of production.

Our Directors are of the view that, in this competitive industry where the prices of steel products may decrease, our customers may reduce their demand for our products or our customers may refuse to make prepayments, our net margin may be adversely affected by the occurrence of any of these factors. For more information, see "Risk Factors — Risks Relating to Our Business — Any decrease in the selling prices of our steel products may have a material adverse effect upon our profit margin" and "Risk Factors — Risks Relating to Our Business — Any change in the practice of advance payments from customers to us may adversely affect our financial position and our net profit margin." Given the intensity of competition in the steel industry, our Directors believe we need to continue to maintain and improve our cost efficiency, as well as continue to identify and develop high gross margin products, in order to maintain our profit margin.

FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, our gross profit margin was 3.3%, 6.5%, 11.2% and 15.8%, respectively, and our net profit margin was 2.1%, 5.3%, 9.1% and 11.1%, respectively. Our gross profit margin and net profit margin are subject to the impact of various factors.

Factors that affect our gross profit margin include:

- our product mix;
- improvement in unit cost of production through our in-house production of steel billets;
- fluctuations in the average selling prices of our products;
- the costs of our raw materials;
- increases in production volume;
- our operational efficiency and utilisation rates;
- changes in our electricity price; and
- intensity of competition.

Factors that affect our net profit margin include:

- advance from our customers;
- capitalised borrowing costs;
- interest free inter-company borrowings; and
- capital structure.

Factors Affecting Our Gross Profit Margin

Product mix

Our results of operations are affected by our ability to improve the mix of steel products that we sell to our customers. Before July 2009, we only produced rebars using our bar rolling lines. In July 2009, our wire rolling line commenced production of wire rods, which had higher average selling prices than rebars. As a result, we are capable of adjusting our product mix to benefit from market fluctuations and produce products commanding higher selling prices. In 2010, we began to produce special steel billets which we rolled into higher value-added products. We were able to meet the specification requirements from our customers and produce special steel products including quality carbon structural steel, alloy structural steel, bearing steel and steel welding wire.

In November 2011, our large bar rolling line for manufacturing large bars of bearing steel and gear steel commenced operations, which refers to the time we started to feed raw materials into the large bar rolling line and started to record production. We expect this line to commence commercial production in February 2012, which can further improve our product mix. Our Directors are unable to make an accurate prediction on the changes of our product mix as it is affected by the demand for each category of our products as well as the prices and margins of our products.

The following table sets forth, for each type of our products, the actual sales volume and average selling price for the Track Record Period. In 2009, the average selling prices decreased primarily due to the global financial crisis.

	Actual sales volume (tonnes)	Average selling price per tonne (RMB)
2008		
Ordinary Steel		
Rebars	984,000	3,835.1
Wire rods	–	–
Total Ordinary Steel	984,000	3,835.1
2009		
Ordinary Steel		
Rebars	967,978	2,982.4
Wire rods	260,709	3,269.5
Total Ordinary Steel	1,228,687	3,043.3
2010		
Ordinary Steel		
Rebars	623,443	3,438.8
Wire rods	734,792	3,789.6
Subtotal Ordinary Steel	1,358,235	3,628.6
Special Steel		
Quality carbon steel	90,123	3,604.6
Alloy structural steel	15,728	3,839.5
Bearing steel	438	4,474.9
Steel welding wire	8,452	3,884.1
Subtotal Special Steel	114,741	3,660.7
Total Steel	1,472,976	3,631.1
Nine months ended 30 September 2011		
Ordinary Steel		
Rebars	301,294	4,134.1
Wire rods	536,418	4,467.2
Subtotal Ordinary Steel	837,712	4,347.4
Special Steel		
Quality carbon steel	513,192	4,497.8
Alloy structural steel	25,317	4,611.4
Bearing steel	41,926	4,914.9
Steel welding wire	3,881	4,449.9
Subtotal Special Steel	584,316	4,532.3
Total Steel	1,422,028	4,423.4

Note:

(1) Average selling prices are calculated by dividing total revenue by sales volume for each category of products for the respective period.

Improvement in unit cost of production through our in-house production of steel billets

We began our production of steel billets with the commencement of operation of the first EAF in 2009 and the second EAF in 2011. As a result of the commencement of commercial production of our own steel billets, we were able to improve our unit cost of production by (i) increasing the proportion of steel billets produced internally, thereby reducing our reliance on third-party suppliers to supply us with steel billets, and (ii) moving to the upstream of the production process, and thereby reduce our cost of production. For example, while the price of steel billets purchased from third-party suppliers increased by approximately 16.9% from 2009 to 2010, the unit production cost of wire rods only increased by approximately 9.9%. Therefore, through our in-house production of steel billets, we were able to minimize our exposure to fluctuations in steel billet prices. Our Directors are unable to make an accurate prediction on the change in the percentage of in-house steel billet production as it may be affected by the overall market environment, such as the price of steel billets procured from third-party suppliers. For more information regarding cost of raw materials, see "Risk Factors — Risks Relating to Our Business — We may have difficulty managing our future growth" and "— Principal Components of Consolidated Income Statement — Cost of sales and operating expenses."

Fluctuations in the average selling prices of our products

Currently, we sell all our steel products in the domestic Chinese market, and our results of operations are directly affected by market prices for our steel products in China. Prices for steel products are influenced by the supply and demand for steel. As is typical of commodity prices, steel prices fluctuate materially over a period of time. We started to manufacture and sell special steel products with higher margin and less price fluctuation in 2010. The following table sets forth the average selling prices for our steel products for the Track Record Period. Average selling prices are calculated by dividing total revenue by sales volume for each category of products for the period.

	Year ended 31 December			Nine months ended 30 September
	2008	2009	2010	2011
	(RMB per tonne)			
Ordinary Steel				
Rebars	3,835	2,982	3,439	4,134
Wire rods	–	3,269	3,790	4,467
Average selling price of Ordinary Steel	3,835	3,043	3,629	4,347
Special Steel				
Quality carbon structural steel	–	–	3,605	4,498
Alloy structural steel	–	–	3,839	4,611
Bearing steel	–	–	4,475	4,915
Steel welding wire	–	–	3,884	4,450
Average selling price of Special Steel	–	–	3,661	4,532
Overall Average Selling Price	**3,835**	**3,043**	**3,631**	**4,423**

Our average selling prices have fluctuated in recent years mainly due to market forces, including the financial crisis of 2009 and the overall supply and demand of steel products in China. Overall average selling prices decreased from RMB3,835 per tonne in 2008 to RMB3,043 per tonne in 2009. This decrease was primarily due to the global financial crisis. Our average selling price of ordinary steel increased to RMB3,629 per tonne in 2010 and RMB4,347 per tonne for the nine months ended 30 September 2011 due to the economic recovery and an increase in steel demand from China's rapid economic development. We also sold special steel products with a higher average selling price than ordinary steel products in 2010 and the nine months ended 30 September 2011. Our total steel average selling price in 2010 and the nine months ended 30 September 2011 was RMB3,631 per tonne and RMB4,423 per tonne, respectively.

The decrease in our average selling prices has significant adverse impact on our gross profit margin. However, we believe that we would still remain profitable with a gross profit margin of approximately 1% even if the overall average selling prices had decreased by 10% in 2010, assuming other factors affecting our gross profit margin remain unchanged.

Changes in selling prices are normally in line with changes in raw material prices. In general, the selling prices decrease due to weaker market demand for steel products, which we believe will eventually lead to weaker demand for raw materials and, thereby, decreases in raw material prices after a short elapse of time. Decreases in raw material prices will lead to reduction to our steel production cost. Our margins will be negatively affected by decrease in selling prices, which we believe, however, may be offset, in part or in whole, by decrease in production cost. For example, if both overall average selling prices and raw material prices had decreased by 50% in 2010, we believe we would still maintain a gross profit margin of at least 6% in 2010. As the selling prices are subject to changing market conditions, our Directors are unable to accurately estimate a baseline case for change in the overall average selling price to perform analysis of the impact on our gross profit margin. In addition, as we typically adjust our selling prices based on the market demand and the change in raw material prices which are both subject to the overall market environment, it is difficult for our Directors to make accurate prediction regarding the change of our average selling price.

Cost of our raw materials

Our raw material costs comprise a significant portion of our cost of sales. In 2008, 2009 and 2010 and the nine months ended 30 September 2011, our raw material costs were RMB3,658.6 million, RMB3,433.1 million, RMB4,473.6 million and RMB4,983.1 million, representing 98.0%, 97.2%, 93.5% and 93.2% of our cost of sales, respectively. Our raw material costs have fluctuated historically due to fluctuation of the market prices for the raw materials and changes in our production requirements. Our key raw materials consist of steel billets, steel scraps, molten iron and pig iron. Market prices for key raw materials typically follow the movement of steel prices. The changes in our production requirements of raw materials are due to an increase in the output of our steel products in connection with the commencement of our EAF operations.

During the Track Record Period, our principal raw material was steel billets, which represented 96.8%, 92.1%, 61.0% and 40.8% of our total costs of raw materials in 2008, 2009, 2010 and the nine months ended 30 September 2011, respectively. As we began producing our own steel billets after the commencement of operations of our first EAF, we required an increasing amount of steel scraps, molten iron and pig iron. As a result, our cost of steel billets decreased by 13.7% from 2009 to 2010, while the cost of steel scraps, molten iron and pig iron increased by 893.2% over the same period. Our cost of all raw materials per tonne in 2008, 2009, 2010 and the nine months ended 30 September 2011 was RMB3,718, RMB2,794, RMB3,037 and RMB3,504, respectively.

Although any increase in raw material prices may have adverse effect to our profit margin, we believe that we would still achieve profitability even if the raw material prices had increased by 10% in 2010. Even if the costs of raw materials had increased by 10% in 2010, we believe we would still maintain a gross profit margin of approximately 3% in 2010. As raw material prices are subject to the changing market environment, our Directors are unable to make accurate prediction regarding the changes in our cost of raw materials.

Increases in production volume

In order to capture demand for our products, we have increased our production volume by expanding our production capacity. For the Track Record Period, our designed annual steel rolling capacity was approximately 1.0 million tonnes, 1.6 million tonnes, 1.6 million tonnes and 1.6 million tonnes in 2008, 2009, 2010 and the nine months ended 30 September 2011, respectively. We also commenced the commercial production of our first and second EAFs, each with a designed annual production capacity of approximately 500,000 tonnes, in January 2010 and April 2011, respectively. We experienced an increase in sales revenue following the increase in our production volume during the Track Record Period. Our steel sales volume increased from 984,000 tonnes in 2008 to 1,228,687 tonnes in 2009, and to 1,472,976 tonnes in 2010. As a result, we increased our steel sales revenue from RMB3,773.7 million in 2008 to RMB5,348.5 million in 2010, representing a CAGR of 19.1%. Our steel sales volume increased from 1,077,196 tonnes for the nine months ended 30 September 2010 to 1,422,028 tonnes for the nine months ended 30 September 2011. We believe the constraint on our ability to increase sales of our steel products has generally been our ability to supply steel products rather than lack of customer demand.

We expect to start manufacturing large bars of gear steel after our large bar rolling line commences commercial production in May 2012. Our large bar rolling line is expected to commence commercial productions in February 2012, which will increase our designed rolling capacity of approximately 2.1 million tonnes of steel products per year. We expect that our sales revenue will continue to increase.

However, we expect that the impact of any change in production volume on our gross profit margin will be limited. Because both revenue and cost of production are expected to continue to change in the same direction as production volume changes, we expect any increase or decrease of revenue attributable to changes in production volume will be offset, in part or in whole, by the corresponding changes in cost of production. Accordingly, we believe that, if the production volume in 2010 had decreased by 10%, the gross profit in 2010 would decrease by about 10% while still maintaining a gross profit margin of approximately 11% in 2010. As we need to adjust our production volume based upon the change of market conditions, including changes in supply and demand, our Directors are unable to make an accurate estimation of a baseline case to perform analysis of the impact on our gross profit margin.

Operational efficiency and capacity utilisation rates

Higher utilisation rate can improve our gross margin by decreasing the average unit cost of production. Our operational efficiency is largely driven by the capacity utilisation rates of our production lines. If our utilisation rates increase, we can allocate our fixed costs over greater units of output, which generally decreases our average costs per unit of output. As a result, changes in our production capacity utilisation rates may have material effect to our margins. As the change in operational efficiency may affect the economy of scales and allocation of fixed costs, the change in unit production costs is the best variable for the purpose of performing sensitivity analysis on change in operational efficiency.

However, as we expect the majority of the production costs will continue to be attributable to cost of raw materials which is not expected to be affected by our internal operational efficiency, we expect that the impact of changes in operational efficiency on our production cost per unit will be limited. If the production costs per unit in 2010 had increased by 1%, our gross profit would decrease by approximately 8% while still maintaining a gross profit margin of approximately 10%. We believe that as the production cost varies based upon the production volume, which is subject to the change in the prevailing market conditions, our Directors are unable to accurately estimate a baseline case for change in production volume to perform analysis. In addition, as our operational efficiency may be affected by the work efficiency of future production lines and execution capability of our employees, our Directors are not able to make an accurate prediction on the change in operational efficiency.

We have been able to run at high utilisation rates in the Track Record Period. The following table sets forth our effective utilisation rates for each of our lines.

	Year ended 31 December			Nine months ended 30 September
	2008	**2009**	**2010**	**2011**
EAF I	–	54.0%	117.2%	132.5%
EAF II	–	–	–	112.1%
Wire	–	93.3%	125.2%	125.0%
Bar I	90.5%	96.7%	90.7%	112.5%
Bar II	106.3%	106.7%	82.2%	102.2%

Note:

(1) Utilisation rate equals actual production volume divided by effective capacity times 100%. Effective capacity is calculated based on the designed annual capacity divided by 12 and multiplied by the number of months that such production line had been in normal operation during the year. "Normal operation" refers to a status of operation that excludes either: (i) the monthly production is less than 5% of the designed capacity of the line during trial production, or (ii) such production line is under the process of technical upgrading with monthly production mostly less than 5% of its designed capacity. Designed capacity for the nine months ended 30 September 2011 was annualised.

We are committed to improving the operating efficiency of our EAFs in order to produce a larger volume of steel billets in-house to satisfy the increasing needs for steel billets, resulting from the growth in our rolling capacity. We have engaged BSE, a German consulting company affiliated to Badische Stahlwerke GmbH ("BSW"), which is known for its expertise in improving EAF operating efficiency and productivity, to help us achieve this goal. With the technical support from BSE, we were able to achieve the utilisation rate of more than 100% for both of our EAFs for the nine months ended 30 September 2011.

We have reduced our per batch smelting cycle from 75 minutes to approximately 70 minutes, and effectively increased our EAF production from the designed capacity of 80 tonnes per batch to the actual output of 95 tonnes per batch. We have also increased the EAF annual operating days from 300 days to 310 days. These factors have enabled us to operate our EAFs at more than 100% utilisation rate as compared to its annual designed capacity. The increase in our EAF utilisation rate has effectively reduced our unit production cost.

We have also been able to shorten the ramp-up period of our production lines. The time between commencement of operations and commencement of commercial production decreased from seven months for our first bar rolling line to three months for our second bar rolling line. The time between commencement of operations and commencement of commercial production decreased from four months for our first EAF to three months for our second EAF. We have also entered into a cooperation agreement with BSE, a German consulting company affiliated to BSW which is known for high operational efficiency and productivity in EAF techology. BSE provides on-site technical assistance and coaching, as well as training select personnel at their facilities in Germany, to help increase our EAF production efficiency.

Changes in our electricity price

After the commencement of operations of our first EAF in 2009 and the second EAF in 2011, we consumed a significant amount of electricity for our operations. During the Track Record Period, our electricity consumption increased substantially in connection with the commencement of operations of our two EAFs. During the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, respectively, our electricity cost amounted to RMB22.7 million, RMB39.2 million, RMB180.7 million and RMB203.3 million, accounting for 0.6%, 1.1%, 3.8% and 3.8% of our total cost of sales. Changes in the electricity cost may affect our financial condition and result of operations. As a large-scale industrial electricity user in Binzhou City, Shandong Province, we currently obtain electricity supplied by State Grid (國家電網) at a favourable price of approximately RMB0.56 per Kwh, which may be subject to further adjustments made by the competent price administration authority, pursuant to a five-year electricity supply contract with Binzhou Electricity Supply Company. For more information regarding cost of electricity, see “Risk Factors — Risks Relating to Our Business — Any increase in our electricity cost and/or transportation cost may adversely affect our profit margin and other financial results” and “ — Principal Components of Consolidated Income Statement — Cost of sales and operating expenses.”

There is no assurance that the agreement will not be early terminated or that we will be able to renew the agreement upon expiration. If the supply contract is terminated early or not renewed upon its expiration, we may have to obtain electricity supply from other suppliers at a higher price per unit, which may increase our electricity cost as a percentage of our total cost of sales. Any increase in our electricity cost will adversely affect our gross profit margin, but we expect the impact would be limited. For example, if we had to pay electricity at RMB0.69 per Kwh, the higher end of the rate range, our gross profits would reduce by RMB19.7 million, RMB29.7 million, RMB74.1 million and RMB96.0 million for the years ended December 31 2008, 2009 and 2010, and the nine months ended 30 September 2011, respectively.

Our Directors believe that as the electricity contract is legally binding, and to the best knowledge of the management, there are no factors that may lead to either party to breach the contract, it is reasonable to believe that we are able to purchase electricity at the current favourable price during the term of the contract.

Intensity of competition

The change in selling prices is based on the overall market condition we face. If the intensity of competition in the nearby markets increases, our sales volume and selling prices may be adversely affected. Although increased competition may lead to decrease in sales volume and average selling prices, we believe we would still be profitable even if both the sales volume and the average selling prices had decreased by 10% in 2010. Even if both the average selling price and sales volume had decreased by 10% due to increased competition, we believe we would still maintain a gross profit margin of approximately 1% in 2010. As the intensity of competition is based upon the change of market conditions, including changes in supply and demand, our Directors are unable to make an accurate estimation of a baseline case to perform analysis of the impact of change in competition on our gross profit margin. While our Directors are optimistic about the competitiveness of our products, the intensity of the competition in China's steel markets may be affected by a number of factors which are beyond our control.

Factors Affecting Our Net Profit Margin

Advance from our customers

Advance payments from customers contributed to our cash flow and reduced our need for bank borrowings for working capital requirements, which reduced our finance costs and had a positive impact on our net profit margin. If industry practice, however, shifts away from customers making advance payments, we may need to fund our working capital needs with bank or other borrowings, which will increase the finance costs and adversely affect our net profit margin. For example, if we had not received any advance from our customers in 2010, we would incur additional finance costs which amount to approximately RMB10.3 million, and our net profit would decrease by approximately 2% while still maintaining a net profit margin of approximately 9%.

Our Directors are of the view that, requesting advances from customers is a common practice in China's steel industry, and it is difficult to predict the factors that may affect this practice. However, even if the practice changes that the customers are no longer required to make advances, we will still remain profitable.

Capitalised borrowing costs

For the years ended 31 December 2008, 2009 and 2010, and the nine months ended 30 September 2011, respectively, our total interest expense was RMB41.0 million, RMB40.7 million, RMB42.2 million and RMB80.2 million, of which, RMB9.8 million, RMB27.3 million, RMB17.4 million and RMB31.2 million were capitalised as part of the construction costs of our long-term assets. As these capitalised borrowing costs were not expensed in the period in which they were incurred, they were excluded from the calculation of our net profit of the relevant periods. After the completion of the construction of the underlying assets, the interest expense of the outstanding borrowings can no longer be capitalised. Therefore, if we are not able to capitalise these interest expenses due to the completion of the underlying construction, our finance costs will increase, which will adversely affect our net profits and net profit margin. For example, if we had failed to capitalise these interest expenses in 2010, our net profit would decrease by approximately 3% while still maintaining a net profit margin of approximately 9%.

As the capitalised portion of interest expenses may be affected by the conditions of the commercial loans we may obtain and the progress of the underlying construction projects, it is difficult for our Directors to make accurate predictions on the changes in our capitalised portion of interest expenses.

Interest free inter-company borrowings

We received interest-free inter-company borrowings from Xiwang Investment, the outstanding amounts of which were RMB108.4 million, RMB120.6 million, RMB132.3 million and zero, as at 31 December 2008, 2009 and 2010, and 30 September 2011, respectively. If we had borrowed it from banks at the respective effective interest rate in 2010, our finance costs would increase to approximately RMB9.8 million, and our net profit in 2010 would decrease by approximately 2% while still maintaining a net profit margin of approximately 9%. Our Directors are of the view that, as of 30 September 2011, we have already cleared all amounts due to the related companies and do not intend to obtain new borrowings from the related parties. As such, the inter-company borrowings will not affect our financial performance going forward.

Capital structure

We have a relatively small equity base since we relied heavily on the inter-company loans in our early stage of development. During our early stage of development, the sales were small. It was difficult for us to acquire funding from banks independently. While the capital expense requirement was quite high, the inter-company loans were important source of funding, which was generally interest-free. However, as we expanded during the Track Record Period, we were able to finance portion of our capital needs through bank loans. As our capital structure may be affected by the conditions of the commercial loans we may obtain, including but not limited to the payment terms and loan size, it is difficult for the Directors to make accurate predictions on changes of capital structure.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Revenue recognition

We recognise revenue when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably: i.e., for 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; from the rendering of services, on the percentage of completion basis; interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; rental income, on a time proportion basis over the lease terms; and dividend income, when the shareholders' right to receive payment has been established. Our written agreements do not contain customary product warranties and do not include any post shipment obligations, any right of return or credit provisions.

A majority of the sales contracts provide that the customers take delivery of and inspect the products for acceptance. Most of our customers pay for their orders in advance. We fulfill our obligations when the customers take delivery of the products. In this contract, revenue is only recognized once acceptance from the customer is received. Our customers bear all costs of shipping and the risks associated with the loss or damage of the goods from the point of delivery.

Property, plant and equipment and depreciation

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

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

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

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

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. Our management carries out an inventory review and an aging analysis on a product-by-product basis at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production or trading. The evaluation takes into consideration a number of factors including historical and forecasted consumption of our raw materials, our sales contract of finished goods on hand, marketability of our inventories, anticipated change in market selling price, risk of obsolescence of our inventories due to changes in technology or developments to our product offerings, changes in governmental regulations over time and other factors.

We recognized an impairment of inventory of RMB4.0 million for 2008 and zero impairment of inventory for 2009, 2010 and the nine months ended 30 September 2011.

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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 the income statement.

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. When funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging between 6.8% and 9.7% has been applied to the expenditure on the individual assets during the Track Record Period.

RESULTS OF OPERATIONS

The following table sets forth a summary, for the periods indicated, of our consolidated results of operations. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

Consolidated income statements

	Year ended 31 December			Nine months ended 30 September	
	2008	2009	2010	2010	2011
				(unaudited)	
	(RMB in thousands)				
Revenue	3,858,329	3,776,933	5,387,340	3,836,630	6,350,387
Cost of sales	(3,732,691)	(3,530,462)	(4,786,344)	(3,443,552)	(5,346,154)
Gross profit	125,638	246,471	600,996	393,078	1,004,233
Other income and gains	23,782	23,701	45,066	31,210	11,144
Selling and distribution costs	(2,844)	(4,479)	(4,307)	(3,012)	(4,183)
Administration expenses	(9,089)	(13,753)	(19,469)	(14,019)	(40,439)
Other expenses	(927)	(422)	(1,053)	(983)	(230)
Finance costs	(31,178)	(13,342)	(24,814)	(16,704)	(48,930)
Profit before tax	105,382	238,176	596,419	389,570	921,595
Income tax expense	(25,661)	(39,282)	(103,611)	(65,025)	(219,842)
Profit for the year/period	79,721	198,894	492,808	324,545	701,753
Attributable to:					
Owners of the parent	43,469	194,096	492,808	324,545	701,753
Non-controlling interests	36,252	4,798	–	–	–
	79,721	198,894	492,808	324,545	701,753

PRINCIPAL COMPONENTS OF CONSOLIDATED INCOME STATEMENTS

Revenue

We derive revenue from sales of ordinary and special steel products. Our ordinary steel products include rebars and wire rods. Our special steel products include quality carbon structural steel, alloy structural steel, bearing steel and steel welding wire. We also derive revenue from the sale of by-products from our production process. We derived revenue from our metal construction services in 2008 and 2009. We sold this business in June 2009. In anticipation of the proposed listing of our steel manufacturing business, we decided to transfer any business not specifically relating to steel manufacturing out of Xiwang Metal. As such, we sold our metal construction business to Xiwang Steel Structure in June 2009 for a consideration of RMB26.1 million, which was determined based upon the carrying value of the net assets on the date of the transaction.

The following table sets out a breakdown of our revenues by category, with each expressed as a percentage of our total revenues, for the periods indicated:

	Year ended 31 December						Nine months ended 30 September			
	2008		2009		2010		2010		2011	
(in millions except percentages)	RMB	% of total revenue	RMB	% of total revenue	RMB	% of total revenue	RMB	% of total revenue	RMB	% of total revenue
Ordinary Steel	3,773.7	97.8%	3,739.3	99.0%	4,928.5	91.5%	3,571.4	93.1%	3,641.9	57.3%
Special Steel	–	–	–	–	420.0	7.8%	241.1	6.3%	2,648.3	41.7%
By-products and metal construction services	84.6	2.2%	37.6	1.0%	38.8	0.7%	24.1	0.6%	60.2	1.0%
Total revenues	3,858.3	100.0%	3,776.9	100.0%	5,387.3	100.0%	3,836.6	100.0%	6,350.4	100.0%

The demand for our ordinary steel products is lower in the winter, which results in lower prices, but this effect is partially offset by distributors increasing their purchase volume to take advantage of the price reduction. Our sales of special steel have not been materially affected by seasonality and we do not expect seasonality to have a material impact on our sales of special steel in the future.

Cost of sales and operating expenses

The following table sets forth our cost of sales and operating expenses as percentages of our total revenues for the periods indicated.

	Year ended 31 December			Nine months ended 30 September	
	2008	2009	2010	2010	2011
Cost of sales	96.7%	93.5%	88.8%	89.8%	84.2%
Operating expenses					
Selling and distribution costs	0.1%	0.1%	0.1%	0.1%	0.1%
Administrative expenses	0.2%	0.4%	0.4%	0.4%	0.6%
Other expenses	0.02%	0.01%	0.02%	0.03%	0.004%
Total operating expenses	0.3%	0.5%	0.5%	0.5%	0.7%

Cost of sales

Our cost of sales primarily consists of the cost of raw materials used in manufacturing, such as steel billets, steel scraps, molten iron and pig iron, electricity cost, depreciation and labour costs. Our cost of sales as a percentage of our total revenue decreased to 84.2% for the nine months ended 30 September 2011 from 88.8% in 2010, 93.5% in 2009 and 96.7% in 2008.

The table below sets forth a breakdown of our total cost of sales for the periods indicated.

	Year ended 31 December						Nine months ended 30 September			
	2008		2009		2010		2010		2011	
(in millions except for percentages)	RMB	% of total cost of sales	RMB	% of total cost of sales	RMB	% of total cost of sales	RMB	% of total costs of sales	RMB	% of total costs of sales
Raw materials	3,658.6	98.0%	3,433.1	97.2%	4,473.6	93.5%	3,210.1	93.2%	4,983.1	93.2%
Electricity	22.7	0.6%	39.2	1.1%	180.7	3.8%	127.5	3.7%	203.3	3.8%
Depreciation	15.3	0.4%	18.8	0.6%	75.3	1.6%	53.7	1.6%	80.2	1.5%
Labour Costs	20.6	0.6%	22.3	0.6%	49.7	1.0%	35.8	1.0%	63.7	1.2%
Others	8.0	0.2%	8.6	0.3%	7.0	0.1%	16.5	0.5%	15.9	0.3%
Subtotal of cost of sales of steel products	3,725.2	99.8%	3,522.0	99.8%	4,786.3	100.0%	3,443.6	100.0%	5,346.2	100.0%
Cost of sales of metal construction	7.5	0.2%	8.5	0.2%	–	–	–	–	–	–
Total cost of sales	3,732.7	100.0%	3,530.5	100.0%	4,786.3	100.0%	3,443.6	100.0%	5,346.2	100.0%

The table below sets forth the breakdown of our total cost of sales by product lines for the period indicated:

	Year ended 31 December						Nine months ended 30 September			
	2008		2009		2010		2010		2011	
(in millions except for percentages)	RMB	% of total cost of sales	RMB	% of total cost of sales	RMB	% of total cost of sales	RMB	% of total costs of sales	RMB	% of total costs of sales
Ordinary Steel										
Rebars	3,666.5	98.2%	2,752.5	78.0%	2,034.0	42.5%	1,507.3	43.8%	1,130.8	21.2%
Wire rods	–	–	755.8	21.4%	2,340.5	48.9%	1,691.3	49.1%	2,080.1	38.9%
Subtotal of cost of sales of ordinary steel	3,666.5	98.2%	3,508.3	99.4%	4,374.5	91.4%	3,198.6	92.9%	3,210.9	60.1%
Special Steel										
Quality carbon steel	–	–	–	–	307.9	6.4%	198.7	5.8%	1,853.0	34.7%
Alloy structural steel	–	–	–	–	56.3	1.2%	18.9	0.5%	91.1	1.7%
Bearing steel	–	–	–	–	1.9	0.0%	–	–	154.7	2.9%
Steel welding wire	–	–	–	–	26.5	0.6%	19.1	0.6%	13.8	0.2%
Subtotal of cost of sales of special steel	–	–	–	–	392.6	8.2%	236.7	6.9%	2,112.6	39.5%
Total of cost of sales of steel products	3,666.5	98.2%	3,508.3	99.4%	4,767.1	99.6%	3,435.3	99.8%	5,323.5	99.6%
Cost of sales of by-products	55.7	1.5%	17.4	0.5%	19.2	0.4%	8.3	0.2%	22.7	0.4%
Cost of sales of metal construction	10.5	0.3%	4.8	0.1%	–	–	–	–	–	–
Total cost of sales	3,732.7	100.0%	3,530.5	100.0%	4,786.3	100.0%	3,443.6	100.0%	5,346.2	100.0%

Raw materials

Raw materials accounted for 98.0%, 97.2%, 93.5% and 93.2% of our total cost of sales in 2008, 2009, 2010 and the nine months ended 30 September 2011, respectively. Before we commenced operations of our first EAF, our raw materials mainly consisted of ordinary steel billets. In 2009, we started to purchase steel scraps, molten iron and pig iron to produce steel billets through our EAFs. The table below sets forth a breakdown of the cost of our raw materials and as a percentage of our total cost of sales for the periods indicated.

	Year ended 31 December						Nine months ended 30 September			
	2008		2009		2010		2010		2011	
(in millions except percentages)	RMB	% of raw materials	RMB	% of raw materials	RMB	% of raw materials	RMB	% of raw materials	RMB	% of raw materials
Steel billets	3,542.6	96.8%	3,161.7	92.1%	2,730.0	61.0%	2,083.4	64.9%	2,033.4	40.8%
Steel scraps	–	–	98.6	2.9%	979.0	21.9%	583.1	18.2%	1,451.5	29.1%
Molten iron	–	–	40.7	1.2%	404.0	9.0%	236.6	7.4%	901.0	18.1%
Pig iron	–	–	17.2	0.5%	170.9	3.8%	92.5	2.9%	179.5	3.6%
Coal	88.7	2.4%	96.1	2.8%	124.0	2.8%	94.5	2.9%	140.5	2.8%
Ancillary materials	27.3	0.8%	18.8	0.5%	65.7	1.5%	120.0	3.7%	277.2	5.6%
Total	3,658.6	100.0%	3,433.1	100.0%	4,473.6	100.0%	3,210.1	100.0%	4,983.1	100.0%

The table below sets forth a breakdown of the average prices for our major raw materials for the periods indicated.

	Year ended 31 December			Nine months ended 30 September	
	2008	2009	2010	2010	2011
	(in RMB per tonne)				
Steel billets	3,818	2,639	3,038	2,844	3,540
Steel scraps	–	1,786	2,179	1,949	2,362
Molten iron	–	3,515	3,021	2,635	3,354
Pig iron	–	2,020	3,161	2,535	3,316

Electricity

The percentage of electricity in our total cost of sales accounted for 0.6%, 1.1%, 3.8% and 3.8% in 2008, 2009, 2010 and the nine months ended 30 September 2011, respectively. The significant increase from 2009 to 2010 was because we began to use EAFs near the end of 2009, which consumed a large amount of electricity.

Historically, we were able to purchase electricity from Zouping Power Supply Company (鄒平縣供電公司), a local electricity power company, at prices less than those charged to large scale industrial electricity users located in Binzhou City Shandong province. For instance, the average electricity price is RMB0.56 per Kwh for large-scale industrial electricity users like us located in Binzhou City as set by the Shandong government, which is at the lower end of the rate range of approximately RMB0.56 per Kwh to approximately RMB0.69 per Kwh, charged to large industry electricity users in Shandong Province during the Track Record Period. We, however, enjoyed preferential electricity prices per our electricity supply contracts with Zouping Power Supply Company (鄒平縣供電公司). Our average unit electricity cost was RMB0.37, RMB0.39, RMB0.49 and RMB0.47 per Kwh in 2008, 2009, 2010 and the nine months ended 30 September 2011, respectively.

In February 2011, we signed a five-year electricity supply contract with Binzhou Electricity Supply Company which is renewable upon mutual consent. Under this contract, we can purchase electricity supplied by State Grid (國家電網) at RMB0.56 per Kwh, the favourable price as set by the Shandong government for large-scale industrial electricity users located in Binzhou City, Shandong Province.

Depreciation

Depreciation accounted for 0.4%, 0.6%, 1.6% and 1.5% of our total cost of sales in 2008, 2009, 2010 and the nine months ended 30 September 2011, respectively. The significant increase in the proportion of depreciation as a component of total cost of sales in 2010 was mainly due to the construction of our first EAF and wire rolling line, the construction of which was completed in the second half of 2009. We anticipate our depreciation expenses will continue to increase with the commencement of operations of our second EAF and our large bar rolling line in 2011 and the expected commencement of operations of our high-duty alloy pipe production line in October 2013.

Labour

Labour accounted for 0.6%, 0.6%, 1.0% and 1.2% of our total cost of sales in 2008, 2009, 2010 and the nine months ended 30 September 2011, respectively. The increase in 2009 was mainly due to additional personnel we hired for our first EAF and wire rolling line and the increase in the proportion of labour as a component of total cost of sales in 2010 was primarily because of (i) the increase in number of people we hired for our first EAF and (ii) the increase in average salaries.

Others

Other resources used in our steel-making production process include water for industrial use, argon, nitrogen and oxygen. We purchase these resources from suppliers in close proximity to our facility.

Operating expenses

Our operating expenses consist of selling and distribution costs, administration expenses and other expenses. Our operating expenses as a percentage of our total revenue increased from 0.3% in 2008 to 0.5% in 2009 and in 2010. Our operating expenses as a percentage of our total revenue was 0.7% for the nine months ended 30 September 2011. The increase between 2008 and 2009 was mainly attributed to a 51.3% increase in administrative expenses, which was due to an increase in stamp duty, land use tax and other tax surcharges of RMB2.0 million and an increase in bank charges of RMB1.9 million.

Selling and distribution costs

Selling and distribution costs consist of salaries and welfares, travelling expenses, transportation, office expenses and others. Our salaries and welfares increased from RMB0.9 million in 2008 to RMB2.6 million in 2009 due to an expansion in our sales team for our new products and decreased to RMB2.4 million in 2010 because of the disposal of Shengtang Metal, partially offset by the increase in sales personnel salaries and welfares of Xiwang Recycling Resources. Our salaries and welfares amounted to RMB2.4 million for the nine months ended 30 September 2011. We expect our selling and distribution costs to increase due to increased salaries and welfare costs from the expansion of our business.

Administrative expenses

Administrative expenses consist of stamp duty, land use tax and other tax surcharges, salaries and allowance, social insurance, bank charges, depreciation and amortisation, office expense and others. Our stamp duty, land use tax and other tax surcharges increased from RMB3.4 million in 2008 to RMB5.4 million in 2009 and RMB7.7 million in 2010 due to (i) an increase in the stamp duty due to the increase in our contracts of purchasing and selling, and (ii) an increase in land use tax due to the enlarged land area occupied by us. Our stamp duty, land use and other tax surcharges were RMB10.7 million for the nine months ended 30 September 2011. Our salaries and allowance increased from RMB3.0 million in 2008 to RMB4.2 million in 2009 due to an increase in the number of employees in line with the addition of our new production lines and remained relatively constant at RMB4.3 million in 2010. Our salaries and allowance were RMB4.4 million for the nine months ended 30 September 2011. Depreciation and amortisation increased from RMB0.5 million in 2009 to RMB1.6 million in 2010 primarily due to the depreciation of our two new office buildings, the construction of which was completed in 2010. Depreciation and amortisation was RMB1.1 million for the nine months ended 30 September 2011. We expect our administrative expenses going forward to remain relatively stable.

Other expenses

Other expenses consist of loss on disposal of fixed assets, loss on disposal of a subsidiary and others.

Gross profit margin

For the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, our gross profit margin was 3.3%, 6.5%, 11.2% and 15.8%, respectively. The increases were primarily due to (i) changes in product offerings as we began to produce and sell wire rods in 2009 and special steel products in 2010, all of which had higher profit margin than that of rebars; (ii) the improvement of our cost structure by manufacturing a portion of our own steel billets for our wire and bar rolling lines with the commencement of operations of our first EAF in 2009 and our second EAF in 2011; and (iii) other factors affecting our gross profit margin, including increases in our average selling prices, decreases in raw material prices, reduced electricity prices, and the intensity of competition.

Product mix

In 2008, our only product was rebars which had a gross profit margin of 2.8%. In 2009, we improved our product mix by commencing productions and sales of wire rods, which had a gross profit margin of 11.3%. In 2010, we further increased sales of wire rods, which have a higher margin than that of rebars, from 22.6% of our total revenues in 2009 to 51.7% in 2010.

In addition, we commenced commercial production of special steel products in 2010. As our special steel production line was in the testing phase and the production capacity were not fully ramped up, the weighted average gross margin of special steel products in 2010 was only 6.5%, lower than that of wire rods, which was 15.9%. For the nine months ended 30 September 2011, as our special steel production line reached its full utilisation, which allowed us to enjoy economies of scale, and we started to produce higher value-added special steel products, the gross margin of special steel products increased substantially to 20.2% from 1.9% for the same period in 2010.

The table below sets forth the breakdown of our gross profit margin by product lines, with each expressed as a percentage of our total revenues, for the periods indicated:

	Year ended 31 December						Nine months ended 30 September			
	2008		2009		2010		2010		2011	
	% of total revenues	Gross profit margin	% of total revenues	Gross profit margin	% of total revenues	Gross profit margin	% of total revenues	Gross profit margin	% of total revenues	Gross profit margin
Ordinary Steel										
Rebars	97.8%	2.8%	76.4%	4.7%	39.8%	5.1%	41.5%	5.3%	19.6%	9.2%
Wire rods	–	–	22.6%	11.3%	51.7%	15.9%	51.6%	14.6%	37.7%	13.2%
Weighted average gross profit margin	**97.8%**	**2.8%**	**99.0%**	**6.2%**	**91.5%**	**11.2%**	**93.1%**	**10.4%**	**57.3%**	**11.8%**
Special Steel										
Quality carbon steel	–	–	–	–	6.1%	5.2%	5.2%	0.1%	36.4%	19.7%
Alloy structual steel	–	–	–	–	1.1%	6.7%	0.5%	0.4%	1.8%	22.0%
Bearing steel	–	–	–	–	0.0%	0.6%	0.0%	–	3.2%	24.9%
Steel welding wire	–	–	–	–	0.6%	19.4%	0.6%	18.2%	0.3%	20.3%
Weighted average gross profit margin	**–**	**–**	**–**	**–**	**7.8%**	**6.5%**	**6.3%**	**1.9%**	**41.7%**	**20.2%**
By-products	1.8%	19.7%	0.8%	40.0%	0.7%	50.4%	0.6%	65.4%	0.9%	62.2%
Metal construction services	0.4%	30.7%	0.2%	45.3%	–	–	–	–	–	–
Total gross profit margin	**100.0%**	**3.3%**	**100.0%**	**6.5%**	**100.0%**	**11.2%**	**100.0%**	**10.2%**	**100.0%**	**15.8%**

Improvement in cost structure through in-house production of steel billets

We have managed to improve our cost structure through in-house production of a portion of our steel billet requirement with the commencement of operations of the first EAF in 2009 and the second EAF in 2011, which has lowered our unit production cost. The table below sets forth the cost per tonne for steel billets produced in-house and the cost per tonne for steel billets purchased from third parties:

	Year ended 31 December						Nine months ended 30 September	
	2008		2009		2010		2011	
	Price per tonne (RMB)	% of total billets used	Price per tonne (RMB)	% of total billets used	Price per tonne (RMB)	% of total billets used	Price per tonne (RMB)	% of total billets used
Steel billets produced in-house	–	–	2,341	4.5%	2,818	39.2%	3,504	55.6%
Steel billets purchased from third parties	3,818	100.0%	2,780	95.5%	3,251	60.8%	3,824	44.4%

Through the in-house production of steel billets, we were able to lower the cost of production by moving to the upstream of the production process, and thus successfully reducing the average unit cost of production by approximately RMB400, or 10%, per tonne. As a result, the steel billet prices increased by approximately 15.1% from 2009 to 2010, while the unit production cost for wire rods only increased by approximately 9.9%. Through in-house production of steel billets, we were able to minimize our exposure to the fluctuations in raw materials prices. In line with the increase in raw material prices, the average selling prices of wire rods also increased by 15.9% from 2009 to 2010, and resulting in a margin expansion from 11.3% in 2009 to 15.9% in 2010. These are the key drivers for the increase of our overall gross profit margin from 3.3% in 2008 to 15.8% in the first nine month of 2011. We intend to continue to increase the proportion of steel billets produced in-house in order to sustain or improve our gross margins.

Other factors affecting our gross profit margin

Other factors affecting our gross profit margin include increases in our average selling prices, decreases in raw material prices, reduced electricity prices, and the intensity of competition. Increases in our average selling prices may lead to the increases in our revenue, and thereby increase our gross profit margin. For more information regarding our average selling prices, see “Risk Factors — Risks Relating to Our Business — Any decrease in the selling prices of our steel products may have a material adverse effect upon our profit margin” and “— Factors Affecting Our Financial Condition and Results of Operations — Factors Affecting Our Gross Profit Margin — Fluctuations in the average selling prices of our products.” Decreases in raw material prices may cause a decrease in our cost of sales, and thereby increase our gross profit margin. For more information, see “Risk Factors — Risks Relating to Our Business — Our profit margin and other financial results may be adversely affected by increases in the price of raw materials” and “— Factors Affecting Our Financial Condition and Results of Operations — Cost of our raw materials.” We currently enjoyed a reduced price of electricity. For more information, see “Risk Factors — Risks Relating to Our Business — Any increase in our electricity cost and/or transportation cost may adversely affect our profit margin and other financial results” and “ — Factors Affecting Our Financial Condition and Results of Operations — Changes in our electricity price.” The change in selling price is based on the overall market condition we faced. If the intensity of competition in the nearby markets increases, our sales volume and selling price may be affected.

Finance Costs

Our finance costs consist of interest on bank borrowings, interest payable to our former ultimate parent company, effective interest rate amortization for a loan from immediate holding company and interest on bills discounted less interest capitalised.

We had obtained interest-bearing borrowings from our former ultimate parent company, the outstanding amount of which was RMB291.7 million, RMB433.6 million, RMB558.8 million and zero as of 31 December 2008, 2009 and 2010 and 30 September 2011, respectively. We also had interest-free borrowings from our immediate holding company, the outstanding amount of which was RMB108.4 million, RMB120.6 million, RMB132.3 million and zero as of 31 December 2008, 2009 and 2010 and 30 September 2011, respectively. All outstanding balances due to the ultimate holding company were settled in May 2011. The outstanding amount due to Xiwang Investment was subsequently converted to an additional 1,599,999,990 shares of the Company pursuant to a debt settlement agreement entered into on 27 July 2011. The effective interest rate of our interest-bearing bank and other borrowings was 8.2%, 5.2%, 7.8% and 6.7% for the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, respectively, assuming we were required to pay interest expenses for inter-company borrowings at such effective interest rates, it would increase the finance cost to RMB8.9 million, RMB5.9 million, RMB9.8 million and RMB8.9 million for the same period, respectively. However, the increase in such finance costs had insignificant impact on our profitability during the Track Record Period. For more information regarding the inter-company borrowings, see "Risk Factors — Risks Relating to Our Business — We received interest-free inter-company borrowings from a related company during the Track Record Period, which contributed to our high net profit margin. We expect to borrow from banks rather than from related parties going forward, and our net profit margin may be adversely affected."

For the years ended 31 December 2008, 2009 and 2010, and the nine months ended 30 September 2011, our total interest expense was RMB41.0 million, RMB40.7 million, RMB42.2 million and 80.2 million, respectively, of which RMB9.8 million, RMB27.3 million, RMB17.4 million and RMB31.2 million were capitalised as part of the construction cost of our long-term asset. As these capitalised borrowing costs were not expensed in the period in which they were incurred, they were excluded from the calculation of our finance costs. For more information regarding the capitalised interests, see "Risk Factors — Risks Relating to Our Business — Our net profit margin may be adversely affected if we cannot capitalise our interest expenses."

Our finance costs as a percentage of our total revenues decreased from 0.8% in 2008 to 0.4% in 2009 and then increased to 0.5% in 2010. Our finance costs as a percentage of our total revenue further increased to 0.8% for the nine months ended 30 September 2011. The decrease between 2008 and 2009 was mainly attributed to an increase in interest capitalised due to the construction of the wire rolling line and the first EAF in 2009. The increase between 2009 and 2010 was mainly due to an increase in interest on bank borrowings, which was due to a decrease in capitalised interest as we completed the construction of the above two projects in 2010. The increase in our finance costs for the nine months ended 30 September 2011 was primarily due to the fact that we increased our long-term loans. This increase was partially offset by an increase in interest capitalised from the construction of the large bar production line and the construction of our second EAF that was completed in January 2011.

Taxation

We are subject to enterprise income tax in China. Income tax expenses represent PRC EIT payable and deferred tax by our PRC subsidiaries. The tax currently payable is based on the taxable profit for the relevant period. During the three years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, our effective tax rates were 24.4%, 16.5%, 17.4% and 23.9%, respectively. The effective tax rate in 2009 and 2010 was lower than the statutory tax rate of 25%, because one of the subsidiaries, Xiwang Metal, was exempted from enterprise income tax for its first two profit-making years (after deducting losses incurred in previous years) and was entitled to 50% tax deduction for the succeeding three years, starting from 1 January 2008. Xiwang Metal was entitled to an enterprise income tax exemption in 2009 and to a 50% tax reduction in 2010 and 2011.

The effective tax rate of the Group decreased from 24.4% in 2008 to 16.5% in 2009 primarily due to an increase in exempted taxable income. The percentage of income before tax of the Group contributed by Xiwang Metal significantly increased from 3.5% in 2008 to 50.2% in 2009. This increase was primarily due to the commencement of operations of the wire rolling line in July 2009. During the year ended 31 December 2008, Xiwang Metal was engaged in the steel structure construction business which only generated a net profit of RMB3.7 million. Xiwang Metal started to produce and sell wire rods in July 2009, which generated a net profit of RMB119.5 million for the year ended 31 December 2009. As Xiwang Metal was entitled to an enterprise tax exemption in both periods, our exempted taxable income increased.

The effective tax rate of the Group increased from 16.5% in 2009 to 17.4% in 2010 primarily due to increases in the tax rates applicable to our entities. In particular, Xiwang Metal was entitled to a 50% tax deduction in 2010 while enjoying a full enterprise income tax exemption in 2009.

The effective tax rate of the Group increased from 17.4% in 2010 to 23.9% for the nine months ended 30 September 2011 primarily due to the withholding taxes with an amount of RMB22.2 million was provided for the nine months ended 30 September 2011.

Pursuant to the New EIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in PRC. 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 the PRC and the jurisdiction of the foreign investors. For our Group, the applicable rate is 10%. Our Group is therefore liable for withholding taxes on dividend distributed by our subsidiaries and associate established in the PRC in respect of earnings generated from 1 January 2008.

As our Group does not intend to distribute any dividend for the years ended 31 December 2008, 2009 and 2010, no withholding taxes were provided thereof. While we expect our dividend for the year 2011 to be declared and paid after the completion of the Global Offering in a total amount of approximately 30% of our net profit for the year ended 31 December 2011, withholding taxes in respect of 30% of our net profit for the nine months ended 30 September 2011 were recognised.

Effective on 1 January 2008, in accordance with relevant PRC tax laws, the PRC EIT rate applicable to our subsidiaries incorporated in the PRC was 25% for those with original applicable EIT rates higher than 25%, or gradually increased to 25% in a five-year transition period from 2008 to 2012 for those with original applicable EIT rates lower than 25%. However, our subsidiaries will continue to enjoy any existing tax preferential treatment up to the end of tax concession period, after which the 25% standard rate will apply.

According to the confirmation letters issued by the Shandong Zouping State Tax Bureau Handian Branch (山東省鄒平縣國家税務局韓店税務分局), Shandong Zouping State Tax Bureau Kaifaqu Branch (山東省鄒平縣國家税務局開發區税務分局) and Shandong Zouping Local Tax Bureau Handian Branch (山東省鄒平縣地方税務局韓店徵收分局) on 17 May 2011, our subsidiaries in PRC complied with the provisions in China's state and local tax laws, regulations and normative documents in the aspect of tax category, tax rate and tax preference, and had paid taxes timely to competent tax authorities in compliance with the PRC law. As the day of issuance of the confirmation letters, we had not been found any default, leakage or evade taxes, or any other situations of violating tax laws, regulations and normative documents, and also had not been punished by the tax authorities due to tax issues, or raise tax disputes with the tax authorities. Our PRC legal advisers have advised us that the Shandong Zouping State Tax Bureau Handian Branch (山東省鄒平縣國家税務局韓店税務分局), Shandong Zouping State Tax Bureau Kaifaqu Branch (山東省鄒平縣國家税務局開發區税務分局) and Shandong Zouping Local Tax Bureau Handian Branch (山東省鄒平縣地方税務局韓店徵收分局) are the competent authorities to issue such confirmation letters.

The table below sets forth our income tax expenses for the periods indicated.

	Year ended 31 December			Nine months ended 30 September	
	2008	2009	2010	2010	2011
				(unaudited)	
			(RMB in thousands)		
Current —					
Mainland China					
Charge for the year/period	26,662	38,281	103,611	66,857	199,406
Deferred	(1,001)	1,001	–	(1,832)	20,436
Total tax charge for the year	25,661	39,282	103,611	65,025	219,842

PERIOD TO PERIOD COMPARISONS OF RESULTS OF OPERATIONS

Nine months ended 30 September 2011 compared to nine months ended 30 September 2010

Revenue. Our revenue increased by 65.5% from RMB3,836.6 million for the nine months ended 30 September 2010 to RMB6,350.4 million for the nine months ended 30 September 2011. The increase was primarily due to (i) an increase in the average selling price of our steel products from RMB3,539 per tonne for the nine months ended 30 September 2010 to RMB4,423 for the nine months ended 30 September 2011 as a result of the price increase of the general steel product market and the changing product mix as we began to sell special steel products at a higher price in June 2010, and (ii) an increase of our sales volume from 1,077,196 tonnes for the nine months ended 30 September 2010 to 1,422,028 tonnes for the nine months ended 30 September 2011 partially benefiting from the higher utilisation rate and improved operating efficiency of our production lines to satisfy the demand of our products.

Cost of sales. Our cost of sales increased by 55.3% from RMB3,443.6 million for the nine months ended 30 September 2010 to RMB5,346.2 million for the nine months ended 30 September 2011. The increase in our cost of sales was primarily due to (i) an increase in the cost of raw materials from

RMB3,210.1 million for the nine months ended 30 September 2010 to RMB4,983.1 million for the nine months ended 30 September 2011 as a result of an increase in the amount of raw materials we purchased to support our increase in production volume as well as an increase in the unit price of these raw materials, and (ii) an increase in the cost of electricity from RMB127.5 million to RMB203.3 million as a result of an increase in our electricity consumption as our second EAF commenced operations in January 2011.

Gross profit. As a result of the foregoing, our gross profit increased significantly from RMB393.0 million for the nine months ended 30 September 2010 to RMB1,004.2 million for the nine months ended 30 September 2011, and our gross margin increased from 10.2% for the nine months ended 30 September 2010 to 15.8% for the nine months ended 30 September 2011 due to (i) an increase in the average selling price of our steel products as a result of a rebounded market outpacing the increase in costs of raw materials, (ii) the fact that we commenced production and sale of higher value-added special steel products which generate higher profit margin than ordinary steel products, (iii) the fact that our second EAF commenced its operation to produce more steel billets in-house which resulted in a decrease in the average unit cost of production, and (iv) the economies of scale from the full utilisation of our special steel production facilities.

Other income and gains. Our other income decreased by 64.3% from RMB31.2 million for the nine months ended 30 September 2010 to RMB11.1 million for the nine months ended 30 September 2011. This decrease was primarily due to the fact that Xiwang Recycling Resources received a value-added tax refund from the PRC government for the nine months ended 30 September 2010 as a result of the government's former preferential policies toward the steel scraps industry. This decrease was partially offset by an increase in the exchange gains from an exchange loss of RMB0.04 million for the nine months ended 30 September 2010 to an exchange gain of RMB2.1 million for the nine months ended 30 September 2011 which reflect the effect of a depreciation of the US dollar on our loans to Shandong Xiwang Special Steel denominated in US dollars. This loan, which we extended to Shandong Xiwang Special Steel in 2010, will mature on 31 January 2012.

Selling and distribution costs. Our selling and distribution costs increased by 38.9% from RMB3.0 million for the nine months ended 30 September 2010 to RMB4.2 million for the nine months ended 30 September 2011. The increase was mainly attributable to an increase in salaries and welfare payments from RMB1.9 million for the nine months ended 30 September 2010 to RMB2.4 million for the nine months ended 30 September 2011 due to (i) the recruitment of additional employees for our selling and marketing the new special steel products and (ii) an increase in the travelling expenses from RMB0.4 million for the nine months ended 30 September 2010 to RMB0.8 million for the nine months ended 30 September 2011 as a result of our increased sales volume.

Administration expenses. Our administration expenses increased significantly from RMB14.0 million for the nine months ended 30 September 2010 to RMB40.4 million for the nine months ended 30 September 2011. This increase was primarily due to (i) our IPO expenses of RMB11.5 million in connection with the Global Offering incurred for the nine months ended 30 September 2011, (ii) an increase of RMB2.8 million in our stamp duties as a result of the increased amount of transaction documents we entered into with customers and (iii) an increase of RMB2.5 million in the property taxes as we built a new plant for our second EAF.

Finance costs. Our finance costs increased significantly from RMB16.7 million for the nine months ended 30 September 2010 to RMB48.9 million for the nine months ended 30 September 2011 primarily due to (i) new long-term loans of RMB1,286.7 million we borrowed in the first nine months of 2011 and (ii) an increase in the interest payable to our former ultimate parent company from RMB1.0 million for the nine months ended 30 September 2010 to RMB17.5 million for the nine months ended 30 September 2011 due to an increase in the amount we borrowed from our former ultimate parent company which were all settled in September 2011. This increase was partially offset by an increase in interest capitalised from the construction of the large bar production line and the construction of our second EAF which was completed in January 2011.

Income tax expenses. Our income tax expenses increased significantly from RMB65.0 million for the nine months ended 30 September 2010 to RMB219.8 million for the nine months ended 30 September 2011, primarily due to an increase in the sales volume which in turn resulted in an increase in our revenue and profit before tax and the 10% withholding tax provision for the anticipated dividend distribution to the Company by the PRC subsidiaries from the distributable profit for the year 2011. Our effective income tax rate increased from 16.7% for the nine months ended 30 September 2010 to 23.9% for the nine months ended 30 September 2011 because (i) an increase in withholding tax provision amounting to RMB22.2 million; and (ii) Shandong Xiwang Special Steel and Xiwang Steel, the subsidiaries entitled to the statutory income tax rate of 25.0%, carried more weights in the contribution to the income before tax of the Group for the nine months ended 30 September 2011 as compared to the nine months ended 30 September 2010, while the percentage of income before tax of the Group contributed from Xiwang Metal, a subsidiary entitled to a preferential tax rate of 12.5%, decreased from 69.1% for the nine months ended 30 September 2010 to 32.8% for the nine months ended 30 September 2011.

Profit for the period. As a result of the cumulative effect of the above factors, our profit for the period increased significantly to RMB701.8 million for the nine months ended 30 September 2011, compared to RMB324.5 million for the nine months ended 30 September 2010. The margin of profit for the nine months ended 30 September 2010 was 8.5% as compared to 11.1% for the nine months ended 30 September 2011.

Year ended 31 December 2010 compared to year ended 31 December 2009

Revenue. Our revenue increased by 42.6% from RMB3,776.9 million for the year ended 31 December 2009 to RMB5,387.3 million for the year ended 31 December 2010. The increase was primarily due to (i) an increase in the average selling price of our steel products from RMB3,043 per tonne in 2009 to RMB3,631 per tonne in 2010 due to both increased market price for ordinary steel products and sales of an increasing proportion of wire rods which had higher average selling prices than that of rebars and (ii) an increase of our sales volume from 1,228,687 tonnes in 2009 to 1,472,976 tonnes in 2010. We also commenced production and sales of special steel in 2010 which accounted for 7.8% of our total revenue, resulting in a new revenue stream from special steel products.

Cost of sales. Our cost of sales increased by 35.6% from RMB3,530.5 million for the year ended 31 December 2009 to RMB4,786.3 million for the year ended 31 December 2010. The increase in our cost of sales was primarily due to (i) an increase in the cost of raw materials from RMB3,433.1 million to RMB4,473.6 million due to an increased amount of raw materials that we purchased to support an increase in our production volume and increase in the unit prices of raw materials, (ii) an increase in the cost of electricity from RMB39.2 million to RMB180.7 million due to a significant increase in our electricity consumption from the increased utilisation of our first EAF and (iii) an increase in depreciation from RMB18.8 million to RMB75.3 million due to the completion of our first EAF and our wire rolling line in that year.

Gross profit. As a result of the foregoing, our gross profit increased by 143.8% from RMB246.5 million for the year ended 31 December 2009 to RMB601.0 million for the year ended 31 December 2010, and our gross margin increased from 6.5% for the year ended 31 December 2009 to 11.2% for the year ended 31 December 2010 as a result of sales of an increasing proportion of wire rods, which have higher margins than that of rebars, and the commencement of in-house production of our own steel billets. In addition, we were able to improve our cost structure by (i) reducing our exposure to the changes of price of the ordinary steel billets supplied by third party suppliers, and (ii) producing and selling value-added special steel products which generally have higher profit margin than ordinary steel product. As the special steel production line was still in testing phase in 2010, and the production capacity had not been fully ramped up, the weighted average gross margin of special steel products was only 6.5% in 2010.

Other income and gains. Our other income increased by 90.1% from RMB23.7 million for the year ended 31 December 2009 to RMB45.1 million for the year ended 31 December 2010. This increase was primarily due to an increase in subsidy income representing value added tax refund from the PRC government as a result of our purchase of steel scraps, in line with government policies to encourage renewable resources recycling. This increase was partially offset by the fact that we no longer received interest income from our former ultimate parent company in 2010 as it repaid the loan due to us by the end of 2009.

Selling and distribution costs. Our selling and distribution costs decreased by 3.8% from RMB4.5 million for the year ended 31 December 2009 to RMB4.3 million for the year ended 31 December 2010. The decrease was mainly attributable to a decrease in salaries and welfare payments from RMB2.6 million to RMB2.4 million associated with the disposal of Shengtang Metal, partially offset by an increase in sales personnel salaries and welfare to employees at Xiwang Recycling Resources.

Administration expenses. Our administration expenses increased by 41.6% from RMB13.8 million for the year ended 31 December 2009 to RMB19.5 million for the year ended 31 December 2010. This increase was primarily due to (i) an increase in stamp duty, land use tax and other tax surcharges from RMB5.4 million to RMB7.7 million and (ii) an increase in depreciation and amortisation from RMB0.5 million in 2009 to RMB1.6 million in 2010, primarily consisting of the depreciation of our two new office buildings, the construction of which was completed in 2010.

Finance costs. Our finance costs increased by 86.0% from RMB13.3 million for the year ended 31 December 2009 to RMB24.8 million for the year ended 31 December 2010 primarily due to finance cost of borrowings for the construction of our wire rolling line and the first EAF which are no longer capitalised once these facilities commenced commercial operation.

Income tax expenses. Our income tax expenses increased by 163.8% from RMB39.3 million for the year ended 31 December 2009 to RMB103.6 million for the year ended 31 December 2010. Our effective income tax rate increased from 16.5% for the year ended 31 December 2009 to 17.4% for the year ended 31 December 2010, primarily as a result of the increase of the applicable tax rates on our entities. In particular, Xiwang Metal was entitled to a 50% tax deduction in 2010 but enjoyed a full enterprise income tax exemption in 2009.

Profit for the year. As a result of the cumulative effect of the above factors, our profit for the year was RMB492.8 million for the year ended 31 December 2010, compared to our profit for the year of RMB198.9 million for the year ended 31 December 2009. Our profit for the year ended 31 December 2010 increased by 147.8% from the year ended 31 December 2009. The margin of profit for the year was 5.3% in the year ended 31 December 2009 and 9.1% in the year ended 31 December 2010.

Profit for the year attributable to owners of the parent. Our profit for the year attributable to owners of the parent increased by 153.9% from RMB194.1 million for the year ended 31 December 2009 to RMB492.8 million for the year ended 31 December 2010, primarily as a result of an increase in profit for the year and the elimination of profit for the year attributable to non-controlling interests.

Year ended 31 December 2009 compared to year ended 31 December 2008

Revenue. Our revenue decreased by 2.1% from RMB3,858.3 million for the year ended 31 December 2008 to RMB3,776.9 million for the year ended 31 December 2009. The decrease was primarily due to a decrease in the average selling prices of our ordinary steel products from RMB3,835 per tonne in 2008 to RMB3,043 per tonne in 2009 due to the global financial crisis, which was partially offset by an increase in sales volume due to the commencement of commercial production of our wire rolling line.

Cost of sales. Our cost of sales decreased by 5.4% from RMB3,732.7 million for the year ended 31 December 2008 to RMB3,530.5 million for the year ended 31 December 2009. The decrease in our cost of sales was primarily due to a decrease in the cost of raw materials from RMB3,658.6 million to RMB3,433.1 million from year ended 31 December 2008 to 31 December 2009 due to a drop in ordinary steel billet prices, which was partially offset by an increase in the volume of ordinary steel billets consumed, and an increase in electricity costs from RMB22.7 million in 2008 to RMB39.2 million in 2009.

Gross profit. As a result of the foregoing, our gross profit increased by 96.2% from RMB125.6 million for the year ended 31 December 2008 to RMB246.5 million for the year ended 31 December 2009, and our gross margin increased from 3.3% for the year ended 31 December 2008 to 6.5% for the year ended 31 December 2009 as the result of (i) our commencement of commercial production of wire rods which had higher profit margin than rebars, and (ii) the cost of steel billets, which accounted for 89.6% of the total cost of sales in 2009, decreased more than our average selling prices did in 2009.

Other income and gains. Our other income decreased by 0.3% from RMB23.8 million for the year ended 31 December 2008 to RMB23.7 million for the year ended 31 December 2009. This decrease was primarily due to an exchange loss of RMB0.1 million while it was an exchange gain of RMB4.3 million in 2008, partially offset by the start of receiving subsidy income representing value added tax refund from the PRC government as a result of our purchase of steel scraps, in line with government policies to encourage renewable resources recycling.

Selling and distribution costs. Our selling and distribution costs increased by 57.5% from RMB2.8 million for the year ended 31 December 2008 to RMB4.5 million for the year ended 31 December 2009. The increase was mainly attributable to an increase in salaries and allowance from RMB0.9 million to RMB2.6 million because of the expansion of our sales team for our new products.

Administration expenses. Our administration expenses increased by 51.3% from RMB9.1 million for the year ended 31 December 2008 to RMB13.8 million for the year ended 31 December 2009. This increase was primarily due to (i) an increase in tax expenses from RMB3.4 million to RMB5.4 million resulting from an increase in the stamp duty due to the increase in our contracts of purchasing, and an increase in land use tax due to the enlarged land area occupied by us, (ii) an increase in salaries and allowance from RMB3.0 million to RMB4.2 million because more administrative staff were hired to cope with the rapid expansion and the average salary per person also increased during 2009, and (iii) an increase in bank charges from RMB0.1 million to RMB2.0 million from year ended 31 December 2008 to 31 December 2009 primarily due to more charges related to the issuance of bank acceptances.

Finance costs. Our finance costs decreased by 57.2% from RMB31.2 million for the year ended 31 December 2008 to RMB13.3 million for the year ended 31 December 2009 primarily due to an increase in interest capitalised.

Income tax expenses. Our income tax expenses increased by 53.1% from RMB25.7 million for the year ended 31 December 2008 to RMB39.3 million for the year ended 31 December 2009, primarily as a result of an increase in taxable income.

Profit for the year. As a result of the cumulative effect of the above factors, our profit for the year was RMB198.9 million for the year ended 31 December 2009, compared to our profit for the year of RMB79.7 million for the year ended 31 December 2008. Our profit for the year ended 31 December 2009 increased by 149.5% from the year ended 31 December 2008. The margin of profit for the year was 2.1% for the year ended 31 December 2008 and 5.3% for the year ended 31 December 2009.

Profit for the year attributable to owners of the parent. Our profit for the year attributable to owners of the parent increased by 346.5% from RMB43.5 million for the year ended 31 December 2008 to RMB194.1 million for the year ended 31 December 2009, primarily as a result of an increase in profit for the year and the decrease of profit for the year attributable to non-controlling interests.

LIQUIDITY AND CAPITAL RESOURCES

As of the Latest Practicable Date, we had financed our operations primarily from cash flows from operations, short-term and long-term bank and other borrowings. Our cash and cash equivalents are principally comprised of cash and bank balances.

Our future cash requirements will depend on many factors, including our operating income, terms of trade, costs to build additional manufacturing capacity, market acceptance of our products or other changing business conditions and future developments, including any investments or acquisitions we may decide to pursue. During the Track Record Period, we required most of our customers to pay in advance the full purchase payments for our products in the form of either cash or bank acceptance notes. Advance payments from customers contributed to our cash flow and reduced our need for bank borrowings for working capital purpose, which reduced our finance costs and had a positive impact on our net profit margin. If industry practice, however, shifts away from customer advance payments, we may need to fund our working capital needs with bank or other borrowings, which will increase our finance costs. We may require additional cash to repay existing debt obligations or to re-finance our existing debts or due to changing business conditions or other future developments. If our existing cash is insufficient to meet our requirements, we may seek to sell additional equity securities, debt securities or borrow from lending institutions. We cannot assure you that financing will be available in the amounts we need or on terms acceptable to us, if at all. The sale of additional equity securities, including convertible debt securities, would dilute our shareholders. The incurrence of debt would divert cash for working capital and capital expenditures to service debt obligations and could result in operating and financial covenants that restrict our operations and our ability to pay dividends to our shareholders. If we are unable to obtain additional equity or debt financing as required, our business operations and prospects may suffer.

We expect to fund our future capital expenditures, working capital and other cash requirements from cash generated from our operations, the net proceeds from the Global Offering and, when necessary, bank and other borrowings.

Cash Flows

The following table sets forth a summary of our cash flows for the years indicated:

	Year ended 31 December			Nine months ended 30 September	
	2008	2009	2010	2010	2011
				(unaudited)	
	(RMB in thousands)				
Net cash flows from/(used in) operating activities	240,063	1,380,442	111,072	(516,049)	866,292
Net cash used in investing activities	(248,923)	(1,912,931)	(904,623)	(197,629)	(1,296,380)
Net cash from financing activities	34,487	508,681	835,103	716,251	393,606
Net increase in/(decrease in) cash	25,627	(23,808)	41,552	2,573	(36,482)
Cash and cash equivalents at the beginning of the year/period	23,237	49,480	25,600	25,600	72,528
Effect of exchange rate change	616	(72)	5,376	3,197	2,550
Cash and cash equivalents at the end of the year/period	49,480	25,600	72,528	31,370	38,596

Cash flows from (used in) operating activities

Net cash flows from operating activities for the nine months ended 30 September 2011 was RMB866.3 million, which was primarily attributable to (i) our profit before tax of RMB921.6 million, (ii) an increase in inventories of RMB306.3 million, (iii) an increase in prepayments, deposits and other receivables of RMB364.4 million due to an increase in the purchase volume which resulted in an increase in the prepayments paid to our suppliers, (iv) an increase in trade and bills payables of RMB470.2 million as we increased the use of short-term bank acceptances and letters of credit for the nine months ended 30 September 2011 as a result of our increased raw materials purchase in connection with the growth of our production and sales during the same period in 2011, and (v) an increase in receipts in advance, other payable and accruals of RMB264.7 million.

Net cash flows from operating activities in 2010 was RMB111.1 million, which was primarily attributable to: (i) our profit before tax of RMB596.4 million, (ii) an increase in receipts in advance, other payable and accruals of RMB182.0 million, (iii) a decrease in prepayments, deposits and other receivables RMB107.0 million, (iv) depreciation of RMB76.7 million, and (v) a decrease in inventories RMB65.9 million, partially offset by (a) a decrease in due to fellow subsidiaries of RMB482.7 million, and (b) a decrease in trade and bills payables of RMB343.7 million. The decrease in due to fellow subsidiaries was primarily because the Group paid RMB479.2 million to Shengtang Metal for the purchase of steel materials and the decrease in trade and bills payables was primarily due to a decrease in the use of short-term bank acceptances for purchase settlements in 2010 as we partially reverted back to our usual method of cash settlement based on our cash management policy in light of market conditions.

Net cash from operating activities in 2009 was RMB1,380.4 million, which was primarily attributable to: (i) an increase in trade and bills payables RMB1,647.3 million, and (ii) our profits before tax of RMB238.2 million, partially offset by (a) a decrease in receipts in advance, other payables and accruals of RMB206.3 million, (b) an increase in inventories of RMB177.5 million, (c) a decrease in due to fellow subsidiaries of RMB54.3 million and (d) an increase in prepayments, deposits and other receivables of RMB45.2 million. The increase in trade and bills payable was primarily due to the increase in bills payables for the purchase of raw materials and from our use of short-term bank acceptances for purchase settlements in 2009. The decrease in receipts in advance, other payables and accruals was primarily because of our quicker settlement in 2009.

Net cash flows from operating activities in 2008 was RMB240.1 million, which was primarily attributable to: (i) our profits before tax of RMB105.4 million, (ii) a decrease in prepayments, deposits and other receivables of RMB81.3 million, (iii) a decrease in receipts in advance, other payables and accruals of RMB38.9 million, and (iv) a decrease in inventories of RMB38.0 million partially offset by (a) an increase in due to fellow subsidiaries of RMB53.6 million, and (b) a decrease in due to a related party of RMB39.6 million. The decrease in prepayments, deposits and other receivables was primarily because we decreased the purchase of raw materials due to the fluctuating prices in 2008 and the increase in due to fellow subsidiaries was primarily due to the advance of sales of steel products to fellow subsidiaries in 2008.

Cash flows used in investing activities

Net cash flows used in investing activities for the nine months ended 30 September 2011 was RMB1,296.4 million, which was primarily attributable to (i) our payment for the purchase of items of property, plant and equipment of RMB1,273.3 million related to our large bar production line and our second EAF, and (ii) an increase in pledged deposits of RMB86.6 million as we increased the use of short-term bank acceptances and letters of credit in connection with the change of our cash management policy.

Net cash flows used in investing activities in 2010 was RMB904.6 million, which was primarily attributable to: (i) our payment for the purchase of items of property, plant and equipment of RMB1,023.2 million, (ii) the purchase of prepaid land lease payment of RMB160.2 million, and (iii) the cash outflow due to a disposal of a subsidiary of RMB2.1 million, partially offset by a decrease in pledged deposits of RMB280.9 million in connection with the change in our cash management policy.

Net cash flows used in investing activities in 2009 was RMB1,912.9 million, which was primarily attributable to: (i) our payment for the purchase of items of property, plant and equipment of RMB381.5 million, and (ii) an increase in pledged deposits of RMB1,530.9 million in connection with the change of our cash management policy.

Net cash used in investing activities in 2008 was RMB248.9 million, which was primarily attributable to: (i) our payment for the purchase of items of property, plant and equipment of RMB258.9 million, and (ii) a decrease in pledged deposits of RMB10.0 million.

Cash flows from financing activities

Net cash flows from financing activities for the nine months ended 30 September 2011 was RMB393.6 million, which was primarily attributable to our new bank loans of RMB1,764.5 million, which was partially offset by (i) our repayment of bank loans of RMB941.2 million, and (ii) our repayment in amounts due to our former ultimate parent company of RMB384.2 million.

Net cash flows from financing activities in 2010 was RMB835.1 million, which was primarily attributable to: (i) new bank loans of RMB941.2 million, and (ii) an increase in due to our former ultimate parent company of RMB164.6 million, partially offset by repayments of bank loans of RMB219.8 million.

Net cash flows from financing activities in 2009 was RMB508.7 million, which was primarily attributable: (i) new bank loans of RMB931.5 million, and (ii) an increase in due to our former ultimate parent company of RMB272.3 million, partially offset by (a) repayments of bank loans of RMB615.7 million, and (b) interest paid of RMB40.7 million.

Net cash flows from financing activities in 2008 was RMB34.5 million, which was primarily attributable to: (i) new bank loans RMB203.0 million, and (ii) an increase in due to immediate holding company RMB78.7 million, partially offset by (a) repayment of bank loans of RMB209.0 million, and (b) interest paid of RMB41.0 million.

CAPITAL EXPENDITURES

We made capital expenditures of RMB258.9 million, RMB381.5 million, RMB1,183.4 million and RMB1,273.3 million in the three years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, respectively. In the past, our capital expenditures were used primarily to acquire land use rights for the land on which our manufacturing facilities are built, purchase our wire rolling line, EAFs and related equipment, construct our manufacturing facilities and expand our manufacturing capacity. We estimate that our capital expenditures in the year ended 31 December 2011 will be approximately RMB1,440.9 million, which (i) is used primarily to expand our production lines, including our second EAF commenced operations in January 2011 and our large bar rolling line manufacture large bar products expected to commence commercial productions in February 2012, and (ii) will be used to settle the outstanding construction cost incurred in connection with including our second EAF, among which, as of 30 September 2011, RMB16.9 million was due and unpaid, and RMB169.0 million shall be paid pursuant to the payment schedules set forth in the relevant construction contracts.

WORKING CAPITAL

Details of our current assets and liabilities at the end of each reporting period are as follows:

	As of 31 December			As of 30 September	As of 30 November
	2008	2009	2010	2011	2011
					(unaudited)
	(RMB in thousands)				
Current Assets					
Inventories	259,693	367,726	306,790	613,134	431,406
Trade and bills receivables	6,502	23,764	57,135	69,411	161,968
Prepayments, deposits and other receivables	252,383	306,142	192,650	569,317	769,077
Due from fellow subsidiaries	10,178	7,131	10,990	–	–
Pledged deposits	30,000	1,560,868	210,000	296,551	744,952
Cash and cash equivalents	49,480	25,600	72,528	38,596	18,001
Total current assets	608,236	2,291,231	850,093	1,587,009	2,125,404
Current Liabilities					
Trade and bills payables	79,973	1,720,097	206,394	676,603	1,275,156
Receipts in advance, other payables and accruals	387,424	733,041	510,090	539,216	546,237
Interest-bearing bank and other borrowings	243,855	570,190	941,200	664,453	664,453
Due to the ultimate holding company(1)	55,559	319,554	384,189	–	–
Due to the immediate holding company	108,380	120,626	132,332	–	–
Due to fellow subsidiaries	57,754	3,417	67,895	–	–
Due to a related party	42,553	21,980	–	–	–
Income tax payable	19,820	15,153	53,812	74,326	31,748
Total current liabilities	995,318	3,504,058	2,295,912	1,954,598	2,517,594
Net current liabilities	(387,082)	(1,212,827)	(1,445,819)	(367,589)	(392,190)

(1) Through the transfer of equity in July 2011, Xiwang Group is no longer our ultimate holding company but a former ultimate parent company.

We recorded net current liabilities as of 31 December 2010, 30 September 2011 and 30 November 2011 of RMB1,445.8 million, RMB367.6 million and RMB392.2 million, respectively.

Our net current liabilities decreased by RMB1,078.2 million from RMB1,445.8 million as of 31 December 2010 to RMB367.6 million as of 30 September 2011, primarily due to the fact that we obtained long-term loans of RMB1,100 million during the nine months ended 30 September 2011. We repaid certain short-term borrowings, settled all the liabilities due to our related parties except the amount due to the immediate holding company. There were also an increase in trade and bills receivables as a result of an increase in our sales, and an increase in prepayments, deposits and other receivables.

Our net current liabilities increased by RMB233.0 million from RMB1,212.8 million as of 31 December 2009 to RMB1,445.8 million as of 31 December 2010, primarily due to the increase in the short-term interest-bearing bank and other borrowings because of the funding for our second EAF project and large bar rolling line project.

Our net current liabilities increased by RMB825.7 million from RMB387.1 million as of 31 December 2008 to RMB1,212.8 million as of 31 December 2009, primarily due to the short-term interest-bearing bank and other borrowings and due to the ultimate holding company for the funding of our EAF project and wire rolling line project.

We have improved our working capital by (i) increasing our long-term loans, (ii) replacing existing short-term interest bearing bank and other borrowings with long-term loans from financial institutions, (iii) repayment of amounts due to ultimate holding company and conversion of amounts due to immediate holding company into equity and (iv) cash flows from operating activities.

From January to September 2011, we obtained a total of RMB1,764.5 million in bank loans with maturity dates ranging from 12 to 24 months, and interest rates which ranged from 5.85% to 10.25%. In May 2011, we extended the maturity dates of each of our two RMB100.0 million bank loans to 24 months. Considering the above events, we expect our working capital to improve. Three bank loans of a total amount of RMB306.7 million obtained in March, August and September 2011 and due in September, August and September 2012, respectively, were guaranteed by Qixing Group Co., Ltd. (齊星集團有限公司), a company mainly engaging in the aluminum products processing and cogeneration business. Qixing Group Co., Ltd. is an independent third party with which we had no business activities, and we did not pay any fees to Qixing Group Co., Ltd. for its guarantee. The chairman of Qixing Group Co., Ltd. had a good relationship with our chairman, Mr. Yong Wang and therefore Qixing Group Co., Ltd. agreed to provide the guarantee to us. This guarantee will not be released before Listing. In addition to the bank loans guaranteed by Qixing Group Co., Ltd., we had one unsecured long-term loan amounting to RMB100.0 million and three secured long-term loans amounting to RMB1,000.0 million without gurantee from third parties, which represents our ability to obtain financing from banks and financial institutions.

The proceeds from the new loans and the loan extension have been used for repayment of the borrowings from Xiwang Group and to finance the construction payables for the second EAF and the large bar rolling line. Along with the strong cash flows from operating activities, our current liabilities decreased from RMB1,445.8 million as of 31 December 2010 to RMB367.6 million as of 30 September 2011.

In addition, on 27 July 2011, we entered into a debt settlement agreement with Xiwang Investment, pursuant to which we issued an additional 1,599,999,990 shares of HK$0.10 each to Xiwang Investment, and the consideration for these shares were used to set off against our borrowing from Xiwang Investment in the amount of approximately RMB134.5 million in July 2011.

The management intends to further improve the net current liabilities situation with increasing cash flow from operating activities and proceeds from the Global Offerings, and by matching long-term capital investment with long-term financing when such external financing is needed. Our Directors believe that after taking into account the estimated net proceeds from the Global Offering and the internally generated funds, we have sufficient working capital for our operations for at least the next 12 months from the date of this prospectus. The Sole Sponsor concurs with the Directors' view that we have sufficient working capital for the 12 months following the date of the prospectus.

INDEBTEDNESS

Interest-bearing bank and other borrowings

The following table sets forth our interest-bearing bank and other borrowings as of the dates indicated:

	As of 31 December			As of 30 September	As of 30 November
	2008	2009	2010	2011	2011
					(unaudited)
			(RMB in thousands)		
Current					
Bank loans – unsecured	–	–	100,000	–	–
Bank loans – secured . .	150,000	550,000	841,200	477,753	477,753
Current portion of long term loans – secured .	55,000	–	–	–	–
Current portion of long term other loan – unsecured	38,855	20,190	–	186,700	186,700
	243,855	570,190	941,200	664,453	664,453
Non-current					
long term bank loans – secured	30,000	–	–	–	–
long term bank loans – unsecured	–	–	–	100,000	100,000
long term other loan – unsecured	5,180	–	–	–	–
long term other loan-secured	–	–	–	1,000,000	1,000,000
	35,180	–	–	1,100,000	1,100,000

Our short-term borrowings are borrowings with terms shorter than one year. As of 30 November 2011, we had ten short-term borrowings in amounts ranging from RMB20.0 million to RMB186.7 million outstanding and the interest rates within the range from 5.85% to 10.25% per annum. These seven short-term borrowings in an aggregate amount of RMB357.8 million were in the form of letter of credit and were fully secured by pledged deposits, while the remaining three in an aggregate amount of RMB306.7 million were a chattel mortgage secured by steel billets and guaranteed by an independent third party of Qixing Group Co., Ltd.. We do not have any unutilised banking facilities as of 30 November 2011.

As of 30 November 2011, we had RMB1,100 million long-term bank borrowings. One of these long-term bank borrowings of RMB100 million will mature in December 2012, while the remaining three in an aggregate amount of RMB1,000 million will mature in March 2013.

During the Track Record Period, we also relied on the inter-company lending from our affiliated companies. The inter-company lending was an important source of funding for us during the early state of our development when it was difficult for us to acquire funding from banks independently. We had obtained interest-bearing borrowings from our former ultimate parent company which amounted to RMB291.7 million, RMB433.6 million, RMB558.8 million and zero as of 31 December 2008, 2009 and 2010 and 30 September 2011, respectively. We also had interest-free borrowings from our immediate holding company which amounted to RMB108.4 million, RMB120.6 million, RMB132.3 million and zero as of 31 December 2008, 2009 and 2010 and 30 September 2011, respectively. All outstanding balances due to our former ultimate parent company were settled in May 2011 and the amount due to the immediate holding company was subsequently transferred to the issued share capital of the Company following a debt settlement agreement entered into on 27 July 2011.

As of 30 November 2011, our current bank and other borrowings were RMB664.5 million. The table below sets forth our repayment schedule:

Repayment date	Repayment amount	Source of Funding
	(in millions)	
March 2012	RMB27.4	Cash flows from operating activities
February 2012	RMB80.0	Cash flows from operating activities
August 2012	RMB100.0	Cash flows from operating activities
September 2012	RMB206.7	Cash flows from operating activities
January 2013	RMB250.4	Cash flows from operating activities
Total	RMB664.5	

Except as otherwise disclosed in the prospectus, there has been no material change in our indebtedness and contingent liabilities since the indebtedness date.

ANALYSIS OF SELECTED STATEMENT OF FINANCIAL POSITION ITEMS

Property, plant and equipment analysis

Our property, plant and equipment substantially increased by RMB968.7 million from RMB594.5 million in 2008 to RMB1,563.2 million in 2009. This primarily resulted from the increase in fixed assets of RMB997.1 million, depreciation during the year of RMB20.4 million, and the disposal of our metal construction business of RMB8.0 million. The increase in fixed assets was mainly due to the commencement of operations of our first EAF and our wire rolling line.

Our property, plant and equipment substantially increased by RMB575.4 million from RMB1,563.2 million in 2009 to RMB2,138.6 million in 2010. This resulted from the increase in fixed assets of RMB654.6 million, depreciation provided during the year of RMB76.7 million, and the disposal of fixed assets of RMB2.4 million.

Our property, plant and equipment substantially increased by RMB942.1 million from RMB2,138.6 million as of 31 December 2010 to RMB3,080.7 million as of 30 September 2011 as we completed the construction of our second EAF in January 2011.

Inventory analysis

During the Track Record Period, inventories were one of the principal components of our current assets. Our management reviews the inventory level periodically to secure a sufficient level of raw materials for our production and to avoid overstocking.

The following table is a summary of our balance of inventories at the end of each reporting period during the Track Record Period:

	As of 31 December			As of 30 September
	2008	2009	2010	2011
	(RMB in thousands)			
Raw materials	53,842	275,523	133,214	185,884
Work in progress	618	680	1,152	570
Finished goods	209,236	91,523	172,424	426,680
	263,696	367,726	306,790	613,134
Provision for inventory obsolescence and net realisable value	(4,003)	–	–	–
	259,693	367,726	306,790	613,134

Our inventories increased by RMB306.3 million from RMB306.8 million as of 31 December 2010 to RMB613.1 million as of 30 September 2011 primarily due to an increase in our production volume as our second EAF commenced operations in January 2011.

Our inventories decreased by RMB60.9 million from RMB367.7 million as of 31 December 2009 to RMB306.8 million as of 31 December 2010, primarily due to a build-up of our stock of raw materials during 2009 to take advantage of the low prices.

Our inventories increased by RMB108.0 million from RMB259.7 million as of 31 December 2008 to RMB367.7 million as of 31 December 2009 for the same reason as stated above.

The following table sets forth our inventory turnover days for the Track Record Period:

	As of 31 December			As of 30 September
	2008	**2009**	**2010**	**2011**
Inventory turnover days *(Note)*	26.8	32.4	25.7	23.5

Note: Inventory turnover days is equal to average inventory divided by annualised cost of sales and multiplied by 365 days.

Our inventory turnover days increased to 32.4 days as of 31 December 2009 as compared to 26.8 days as of 31 December 2008 due to our intention in 2009 to build up inventory stock. Our inventory turnover days returned to 25.7 days as of 31 December 2010. Our inventory turnover days further decreased to 23.5 days as of 30 September 2011 primarily due to better inventory management resulted in faster inventory turnover. We improved our inventory management by conducting a comprehensive market survey and communicating frequently with our customers to more accurately forecast the future demand of the market. In addition, we also improved the daily process of inventory counting, reporting and reconciliation.

As of 30 November 2011, 82.2% of our inventory as of 30 September 2011 was utilised.

Trade and bills receivables analysis

Our trade and bills receivables represent receivables from our customers for sale of our products.

The Group's trading terms with its customers are mainly in advance. The Group's trade receivables arose from sales to customers on credit terms. During the Track Record Period, the Group only granted credit terms to a limited number of customers. The credit term was generally three months during the Track Record Period. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables related to certain customers with good track record, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing. Our bills receivables increased because our customers increased the use of short-term bank acceptances, which were classified as bills receivables, to settle the payments of our products. The bank acceptances normally had a maturity period of 180 days and were secured by deposits pledged with banks until maturity of the bank acceptances. The bank acceptances are widely used in the steel market as a form of settlement and can be freely redeemed for cash at the request of the bearer upon maturity.

An analysis of the amount of trade and bills receivables as of the end of the reporting period is as follows:

	As of 31 December			As of 30 September
	2008	2009	2010	2011
	(RMB in thousands)			
Bills receivable	950	23,689	43,075	69,411
Trade receivables	5,552	75	14,060	–
	6,502	23,764	57,135	69,411

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

	As of 31 December			As of 30 September
	2008	2009	2010	2011
	(RMB in thousands)			
Within 3 months	3,523	23,043	53,975	64,801
3-6 months	376	646	2,908	4,610
6 months-1 year	2,603	–	–	–
Over 1 year	–	75	252	–
	6,502	23,764	57,135	69,411

The following table sets forth our trade receivables turnover days for the Track Record Period:

	As of 31 December			As of 30 September
	2008	2009	2010	2011
Trade receivables turnover days *(Note)*	0.7	0.3	0.5	0.3

Note: Trade receivables turnover days is equal to average trade receivables divided by annualised revenue and multiplied by 365 days.

Our trade receivables turnover days decreased from 0.7 days as of 31 December 2008 to 0.3 days as of 31 December 2009 and increased to 0.5 days as of 31 December 2010. Our trade receivable turnover days further decreased to 0.3 days as of 30 September 2011. Our low trade receivables turnover days in 2009 was primarily because we required more cash or bank bill settlements rather than credit sales.

As of 30 November 2011, 99.4% of the bills receivable and trade receivables as of 30 September 2011 had been settled.

Prepayments, deposits and other receivables

Our prepayments, deposits and other receivables include prepayments, bank interest receivables, VAT recoverable, government subsidy receivables, deposit and other receivables and current portion of prepaid land lease payments.

	As of 31 December			As of 30 September
	2008	2009	2010	2011
	(RMB in thousands)			
Prepayments	232,822	227,505	129,036	539,809
Bank interest receivables	–	6,115	–	860
VAT recoverable	–	49,784	39,673	25,559
Subsidy receivables	–	3,132	17,572	–
Deposits and other receivables	19,460	19,606	3,136	1,145
Current portion of prepaid land lease payments	101	–	3,233	1,944
	252,383	306,142	192,650	569,317

Our prepayments, deposits and other receivables increased from RMB252.4 million as of 31 December 2008 to RMB306.1 million as of 31 December 2009 primarily due to (i) VAT recoverable of RMB49.8 million from input VAT on materials purchased for the construction of our first EAF and wire line, which is recoverable and can be used to offset the output VAT on the sales of goods, (ii) bank interest receivable of RMB6.1 million yet to be received, and (iii) government subsidies of RMB3.1 million to encourage recycling, which entitled our subsidiary Xiwang Recycling Resources to a refund of 70% of VAT in 2009. Our prepayments, deposits and other receivables decreased from RMB306.1 million as of 31 December 2009 to RMB192.7 million as of 31 December 2010 primarily due to (i) the decrease in prepayments from RMB227.5 million as of 31 December 2009 to RMB129.0 million as of 31 December 2010 resulting from our significant decrease in raw material procurement at the end of 2010 comparing to the end of 2009, and (ii) a decrease in deposits and other receivables of RMB16.5 million, partially offset by an increase in the government subsidy receivables resulting from our increased purchase of steel scraps. The prepayments increased from RMB129.0 million as of 31 December 2010 to RMB539.8 million as of 30 September 2011 resulting from an increase in our purchase orders for ordinary steel billets in the third quarter of 2011 and less purchases in the month of December 2010 due to less active business activities at the year end. This increase was partially offset by a decrease in the subsidy receivables as Xiwang Recycling Resources no longer receives value-added tax refund in 2011.

The prepayments were our advance payments to suppliers in connection with our procurement of raw materials. In line with the industry, we were required to make prepayments to suppliers for the majority of our raw materials, such as steel billets, molten iron and pig iron. Our prepayments to suppliers of steel billets, molten iron and pig iron, as the outstanding balance amount as of 31 December

2008, 2009 and 2010, and 30 September 2011, were subject to the impact of one or a combination of several factors, including cut-off day, seasonality and fluctuation of raw material prices, and were not the direct indicator of the level of our cost of sales attributable to purchases of these raw materials during the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, respectively. The prepayment we made to suppliers typically covered approximately 30 days of purchase during the Track Record period. The prepayments as of 31 December 2008, 2009 and 2010 were fully utilised as of 31 March 2009, 31 May 2010 and 31 March 2011, respectively, for the purchase of raw materials.

As of 30 November 2011, 82.8% of the prepayments as of 30 September 2011 had been subsequently utilised for the purchase of raw materials.

Amounts due from fellow subsidiaries

The outstanding amounts due from fellow subsidiaries amounted to RMB10.2 million, RMB7.1 million and RMB11.0 million and zero as of 31 December 2008, 2009 and 2010 and 30 September 2011, respectively. Outstanding amounts due from fellow subsidiaries as of 31 December 2008, 2009 and 2010 and 30 September 2011 represented advances made to fellow subsidiaries for the trade amounts between the fellow subsidiaries and us, which were unsecured. These amounts due from fellow subsidiaries are interest free and have no fixed terms of repayment. The following table sets forth a breakdown of our amounts due from fellow subsidiaries:

	As of 31 December			As of 30 September
	2008	2009	2010	2011
	(RMB in thousands)			
Shandong Xiwang Sugar Industry Co., Ltd. (山東西王糖業有限公司)	10	19	118	–
Shandong Xiwang Biochem Co., Ltd. (山東西王生化科技有限公司)	1,828	49	3,505	–
Xiwang Food (山東西王食品有限公司)	8,340	6,286	4,367	–
Shandong Xiwang Functional Sugar Co., Ltd. (山東西王功能糖有限公司)	–	777	–	–
Xiwang Import & Export (山東西王進出口貿易有限公司)	–	–	3,000	–
	10,178	7,131	10,990	–

The outstanding amount due from fellow subsidiaries was settled in May 2011.

Pledged deposits

The pledged deposits amounted to RMB30.0 million, RMB1,560.9 million, RMB210.0 million and RMB296.6 million as of 31 December 2008, 2009 and 2010 and 30 September 2011, respectively, which were used to facilitate the issuance of bank acceptances for purchase settlements.

Cash and cash equivalents

The cash and cash equivalents amounted to RMB49.5 million, RMB25.6 million, RMB72.5 million and RMB38.6 million as of 31 December 2008, 2009 and 2010 and 30 September 2011, respectively.

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 day and six months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

Trade and bills payables analysis

Our accounts payables consist of trade and bills payables. The bills payable was secured by the pledged deposits.

The trade payables are non-interest bearing and are normally settled on 30-day terms. The following table sets forth a breakdown of our trade and bills payables:

	As of 31 December			As of 30 September
	2008	**2009**	**2010**	**2011**
	(RMB in thousands)			
Bills payables	50,000	1,687,160	100,000	450,000
Trade payables	29,973	32,937	106,394	226,603
	79,973	1,720,097	206,394	676,603

We had substantial trade and bills payables of RMB1,720.1 million as of 31 December 2009. This was primarily due to an increase of RMB1,637.2 million in our bills payables from RMB50.0 million as of 31 December 2008 to RMB1,687.2 million as of 31 December 2009. Our bills payables increased because we increased the use of short-term bank acceptances, which were classified as bills payables, for settlements in 2009, in place of our usual cash settlement method. These short-term bank acceptances were primarily used to procure raw materials and were not used for speculative purposes. The significant increase in the use of short-term bank acceptances was primarily driven by the encouragement from banks with which we had frequent business contacts in respect of use of bank acceptances. The bank acceptances normally had a maturity period of six months and were secured by deposits pledged with banks until maturity of the bank acceptances. The bank acceptances are widely used in the steel market as a form of settlement and can be freely redeemed for cash at the request of the bearer upon maturity. The significant increase in bills payables in 2009 resulted in the significant increase in our pledged deposits in the same period. As of 31 December 2009, we had pledged deposits in the amount of RMB1,560.9

million. Our trade and bills payables decreased to RMB206.4 million as of 31 December 2010 due to the decrease in our bills payables primarily because (i) we disposed of Shengtang Metal in January 2010 and (ii) we reverted to cash settlement for a portion of our purchases in 2010 following the change of market practice when the government implemented a contractionary monetary policy which resulted in higher interest rates for bank instruments. Our trade and bills payables increased to RMB676.6 million as of 30 September 2011 due to the increase in our bills payables as a result of our increased use of short-term bank acceptances and letters of credit for the nine months ended 30 September 2011, partially attributable to our increased raw materials purchase in connection with the growth of our productions and sales during the same period in 2011.

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

	As of 31 December			As of 30 September
	2008	**2009**	**2010**	**2011**
	(RMB in thousands)			
Within 1 month	29,973	690,097	81,490	475,745
1 to 3 months	50,000	1,030,000	124,904	200,858
	79,973	1,720,097	206,394	676,603

The following table sets forth our trade payables turnover days for the Track Record Period:

	As of 31 December			As of 30 September
	2008	**2009**	**2010**	**2011**
Trade payables turnover days *(Note)*	1.7	3.3	5.3	8.5

Note: Trade payables turnover days is equal to average trade payables divided by annualised cost of sales and multiplied by 365 days.

Our trade payables turnover days increased from 1.7 days as of 31 December 2008 to 3.3 days as of 31 December 2009 to 5.3 days as of 31 December 2010. Trade payables generally arose from our purchase of steel scraps, coal and ancillary raw materials. We made prepayments to suppliers for the purchase of raw materials including steel billets, molten iron and pig iron, which represented the majority of our cost of sales during the Track Record Period. For the Track Record Period, the payment terms for steel scraps, coal and ancillary raw materials were 20 days, 30 days, and 90 days from the date of issuance of invoices, respectively. Our trade payable turnover days were shorter than the payment terms offered by our suppliers during the Track Record Period primarily due to that (i) we typically made payments shortly upon receipt of invoices in order to maintain good relationships with our suppliers, and (ii) the majority of our raw materials, including steel billets, molten iron and pig iron, were typically paid by prepayments.

We began to produce our own steel billets in September 2009 and, as a result, began to purchase more other raw materials, including steel scraps. The increase in the turnover days for trade payables was due to an increase in the payables for purchases of the other raw materials. The increase in the turnover days for trade payables was not affected by advances made by our customers. None of our customers were also our suppliers during the Track Record Period and we were not involved in tolling operations. Our trade payables turnover days increased to 8.5 days as of 30 September 2011.

As of 30 November 2011, 48.3% of the trade and bills payables as of 30 September 2011 had been subsequently settled.

Receipts in advance, other payables and accruals

Receipts in advance, other payables and accruals are non-interest bearing and have an average term of three months. Our advances from customers, as the outstanding balance amount as of 31 December 2008, 2009 and 2010, and 30 September 2011, were subject to the impact of one or a combination of several factors, including cut-off day, seasonality and bulk purchases of customers, and were not the direct indicator of the level of our revenue attributable to our sales to these customers during the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011, respectively. The following table sets forth a breakdown of our other payables and accruals:

	As of 31 December			As of 30 September
	2008	2009	2010	2011
	(RMB in thousands)			
Advances from customers	281,690	74,637	132,429	152,490
Salaries and welfare payables	5,496	7,986	13,370	22,477
Other tax payables	10,501	1,713	16,476	25,686
Other payables	89,737	648,705	347,815	335,090
Interest payables	–	–	–	3,473
	387,424	733,041	510,090	539,216

Other payables are mainly payables incurred in connection with the construction of our production lines.

Amounts due to our former ultimate parent company

The outstanding amount due to our former ultimate parent company amounted to RMB55.6 million, RMB319.6 million, RMB384.2 million and zero as of 31 December 2008, 2009 and 2010 and 30 September 2011, respectively. All outstanding balances due to our former ultimate parent company were settled in May 2011.

Amounts due to our immediate holding company

The outstanding amount due to the immediate holding company amounted to RMB108.4 million, RMB120.6 million, RMB132.3 million and zero as of 31 December 2008, 2009 and 2010 and 30 September 2011, respectively. All outstanding balances due to the immediate holding company was converted to our share capital pursuant to a debt settlement agreement entered into on 27 July 2011.

Amounts due to fellow subsidiaries

The outstanding amount due to fellow subsidiaries amounted to RMB57.8 million, RMB3.4 million, RMB67.9 million and zero as of 31 December 2008, 2009 and 2010 and 30 September 2011, respectively. Outstanding amount due to fellow subsidiaries as of 31 December 2008, 2009 and 2010 and 30 September 2011 represented advances made by fellow subsidiaries to our Group, which were unsecured, interest-free and have no fixed terms of repayment. The following table sets forth a breakdown of amounts due to fellow subsidiaries:

	As of 31 December			As of 30 September
	2008	2009	2010	2011
	(RMB in thousands)			
Shandong Xiwang Properties Company Limited ("Xiwang Properties") (山東西王置業有限公司)[(1)]	24,869	3,417	–	–
Shandong Xiwang Logistics Company Limited ("Xiwang Logistics") (山東西王物流有限公司)[(2)]	32,885	–	–	–
Shengtang Metal (鄒平盛唐金屬材料貿易有限公司)[(3)]	–	–	67,895	–
	57,754	3,417	67,895	–

Note:

(1) Xiwang Properties was wholly owned by Xiwang Group directly and/or through its wholly owned subsidiaries, Shandong Xiwang Investment, as at 31 December 2008 and 31 December 2009. It was disposed by Xiwang Group and Shandong Xiwang Investment on 13 April 2010 and became an independent third party of the Group since then.

(2) Xiwang Logistics was wholly owned by Xiwang Group as at 31 December 2008. It was disposed by Xiwang Group on 16 October 2009 and became an independent third party of the Group since then.

(3) Shengtang Metal was wholly owned by Xiwang Group since October 2008 until 15 June 2009 when it was transferred by Xiwang Group to Xiwang Steel. On 20 January 2010, Shengtang Metal was transferred by Xiwang Steel to Xiwang Group. It was disposed by Xiwang Group in April 2011 and became an independent third party of the Group since then.

The outstanding amount due to fellow subsidiaries was settled in May 2011.

Amounts due to a related party

The outstanding amount due to a related party, Xiwang Steel Structure, amounted to RMB42.6 million, RMB22.0 million, zero and zero as of 31 December 2008, 2009 and 2010 and 30 September 2011, respectively. Xiwang Steel Structure was owned by two individual shareholders of Xiwang Group in 2008. Xiwang Steel Structure was disposed by the two individual shareholders of Xiwang Group on 24 February 2010, and became an independent third party of the Group since then.

COMMITMENTS

Our future contractual obligations primarily relate to acquisition of property, plant and equipment.

We had the following commitments of capital expenditure which were not provided for in our consolidated financial statements:

	As of 31 December			As of 30 September
	2008	2009	2010	2011
	(RMB in thousands)			
Capital expenditures in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	275,865	38,731	546,872	157,217

We entered into a cooperation agreement with BSE on 28 October 2010, pursuant to which we agreed to pay RMB7.0 million in aggregate for their services provided in the three years from 2010 to 2013. We had the following commitment under the cooperation agreement at the end of the Track Record Period:

	As of 31 December			As of 30 September
	2008	2009	2010	2011
	(RMB in thousands)			
Contracted, but not provided for:				
Consulting services	–	–	6,062	2,558

OFF-BALANCE SHEET ARRANGEMENTS

We have not entered into, nor do we expect to enter into, any off-balance sheet arrangements except for the financial guarantee and the operating lease arrangements provided below. In addition, we have not entered into any derivative contracts that are indexed to our equity interests and classified as owners' equity. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or that engages in leasing, hedging or research and development services with us.

CONTINGENT LIABILITIES

As of 31 December 2010, we had provided certain guarantees in favor of Agriculture Development Bank of China for the working capital borrowings granted to Shandong Xiwang Starch Co., Ltd. with the maximum amount of RMB300.0 million. We provided the guarantees because of the good corporate relationship we developed with Shandong Xiwang Starch Co., Ltd. historically when we were both previously subsidiaries of Xiwang Group before its disposal by the Xiwang Group in 2005. The fair value of the guarantees at inception was not significant. The guarantees were discharged as Shandong Xiwang Starch Co., Ltd. repaid the loan on 25 May 2011.

OPERATING LEASE ARRANGEMENT

We lease certain of the lands from Xiwang Group under operating lease arrangements. At the end of each of the relevant periods, we had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As of 31 December			As of 30 September
	2008	2009	2010	2011
	(RMB in thousands)			
Within one year	–	–	–	369
In the second to fifth years, inclusive	–	–	–	1,476
After five years	–	–	–	5,345
	–	–	–	7,190

MAJOR FINANCIAL RATIOS

The following table sets forth the major financial ratios as of the respective dates:

	As of 31 December			As of 30 September
	2008	2009	2010	2011
Current ratio(1)	61.1%	65.4%	37.0%	81.2%
Gearing ratio(2)	27.7%	23.1%	42.2%	37.1%
EBITDA/interest expenses(3)	5.8x	11.3x	20.1x	16.6x
Return on equity ratio (4)	77.0%	90.5%	82.2%	73.9%(5)

Notes:

(1) Total current assets divided by total current liabilities times 100%.

(2) Total debt, comprising of interest-bearing bank and other borrowings, amount due to our former ultimate parent company and long term debt, divided by total assets times 100%.

(3) EBITDA refers to profit before tax plus finance cost, depreciation and amortization of prepaid land lease payments, less other income and gains. Interest expenses consist of interest on bank borrowings and interest on bills discounted.

(4) Profit for the period attributable to owners of the parent divided by total average equity attributable to owners of the parent times 100%.

(5) The ratio has been calendarised.

Current ratio

As of 31 December 2008, 2009 and 2010 and 30 September 2011, our current ratio was approximately 61.1%, 65.4% and 37.0% and 81.2%, respectively. Our current ratios were below 100% mainly because we used a significant amount of our cash and borrowed short-term bank loans to finance the construction of our production lines. This ratio were greatly improved as of 30 September 2011, since we had replaced part of our short-term bank loans with long-term bank loans.

Gearing ratio

As of 31 December 2008, 2009 and 2010 and 30 September 2011, our gearing ratio was approximately 27.7%, 23.1% and 42.2% and 37.1%, respectively. The gearing ratio only accounted for the interest-bearing bank loans and amount due to the ultimate holding company. The interest-free borrowings from the related company were not included in the calculation. The increase in our gearing ratio as of 30 September 2011 was primarily due to increased bank borrowings incurred to finance the construction of our large bar rolling line.

EBITDA/interest expenses

For 2008, 2009 and 2010 and the first nine months of 2011, our EBITDA to interest expenses ratio was approximately 5.8x, 11.3x and 20.1x and 16.6x, respectively. The changes in this ratio were a result of the fluctuations in EBITDA and interest expenses. Our EBITDA to interest expenses ratio significantly increased from 5.8x in 2008 to 11.3x in 2009, whereas interest expenses in contrast, decreased by 0.8% in 2009. The increase in EBITDA was in line with our business expansion, while relatively lower interest expense, in contrast, was because we were able to capitalise a great portion of our interest expenses in 2009. We continued to benefit from significant EBITDA expansion and interest expenses capitalisation, which led to the EBITDA to interest expenses ratio to increase to 20.1x in 2010. For the first nine months of 2011, the ratio has slightly decreased due to our long-term borrowings newly borrowed to repay shareholder loans and finance our project.

Return on equity ratio

As of 31 December 2008, 2009 and 2010 and 30 September 2011, our return on equity ratio was approximately 77.0%, 90.5% and 82.2% and 73.9%, respectively. We have a relatively small equity base as we relied heavily on inter-company lending in our early stage of development. As of 31 December 2009, the return on equity ratio increased to 90.5% from 77.0% as of 31 December 2008 because our net profit increased significantly. As of 31 December 2010, the return on equity ratio decreased to 82.2% mainly because the increase of profit for the year was less than the increase of net assets. As of 30 September 2011, the return on equity ratio decreased to 73.9% primarily due to the increase of share capital as a result of the debt settlement.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign exchange risk

All of the operating income of the Group's business is in RMB and assets held and the committed borrowings of the Group are mainly denominated in RMB, save for those loans which were denominated in US dollars.

The following table demonstrates the sensitivity at the end of each of the Relevant Periods to a reasonably possible change in the US dollars exchange rate, with all other variables held constant, of the Group's profit before tax and shows that there is no impact on equity except for retained profits.

	As of 31 December			As of 30 September
	2008	2009	2010	2011
	(RMB in thousands)			
Increase if the USD weakens against the RMB by 5%	2,252	1,021	1,656	1,144
Decrease if the USD strengthens against the RMB by 5%	(2,252)	(1,021)	(1,656)	(1,144)

We may occasionally undertake transactions in foreign currencies, such as our October 2010 cooperation agreement with German company BSE pursuant to which we will pay BSE 800,000 Euros for a total of three years from December 2010 to December 2013, however, we conduct our business almost exclusively in Renminbi. We do not believe that we currently have any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge exposure in foreign exchange risk.

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 borrowings. Our policy is to obtain the most favourable interest rate available. The interest rates and terms of repayment of borrowings are disclosed in note 24 to the Accountants' Report in Appendix I.

We have not used any interest swaps to hedge our exposure to interest rate risk. At the end of each reporting period, approximately 66%, 79%, 89% and 77% of our interest-bearing borrowings bore interest at fixed rates.

Credit risk

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

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

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

Further quantitative data in respect of the Company's exposure to credit risk arising from trade and bills receivables, deposits and other receivables are disclosed in note 19 and note 20, respectively, to the Accountants' Report in Appendix I.

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.

RELATED PARTY TRANSACTIONS

During the Track Record Period, the Group had entered into certain transactions with its connected persons (within the meaning of the Listing Rules), all of which have been either discontinued or exempt from the listing rules and are summarised in the section headed "Connected Transactions" in this prospectus.

PROFIT ESTIMATE FOR THE YEAR ENDED 31 DECEMBER 2011

Estimated consolidated profit attributable to owners of the parent for the year ended 31 December 2011(1) and (3)	Unaudited pro forma estimated earnings per Share based on estimated profit attributable to owners of the parent for the year ended 31 December 2011(2) and (3)
Not less than RMB907.9 million (approximately HK$1,111.8 million)	Not less than RMB0.45 (approximately HK$0.56)

Notes:

(1) The bases on which the above profit estimate has been prepared are set out in Appendix III to this prospectus. The Directors have prepared the estimated consolidated profit attributable to owners of the parent for the year ended 31 December 2011 based on the audited consolidated results of the Group for the nine months ended 30 September 2011 and the unaudited consolidated management accounts of the Group for three months ended 31 December 2011. The estimate has been prepared on the basis of accounting policies consistent in all material respects with those presently adopted by the Group as set out in note 4 of section II of the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

(2) The calculation of unaudited pro forma estimated earnings per Share is based on the estimated consolidated profit attributable to the owners of the parent for the year ended 31 December 2011 and on the basis that 2,000,000,000 Shares were in issue during the entire year and assuming that the Global Offering had been completed on 1 January 2011. The calculation takes no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option or any Shares which may be allotted and issued or repurchased by the Company pursuant to the Issue Mandate or the Repurchase Mandate as described in the section headed "Share Capital" in this prospectus.

(3) For the purpose of this unaudited pro forma estimated earnings per Share, the estimated consolidated profit attributable to owners of the parent for the year ended 31 December 2011 and the unaudited pro forma estimated earnings per Share are converted into Hong Kong dollars at an exchange rate of HK$1.00 to RMB0.8166. No representation is made that the Renminbi amounts have been, could have been or may be converted into Hong Kong dollars, or vice versa, at that rate.

DIVIDEND POLICY

Since our incorporation, we have never declared or paid any dividends. After the completion of the Global Offering, we intend to pay annual dividend to all of our post-Global Offering Shareholders in a total amount of approximately 30% of the net profit attributable to owners of the parent of the year. We expect our dividend for the year 2011, which will be our first dividend, to be declared and paid after the completion of the Global Offering in a total amount of approximately 30% of our net profit attributable to owners of the parent generated in 2011. We plan to declare our dividend for the year 2011 when we announce our 2011 results, subject to the approvals of our board of directors and shareholders and the requirements set forth below.

Subject to the Companies Ordinance, we may declare final dividends in any currency to be paid to our Shareholders in general meeting, but no dividend shall be declared in excess of the amount recommended by our Board of Directors. In deciding whether to recommend the payment of a final dividend to our Shareholders, our Board of Directors will take into account factors including the following:

- general business conditions;
- our financial condition and results of operations;
- capital requirements;
- future prospects;
- statutory and regulatory restrictions;
- contractual obligations;
- our shareholders' interests; and
- other factors our board of directors may deem relevant.

Our Board of Directors may also from time to time pay to our Shareholders such interim dividends as appear to be justified by our profits.

We may only distribute dividends out of our after-tax profit only after we have made allowance for the following:

- recovery of accumulated losses, if any;
- allocations to the statutory surplus reserve equivalent to 10% of our after-tax profit, as determined under PRC GAAP or HKFRSs, whichever is lower, until the accumulative amount of such reserve reaches 50% of our registered capital; and
- allocations, if any, to a discretionary surplus reserve that are approved by the shareholders in a shareholders' meeting.

Any distributable after-tax profits that are not distributed as dividend in a given year are retained and available for distribution in subsequent years. However, ordinarily we will not pay any dividends in a year in which we do not have any distributable after-tax profit.

We are a holding company incorporated in Hong Kong. Our ability to pay dividends depends substantially on the payment of dividends to us by our subsidiaries in China. In particular, our PRC subsidiaries may pay dividends only out of accumulated distributable profits, if any, determined in accordance with its articles of association, and the accounting standards and regulations in China. Moreover, pursuant to relevant PRC laws and regulations applicable to our subsidiaries in the PRC, our PRC subsidiaries are required to set aside a certain amount of their accumulated after-tax profits each year, if any, to fund statutory reserves. These reserves may not be distributed as cash dividends. Furthermore, if any of our subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict that subsidiary's ability to pay dividends or make other payments to us.

DISTRIBUTABLE RESERVES

As of 30 September 2011, we had zero distributable reserves available for distribution to our shareholders.

PROPERTY INTEREST AND PROPERTY VALUATION

CBRE HK Limited, an independent property valuer, has valued our property interests as of 31 December 2011 and is of the opinion that the value of our property interests as of such date was an aggregate amount of RMB1,036.0 million. The full text of the letter, summary of valuation and valuation certificates with regard to such property interests are set out in Appendix IV to this prospectus.

The statement below shows the reconciliation of aggregate amounts of certain properties and lease prepayments as reflected on the audited consolidated financial statements as of 30 September 2011 with the valuation of these properties and lease prepayments as of 31 December 2011 as set out in Appendix IV to this prospectus.

(RMB'000)

Net book value of property interests of our Group as at 30 September 2011	
— Buildings, land use rights and construction in progress	1,735,620
Movements for the three months ended 31 December 2011	
Add: Net addition during the period	62,895
Less: Depreciation and amortisation during the period	(10,351)
Net book value as at 31 December 2011	1,788,164
Valuation deficit	(752,164)
Valuation as at 31 December 2011	1,036,000

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, as of the Latest Practicable Date, there has been no material adverse change in the financial or trading position or prospects of us since 30 September 2011 and there is no event since 30 September 2011 which would materially affect the information shown in the accountants' report set out in Appendix to this prospectus.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and unaudited pro forma statement of adjusted net tangible assets of the Group, which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had occurred on 30 September 2011 assuming the Over-allotment Option is not exercised.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the net tangible assets of the Group as of 30 September 2011 or at any future dates following the Global Offering.

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as of 30 September 2011 *(Note 1)*	Estimated net proceeds from the Global Offering *(Note 2)*	Unaudited pro forma adjusted net tangible assets of the Group attributable to owners of the parent	Unaudited pro forma adjusted net tangible assets value per Share *(Notes 3 and 4)*
	RMB'000	**RMB'000**	**RMB'000**	**HK$**
Based on an Offer Price of HK$2.65 per Offer share	1,685,142	807,646	2,492,788	1.53
Based on an Offer Price of HK$3.36 per Offer share	1,685,142	1,030,979	2,716,121	1.67

Notes:

(1) The audited consolidated net tangible assets of the Group attributable to owners of the Company as of 30 September 2011 is extracted from the Accountants' Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to owners of the Company as of 30 September 2011 of RMB1,685.1 million.

(2) The estimated net proceeds from the Global Offering are based on an indicative Offer Prices of HK$2.65 and HK$3.36 per Share, respectively (after deducting the underwriting fees and other related expenses), and take no account of any Shares which may be issued upon the exercise of the Over-allotment Option. For the purpose of the estimated net proceeds from the Global Offering, the amount stated in Hong Kong dollars has been converted into Renminbi at the rate of RMB0.8166 to HK$1.00. No representation is made that the Renminbi amounts have been, could have been or may be converted into Hong Kong dollars, or vice versa, at that rate.

(3) The unaudited pro forma adjusted consolidated net tangible assets per Share is determined after the adjustment as described above and on the basis that 2,000,000,000 shares are issued and outstanding assuming the Gloal Offering was completed on 30 September 2011 (being the number of Shares expected to be in issue immediately after completion of the Global Offering, without taking into account of any shares which may be issued upon the exercise of the Over-allotment Option).

(4) For the purpose of this unaudited pro forma adjusted net tangible assets, the balance stated in Renminbi are converted into Hong Kong dollars at the rate of RMB0.8166 to HK$1.00. No representation is made that the Renminbi amounts have been, could have been or may be converted into Hong Kong dollars, or vice versa, at that rate.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

The Directors have confirmed that there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO SIGNIFICANT INTERRUPTIONS

Our Directors confirm that there have been no interruptions in our business that may have a material adverse effect to our financial position and results of operations in the 12 month period prior to the Latest Practicable Date.

FUTURE PLANS

See "Our Business — Our Business Strategies" on page 131 for a detailed description of our future plans.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK$1,127.7 million after deducting the underwriting fees and expenses payable by us in the Global Offering, assuming no Over-allotment Option is exercised and an Offer Price of HK$3.01 per Share, being the mid-point of the indicative Offer Price range of HK$2.65 to HK$3.36 per Share in this prospectus.

We intend to use the net proceeds we will receive from this offering for the following purposes:

- approximately 75%, or approximately HK$845.8 million, will be used to construct an high-duty alloy pipe production line;
- approximately 20%, or approximately HK$225.5 million, will be used towards the unpaid construction costs incurred in connection with installing our second EAF and the remaining construction costs for installing our large bar rolling line; and
- approximately 5%, or approximately HK$56.4 million, will be used towards our working capital and other general corporate purposes.

In the event that the Over-allotment Option is exercised in full, we estimate that we will receive additional net proceeds from the sale of these additional Offer Shares of approximately HK$225.8 million, after deducting the underwriting commissions and other estimated offering expenses payable by us and assuming the same initial public Offer Price as stated above. We intend to apply the additional net proceeds to the above uses in the proportions stated above.

In the event that the Offer Price is set at the low-end of the proposed Offer Price range and the Over-allotment Option is not exercised at all, our Company will receive net proceeds of approximately HK$989.0 million. Under such circumstances, the net proceeds allocated to the remaining construction costs for installing our second EAF and large bar rolling line will be reduced and there will be no allocation from working capital. In the event that the Offer Price is set at the low-end of the proposed Offer Price range and the Over-allotment Option is exercised in full, our Company will receive net proceeds of approximately HK$1,187.8 million. The additional net proceeds of approximately HK$198.8 million (when compared to the net proceeds to our Company with the Offer Price being determined at the low-end of the stated range and assuming the Over-allotment Option is not exercised) will also be used for the construction of the high-duty alloy pipe production line.

To the extent that the net proceeds of the Global Offering are not immediately used for the purposes described above, they will be placed on deposit with banks or other financial institutions or held in other treasury instruments.

HONG KONG UNDERWRITERS

The Hong Kong Public Offering shall be fully underwritten by the Hong Kong Underwriters subject to the Offer Price being agreed upon between the Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters). The Hong Kong Underwriters are:

Joint Bookrunners

J.P. Morgan Securities (Asia Pacific) Limited
Citigroup Global Markets Asia Limited
Kim Eng Securities (Hong Kong) Limited
CCB International Capital Limited
ABCI Securities Company Limited

Joint Lead Managers

J.P. Morgan Securities (Asia Pacific) Limited
Citigroup Global Markets Asia Limited
Kim Eng Securities (Hong Kong) Limited
CCB International Capital Limited
ABCI Securities Company Limited

INTERNATIONAL UNDERWRITERS

Joint Bookrunners

J.P. Morgan Securities Ltd.
Citigroup Global Markets Asia Limited
Kim Eng Securities (Hong Kong) Limited
CCB International Capital Limited
ABCI Securities Company Limited

Joint Lead Managers

J.P. Morgan Securities Ltd.
Citigroup Global Markets Asia Limited
Kim Eng Securities (Hong Kong) Limited
CCB International Capital Limited
ABCI Securities Company Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering initially 50,000,000 Hong Kong Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms. Subject to the Listing Committee of the Hong Kong Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be offered as mentioned herein (including any additional Offer Shares which may be made available pursuant to the exercise of the Over-allotment Option) and to certain other conditions set out in the Hong Kong Underwriting Agreement, each of the Hong Kong Underwriters has agreed to subscribe or procure subscribers for its applicable proportions of the Hong Kong Offer Shares now being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement. The Hong Kong Underwriting Agreement is conditional upon and subject to the International Underwriting Agreement having been signed and becoming unconditional.

One of the conditions is that the Offer Price must be agreed between us (for ourselves and on behalf of the Selling Shareholder) and the Sole Global Coordinator (for itself and on behalf of the Underwriters). For applicants applying under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering. The International Offering will be fully underwritten by the International Underwriters. If, for any reason, the Offer Price is not agreed between us (for ourselves and on behalf of the Selling Shareholder) and the Sole Global Coordinator (for itself and on behalf of the Underwriters), the Global Offering will not proceed.

Grounds for Termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination, if, the Sole Global Coordinator in its absolute discretion for and on behalf of all Hong Kong Underwriters by written notice to the Company terminate the Hong Kong Underwriting Agreement, at any time at or prior to 8:00 a.m. on the Listing Date:

(i) there shall develop, occur, exist or come into effect:

(a) a moratorium, suspension or restriction on trading in securities generally on the Hong Kong Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange or the Shanghai Stock Exchange;

(b) a general moratorium on commercial banking activities declared by relevant authorities in Hong Kong, the PRC, the United States, or the European Union, or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in those places or jurisdictions;

(c) any litigation or claim of any third party being threatened or instigated against any member of the Group;

(d) any Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company;

(e) the chairman of the Company vacating his office as a Director;

(f) an authority in the jurisdictions relevant to the business of the Group commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Director;

(g) any new law, or any change or any development involving a prospective change or any event or circumstance likely to result in a change or a development involving a prospective change, in (or in the interpretation or application by any court or other competent authority of) existing laws, in each case, in or affecting Hong Kong, the PRC, the United States, the European Union or Japan or any other relevant jurisdiction;

(h) any local, national, regional or international event or circumstance in the nature of force majeure (including, without limitation, any act of government, strike or lock-out, riot, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, act or declaration of war, outbreak or escalation of hostilities, act of terrorism, act of God, pandemic, epidemic, outbreak of disease, declaration of a state of emergency or calamity or crisis) in or affecting Hong Kong, the PRC or the United States, the European Union, Japan or any other relevant jurisdiction;

(i) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, Hong Kong, the PRC, Japan, the United States, or the European Union, or any other jurisdiction relevant to any member of the Group;

(j) any change, or any development involving a prospective change, or any event or circumstance likely to result in a change or a development involving a prospective change, in any local, national, regional or international financial, political, economic, military, industrial, fiscal, currency exchange rate, exchange control, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, interbank markets and credit markets);

(k) a prohibition on the Company for whatever reason from offering, allotting, issuing or selling any of the Shares (including the Over-allotment Shares) pursuant to the terms of the Global Offering;

(l) non-compliance of this prospectus (or any other documents used in connection with the offer of the Hong Kong Offer Shares) or any aspect of the Hong Kong Public Offering with the Listing Rules or any of the applicable laws;

(m) the issue or requirement to issue by the Company of any supplement or amendment to this prospectus (or to any other documents used in connection with the contemplated offer of the Hong Kong Offer Shares) pursuant to the Companies Ordinance or the Listing Rules or any requirement or request of the Hong Kong Stock Exchange and/or the SFC; or

(n) an order or petition for the winding up of any member of the Group or any composition or arrangement made by any member of the Group with its creditors or a scheme of arrangement entered into by any member of the Group or the passing of any resolution for the winding-up of any member of the Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of the Group or anything analogous hereto occurring in respect of any member of the Group,

which, individually or in the aggregate, in the sole and absolute opinion of the Sole Global Coordinator (1) has or will have or is likely to have a material adverse effect to the business, financial or trading, position or condition, or prospects of the Group as a whole; or (2) has or will have or is likely to have a material adverse effect to the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering; or (3) makes or will make or is likely to make it inadvisable or inexpedient or impracticable for the Global Offering to proceed or to market the Global Offering; or (4) has or will have or is likely to have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

(ii) there has comes to the notice of the Sole Global Coordinator:

(a) that any statement contained in any of the documents in connection with the Hong Kong Public Offering and/or in any other notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect or misleading in any respect, or that any forecast, estimate, expression of opinion, intention or expectation contained in any of the documents in connection with the Hong Kong Public Offering and/or any other notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair and honest and based on reasonable assumptions with reference to the facts and circumstances then subsisting; or

(b) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission from any of the documents in connection with the Hong Kong Public Offering and/or in any other notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or

(c) any material breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than upon the Sole Global Coordinator or the International Underwriters); or

(d) any event, act or omission which gives or is likely to give rise to any liability of each of the Company and the indemnifying parties under the Hong Kong Underwriting Agreement; or

(e) any breach of, or any event or circumstance rendering untrue or incorrect in any respect, any of the warranties under the Hong Kong Underwriting Agreement; or

(f) approval by the Listing Committee of the Hong Kong Stock Exchange of the listing of, and permission to deal in, the Shares to be issued or sold (including any additional Shares that may be issued or sold pursuant to the exercise of the Over-allotment Option) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

(g) the Company withdraws this prospectus (and/or any other documents issued or used in connection with the Hong Kong Public Offering); or

(h) a valid demand by any creditor for repayment or payment of any indebtedness of the Company or any member of the Group or in respect of which the Company or any member of the Group is liable prior to its stated maturity which demand has or could reasonably be expected to have a material adverse effect to the Group taken as a whole.

Undertakings

Pursuant to Rule 10.08 of the Listing Rules, no further Shares or securities convertible into equity securities (whether or not of a class already listed) may be issued or form the subject of any agreement to such issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except in certain prescribed circumstances, and the issue of Shares or securities pursuant to the Over-allotment Option.

Pursuant to the Hong Kong Underwriting Agreement, our Company has undertaken to the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters that, except pursuant to the Global Offering (including pursuant to the Over-allotment Option), during the First Six-month Period, our Company will not, and will procure each other member of the Group not to, without the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

(i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, or repurchase any Shares or other securities of the Company or any shares or other securities of such other member of the Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of the Group, as applicable), or deposit any Shares or other securities of the Company or any shares or other securities of such other member of the Group, as applicable, with a depositary in connection with the issue of depositary receipts; or

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of the Company or any shares or other securities of such other member of the Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of the Group, as applicable); or

(iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above; or

(iv) offer to or agree to or announce any intention to effect any transaction specified in (i) or (ii) above,

in each case, whether any of the transactions specified in (i), (ii) or (iii) above is to be settled by delivery of Shares or other securities of the Company or shares or other securities of such other member of the Group, as applicable, or in cash or otherwise (whether or not the issue of such Shares or other shares or securities will be completed within the First Six-month Period). In the event that, during the Second Six-Month Period, the Company enters into any of the transactions specified in (i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction, the Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company.

Further, each of the Controlling Shareholders has undertaken to each of us, the Sole Sponsor and the Sole Global Coordinator without the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters):

(i) it will not, at any time during the First Six-Month Period, (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, or repurchase any Shares or other securities of the Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or deposit any Shares or other securities of the Company with a depositary in connection with the issue of depositary receipts, or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of the Company or any interest therein in (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or (c) enter into any transaction with the same economic effect as any transaction specified in (a) or (b) above, or (d) offer to or agree to or announce any intention to effect any transaction specified in (a), (b) or (c) above, in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by delivery of Shares or other securities of the Company or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period);

(ii) it will not, during the Second Six-Month Period, enter into any of the transactions specified in (a), (b) or (c) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, it will cease to be a "controlling shareholder" (as the term is defined in the Listing Rules) of the Company; and

(iii) until the expiry of the Second Six-Month period, in the event that it enters into any of the transactions specified in (a), (b) or (c) above or offer to or agrees to or announce any intention to effect any such transaction, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company.

Pursuant to Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders has undertaken to the Hong Kong Stock Exchange that it, he or she shall not and shall procure that the relevant registered holder(s) shall not:

(i) at any time during the First Six-Month Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of those Share or securities of our Company in respect of which he is or they are shown by this prospectus to be the beneficial owner(s); or

(ii) at any time during the Second Six-Month Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities referred to in (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be a controlling shareholder (as defined in the Listing Rules) of the Company.

Each of our Controlling Shareholders has also undertaken to each of us, the Sole Sponsor, the Sole Global Coordinator pursuant to the Hong Kong Underwriting Agreement that, except in compliance of the Listing Rules or pursuant to the Stock Borrowing Agreement or the Underwriting Agreements, that it, he or she will not, without the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), directly or indirectly, and will procure that none of its associates or companies controlled by it or any nominee or trustee holding in trust for it shall at any time until the end of the Second Six-month Period do any of the acts that may result in our Controlling Shareholders ceasing to be a controlling shareholder (as defined in the Listing Rules) of our Company.

Note (2) of Rule 10.07 of the Listing Rules provides that the rule does not prevent a controlling shareholder (as defined under the Listing Rules) from using the shares owned by it as security (including a charge or a pledge) in favor of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Law of Hong Kong) for a bona fide commercial loan.

Each of our Controlling Shareholders has further undertaken to each of us, the Sole Sponsor and the Sole Global Coordinator and the Hong Kong Stock Exchange that it, he or she will, at any time after the date of this prospectus and until the end of the Second Six-month Period immediately inform us, the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Stock Exchange of:

(i) any pledges or charges of any of the Shares or other securities of our Company beneficially owned by it and the number of such Shares or other securities so pledged or charged; and

(ii) any indication received by it, either verbal or written, from any pledgee or chargee of any of our Shares or other securities pledged or charged that any of such Shares or other securities of our Company will be dispose of.

Note (2) of Rule 10.07 of the Listing Rules provides that Rule 10.07 does not prevent a controlling shareholder from using the Shares owned by him/her as security (including a charge or a pledge) in favor of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan.

Pursuant to Note (3) of Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders has further undertaken to the Hong Kong Stock Exchange that it, he or she will, within the period commencing on the date by reference to which disclosure of his/her shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date:

(i) when he/she pledges or charges any Shares or other securities or interests in any securities of our Company beneficially owned by him/her in favor of any authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan, immediately inform us and the Sole Global Coordinator of such pledge or charge together with the number of such Shares or securities of our Company so pledged or charged; and

(ii) when he/she receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or securities or interests in any securities of our Company will be disposed of, immediately inform us and the Sole Global Coordinator in writing of such indications.

We will also inform the Hong Kong Stock Exchange as soon as we have been informed of the above matters (if any) by each of our Controlling Shareholders and disclose such matters by way of an announcement in accordance with the Listing Rules as soon as possible after being so informed.

The International Offering

In connection with the International Offering, it is expected that our Company, among others, will enter into the International Underwriting Agreement with the International Underwriters. Under the International Underwriting Agreement, it is expected that the International Underwriters would, subject to certain conditions, severally and not jointly, agree to procure subscribers for or purchasers for, or failing which to subscribe for or purchase themselves, their respective applicable proportions of the International Offer Shares being offered pursuant to the International Offering which are not taken up under the International Offering.

Our Company is expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Stabilising Manager on behalf of the International Underwriters at any time from the date of the International Underwriting Agreement until 30 days after the last date for the lodging of applications under the Hong Kong Public Offering, to require our Company to allot and issue up to an aggregate of 75,000,000 additional Offer Shares representing 15% of the initial Offer Shares, at the same price per Share under the International Offering to cover, among other things, over-allocations (if any) in the International Offering.

Total Commission and Expenses

The Hong Kong Underwriters will receive an underwriting commission of 3.5% on the Offer Price multiplied by the number of Hong Kong Offer Shares initially offered under the Hong Kong Public Offering, out of which they will pay any sub-underwriting commission. The International Underwriters will receive an underwriting commission of 3.5% on the Offer Price multiplied by the number of International Offer Shares. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, our Company will pay an underwriting commission at the rate applicable to the International Offer Shares. In addition, we may, in our sole discretion, pay the Joint Bookrunners an additional incentive fee of up to 0.5% of the gross proceeds from the Global Offering (including any proceeds pursuant to the exercise of the Over-allotment Option).

Assuming an Offer Price of HK$3.01 per Share (being the mid-point of the indicative offer price range of HK$2.65 to HK$3.36 per Share), the aggregate commissions and fees, together with listing fees, SFC transaction levy, investor compensation levy, Hong Kong Stock Exchange trading fee, legal and other professional fees and printing and other expenses relating to the Global Offering are estimated to approximately HK$76.3 million (assuming the Over-allotment Option is not exercised) in total payable by our Company.

Hong Kong Underwriter's Interests in our Company

Save as disclosed in this prospectus and save for its obligations under the Hong Kong Underwriting Agreement, the Hong Kong Underwriters does not have any shareholding interests in our Company or the right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities of our Company.

The Sole Sponsor's Independence

J.P. Morgan Securities (Asia Pacific) Limited satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering consists of:

- the Hong Kong Public Offering of 50,000,000 New Shares (subject to re-allocation and adjustment as mentioned below) in Hong Kong as described below in the section headed "Structure of the Global Offering — The Hong Kong Public Offering"; and

- the International Offering of 450,000,000 Shares comprising 350,000,000 New Shares and 100,000,000 Sale Shares (subject to re-allocation, adjustment and the Over-allotment Option as mentioned below) outside the United States (including to professional and institutional investors within Hong Kong), in offshore transaction in reliance on Regulation S and in the United States to QIBs in reliance on Rule 144A or another exemption from the registration requirements under the U.S. Securities Act.

Investors may apply for the Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the Offer Shares under the International Offering, but may not do both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Offering will involve selective marketing of the Offer Shares to QIBs in the United States in reliance on Rule 144A or another exemption under the U.S. Securities Act, as well as to institutional and professional investors and other investors expected to have a sizeable demand for the Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. The International Underwriters are soliciting from prospective investors indications of interest in acquiring the Offer Shares in the International Offering. Prospective investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering respectively may be subject to reallocation as described below in the section headed "Structure of the Global Offering — Pricing and Allocation".

PRICING AND ALLOCATION

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us (for ourselves and on behalf of the Selling Shareholder) on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Friday, 17 February 2012, and in any event, no later than Tuesday, 21 February 2012.

The Offer Price will be not more than HK$3.36 per Offer Share and is expected to be not less than HK$2.65 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, as explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative offer price range stated in this prospectus.

If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Sole Global Coordinator (on behalf of the Underwriters and with our consent) considers it appropriate, the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range may be reduced below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering on Thursday, 16 February 2012, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) notice of the reduction in the number of Offer Shares being offered under the Global Offer and/or the indicative offer price range. Such notice will also include confirmation or revision, as appropriate, of the offering statistics as currently set out in the section headed "Summary" and any other financial information which may change as a result of such reduction. Before submitting applications for Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative offer price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Applicants under the Hong Kong Public Offering should note that in no circumstances can applications be withdrawn once submitted, even if the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range is so reduced. The Offer Price, if agreed upon, will be fixed within such revised offer price range.

The Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Global Coordinator.

Allocation of the Offer Shares pursuant to the International Offering will be determined by the Sole Global Coordinator, effected in accordance with the book-building process and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Shares after the Listing. Such allocation may be made to professional, institutional and corporate investors and is intended to result in a distribution of our Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of us and our shareholders as a whole.

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Although the allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The net proceeds from the issue of New Shares are estimated to be approximately HK$1,127.7 million. The estimated net proceeds from the issue of New Shares are calculated assuming an Offer Price of HK$3.01 per Share (being the midpoint of the stated offer price range of HK$2.65 to HK$3.36 per Share) and after deduction of underwriting fees and estimated expenses payable by us in relation to the Global Offering assuming that the Over-allotment Option is not exercised.

The applicable Offer Price, level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Offering, and the basis of allocations of the Hong Kong Offer Shares are expected to be announced on 22 February 2012 through a variety of channels as described in the manner set out in "How to Apply for Hong Kong Offer Shares — Publication of Results".

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Hong Kong Offer Shares pursuant to the Hong Kong Public Offering will be conditional on:

(a) the granting by the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and the Offer Shares (including any Shares which may be sold pursuant to the exercise of the Over-allotment Option);

(b) the Offer Price having been fixed on or around the Price Determination Date;

(c) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and

(d) the obligations of the Underwriters under each of the Hong Kong Underwriting Agreement and the International Underwriting Agreement having become unconditional and not having been terminated in accordance with the terms of the respective agreements, in each case on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 8:00 a.m. on Thursday, 23 February 2012.

If for any reason, the Offer Price is not agreed before Tuesday, 21 February 2012 between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us (for ourselves and on behalf of the Selling Shareholder), the Global Offering will not proceed and will lapse.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offering to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed "How to Apply for Hong Kong Offer Shares". In the meantime, the application monies will be held in separate bank account(s) with the receiving bank(s) or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

Share certificates for the Offer Shares are expected to be issued on Wednesday, 22 February 2012 but will only become valid certificates of title at 8:00 a.m. on Thursday, 23 February 2012 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section entitled "Underwriting — Grounds for Termination" has not been exercised.

THE HONG KONG PUBLIC OFFERING

We are initially offering 50,000,000 New Shares at the Offer Price under the Hong Kong Public Offering, representing 10% of 500,000,000 Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to adjustment as mentioned below, the number of Shares offered under the Hong Kong Public Offering will represent approximately 2.5% of our total issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. In Hong Kong, individual retail investors are expected to apply for Offer Shares through the Hong Kong Public Offering and individual retail investors, including individual investors in Hong Kong applying through banks and other institutions, seeking Offer Shares in the International Offering will not be allotted Shares in the International Offering.

The Sole Global Coordinator (on behalf of the Underwriters) may require any investor who has been offered Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Sole Global Coordinator so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Shares under the Hong Kong Public Offering.

The Offer Price will be not more than HK$3.36 and is expected to be not less than HK$2.65. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum offer price of HK$3.36 per Share plus 1.0% brokerage, 0.003% SFC transaction levy, and 0.005% Hong Kong Stock Exchange trading fee. If the Offer Price, as finally determined on the Price Determination Date, is lower than HK$3.36, being the maximum Offer Price, we will refund the respective difference (including the brokerage, the SFC transaction levy, and the Hong Kong Stock Exchange trading fee attributable to the surplus application monies) to successful applicants, without interest. Further details are set out in "How to Apply for Hong Kong Offer Shares".

For allocation purposes only, the 50,000,000 Shares initially being offered for subscription under the Hong Kong Public Offering (after taking into account any adjustment in the number of Offer Shares allocated between the Hong Kong Public Offering and the International Offering) will be divided equally into two pools: Pool A comprising 25,000,000 Hong Kong Offer Shares and Pool B comprising 25,000,000 Hong Kong Offer Shares, both of which are available on an equitable basis to successful applicants. All valid applications that have been received for Hong Kong Offer Shares with a total amount (excluding brokerage, SFC transaction levy, and the Hong Kong Stock Exchange trading fee) of HK$5 million or below will fall into Pool A and all valid applications that have been received for Hong Kong Offer Shares with a total amount (excluding brokerage, SFC transaction levy, and Hong Kong Stock Exchange trading fee) of over HK$5 million and up to the total value of Pool B, will fall into Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If Hong Kong Offer Shares in one pool (but not both pools) are undersubscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Offer Shares from either Pool A or Pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 50% of the 50,000,000 Shares initially comprised in the Hong Kong Public Offering (that is, 25,000,000 Hong Kong Offer Shares) are liable to be rejected. The allocation of Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. If the number of Shares validly applied for in the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more, of the number of Shares initially available under the Hong Kong Public Offering, the total number of Shares available under the Hong Kong Public Offering will be increased to 150,000,000, 200,000,000 and 250,000,000 Shares, respectively, representing 30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of (iii)), respectively, of the total number of Shares initially available under the Global Offering (before any exercise of the Over-allotment Option). In such cases, the number of Shares allocated in the International Offering will be correspondingly reduced, in such manner as the Sole Global Coordinator deems appropriate, and such additional Shares will be allocated to Pool A and Pool B. In addition, the Sole Global Coordinator may allocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Offer Shares are not fully subscribed, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Sole Global Coordinator deems appropriate.

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL OFFERING

The number of International Offer Shares to be initially offered for subscription or sale under the International Offering will be 450,000,000 Shares, comprising 350,000,000 New Shares and 100,000,000 Sale Shares, representing approximately 90% of the total number of Offer Shares initially available under the Global Offering. The International Offering is subject to the Hong Kong Public Offering being unconditional.

Pursuant to the International Offering, the International Underwriters will conditionally place our Shares with QIBs in the United States in reliance on Rule 144A or another exemption from registration under the U.S. Securities Act, as well as with institutional and professional investors and other investors expected to have a sizeable demand for our Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S.

We expect to grant the Over-allotment Option to the International Underwriters, exercisable by the Sole Global Coordinator at its sole and absolute discretion on behalf of the International Underwriters within 30 days from the last day for the lodging of applications under the Hong Kong Public Offering. An announcement will be made in the event that the Over-allotment Option is exercised. Pursuant to the Over-allotment Option, the Sole Global Coordinator will have the right to require the allotment and issue by the Company of an aggregate of 75,000,000 additional Shares representing in aggregate 15% of the initial Offer Shares, at the Offer Price. Further details are set out below in the section “Structure of the Global Offering — Over-allotment and Stabilisation”.

OVER-ALLOTMENT AND STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent, any decline in the market price of the securities below the offer price. In Hong Kong and certain other jurisdictions, the price at which stabilisation is effected is not permitted to exceed the offer price.

In connection with the Global Offering, J.P. Morgan Securities Ltd., as Stabilising Manager, or any person acting for it, on behalf of the Underwriters, may over-allocate or effect short sales or any other stabilising transactions with a view to stabilising or maintaining the market price of the Offer Shares at a level higher than that which might otherwise prevail for a limited period after the commencement of trading in the Shares on the Hong Kong Stock Exchange. Such transactions may be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager, its affiliates or any person acting for it to do this. Such Stabilisation, if commenced, will be conducted at the absolute discretion of the Stabilising Manager, its affiliates or any person acting for it and may be discontinued at any time, and must be brought to an end after a limited period.

The number of our Shares that may be over-allocated will not exceed the number of our Shares that may be sold under the Over-allotment Option, namely, 75,000,000 Shares, which is 15% of the number of Offer Shares initially available under the Global Offering, in the event that the whole or part of the Over-allotment Option is exercised.

The Stabilising Manager, its affiliates or any person acting for it may take all or any of the following stabilising actions in Hong Kong during the stabilisation period:

(i) purchase, or agree to purchase, any of the Shares or offer or attempt to do so for the sole purpose of preventing or minimising any reduction in the market price of the Shares;

(ii) in connection with any action described in paragraph (i) above:

(A) (1) over-allocate the Shares; or

(2) sell or agree to sell the Shares so as to establish a short position in them, for the sole purpose of preventing or minimising any reduction in the market price of the Shares;

(B) exercise the Over-allotment Option and purchase or subscribe for or agree to purchase or subscribe for the Shares in order to close out any position established under paragraph (A) above;

(C) sell or agree to sell any of the Shares acquired by it in the course of the stabilising action referred to in paragraph (i) above in order to liquidate any position that has been established by such action; or

(D) offer or attempt to do anything as described in paragraph (ii)(A)(2), (ii)(B) or (ii)(C) above.

Stabilising actions taken by the Stabilising Manager, or any person acting for it, will be entered into in accordance with the laws, rules and regulations in place in Hong Kong.

J.P. Morgan Securities Ltd., its affiliates or any person acting for it, may, in connection with the stabilising action, maintain a long position in the Shares, and there is no certainty as to the extent to which and the time period for which it will maintain such a position. Investors should be warned of the possible impact of any liquidation of the long position by the Stabilising Manager, its affiliates or any person acting for them, which may include a decline in the market price of the Shares.

Stabilisation cannot be used to support the price of the Offer Shares for longer than the stabilisation period, which begins on the day on which trading of the Offer Shares commences on the Hong Kong Stock Exchange and ends on the thirtieth day after the last day for lodging of application under the Hong Kong Public Offering. After this date, no further stabilising action may be taken, demand for the Shares, and therefore then market price, could fall. Any stabilising action taken by the Stabilising Manager, its affiliates or any person acting for it, may not necessarily result in the market price of our Shares staying at or above the Offer Price either during or after the stabilising period. Stabilising bids for or market purchases of our Shares by the Stabilising Manager, or any person acting for it, may be made at a price at or below the Offer Price and can therefore be done at a price below the price the investor has paid in acquiring the Offer Shares.

STOCK BORROWING ARRANGEMENT

In connection with the Global Offering, the Sole Global Coordinator may over-allocate up to and not more than an aggregate of 75,000,000 additional Shares and cover such over-allocations by exercising the Over-allotment Option or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means.

In particular, for the purpose of covering such over-allocations, the Sole Global Coordinator may borrow up to 75,000,000 Shares from Xiwang Investment, equivalent to the maximum number of Shares to be issued on a full exercise of the Over-allotment Option, under the Stock Borrowing Agreement.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, 23 February 2012, it is expected that dealings in Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Thursday, 23 February 2012.

UNDERWRITING ARRANGEMENTS

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us on the Price Determination Date.

We expect that we will, on or about Friday, 17 February 2012, enter into the International Underwriting Agreement relating to the International Offering. Underwriting arrangements, the Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarised in the section headed "Underwriting".

METHODS OF APPLYING FOR THE HONG KONG OFFER SHARES

There are three ways to make an application for the Hong Kong Offer Shares. You may either (i) use an Application Form; (ii) apply online through the designated website of the HK eIPO White Form Service Provider, referred to herein as the "**HK eIPO White Form**" service; or (iii) give **electronic application instructions** to HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf. Except where you are a nominee and provide the required information in your application, you or you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **WHITE** or **YELLOW** Application Form or applying online through **HK eIPO White Form** service or by giving **electronic application instructions** to HKSCC.

I. WHO CAN APPLY FOR HONG KONG OFFER SHARES

You can apply for the Hong Kong Offer Shares available for subscription by the public on a **WHITE** or **YELLOW** Application Form if you or any person(s) for whose benefit you are applying, are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address;
- are not inside the United States (as defined in Regulation S) when completing or submitting the Application Form and are not a U.S. person as defined in Regulation S; and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If you wish to apply for Hong Kong Offer Shares online through the **HK eIPO White Form** service, in addition to the above you must also:

- have a valid Hong Kong identity card number, and
- be willing to provide a valid e-mail address and a contact telephone number.

You may only apply by means of the **HK eIPO White Form** service if you are an individual applicant. Corporations or joint applicants may not apply by means of **HK eIPO White Form**.

If the applicant is a firm, the application must be in the names of the individual members, not the firm's name. If the applicant is a body corporate, the application form must be signed by a duly authorised officer, who must state his or her representative capacity.

If an application is made by a person duly authorised under a valid power of attorney, the Joint Bookrunners (or its respective agents or nominees) may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of the attorney.

The number of joint applicants may not exceed four.

We, the Sole Global Coordinator or the designated HK eIPO White Form Service Provider (where applicable) or our or their respective agents have full discretion to reject or accept any application, in full or in part, without assigning any reason.

The Hong Kong Offer Shares are not available to existing beneficial owners of Shares, or Directors or chief executives of our company or any of our subsidiaries, or their respective associates (as defined in the Listing Rules) or any other connected persons of our company or our subsidiaries.

You may apply for Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest for International Offer Shares under the International Offering, but may not do both.

II. APPLYING BY USING A WHITE OR YELLOW APPLICATION FORM

Which Application Form to use

Use a **WHITE** Application Form if you want the Hong Kong Offer Shares to be issued in your own name.

Use a **YELLOW** Application Form if you want the Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

The Hong Kong Offer Shares are not available to existing beneficial owners of Shares in our Company, Directors or chief executive officers of our Company or any of its subsidiaries, or associates of any of them or to legal or natural persons of the PRC or U.S. persons (as defined in Regulation S) or persons who do not have a Hong Kong address.

Where to collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, 13 February 2012 until 12:00 noon on Thursday, 16 February 2012 from:

Any of the following addresses of the Hong Kong Underwriters:

Joint Bookrunners of the Hong Kong Public Offering	J.P. Morgan Securities (Asia Pacific) Limited 28/F, Chater House 8 Connaught Road, Central Hong Kong
	Citigroup Global Markets Asia Limited 50/F, Citibank Tower, Citibank Plaza 3 Garden Road, Central Hong Kong
	Kim Eng Securities (Hong Kong) Limited Level 30, Three Pacific Place 1 Queen's Road East Hong Kong

CCB International Capital Limited
34/F, Two Pacific Place
88 Queensway
Admiralty, Hong Kong

ABCI Securities Company Limited
Room 701, 7/F
One Pacific Place
88 Queensway
Admiralty, Hong Kong

or any of the following branches of Bank of Communications Co., Ltd. Hong Kong Branch:

	Branch Name	Address
Hong Kong Island	Hong Kong Branch	20 Pedder Street, Central
	North Point Sub-Branch	442-444 King's Road
Kowloon	Kowloon Sub-Branch	G/F., 563 Nathan Road
New Territories	Tiu Keng Leng Sub-branch	Unit L2-064 & 065 Metro Town Shopping Mall 8 King Ling Road
	Tsuen Wan Sub-Branch	G/F., Shop G9B-G11 Pacific Commercial Plaza Bo Shek Mansion 328 Sha Tsui Road

or any of the following branches of Standard Chartered Bank (Hong Kong) Limited:

	Branch Name	Address
Hong Kong Island	Des Voeux Road Branch	Standard Chartered Bank Building, 4-4A Des Voeux Road Central Central
	Hennessy Road Branch	399 Hennessy Road Wanchai
Kowloon	Kwun Tong Hoi Yuen Road Branch	G/F, Fook Cheong Building No. 63 Hoi Yuen Road Kwun Tong, Kowloon
	Tsimshatsui Branch	G/F, 10 Granville Road Tsimshatsui
New Territories	Tsuen Wan Branch	Shop C, G/F & 1/F Jade Plaza 298 Sha Tsui Road Tsuen Wan

or any of the following branches of The Bank of East Asia, Limited:

	Branch Name	Address
Hong Kong Island	Main Branch	10 Des Voeux Road Central Hong Kong
	Wanchai Branch	Shop A-C, G/F Easey Commercial Building 253-261 Hennessy Road Wanchai
Kowloon	East Tsim Sha Tsui Branch	Shop G3-G5 G/F, East Ocean Centre 98 Granville Road Tsim Sha Tsui
	Hoi Yuen Road Branch	Unit 1, G/F, Hewlett Centre 54 Hoi Yuen Road
New Territories	Ha Kwai Chung Branch	202 Hing Fong Road

or any of the following branches of Wing Lung Bank, Limited:

	Branch Name	Address
Hong Kong Island	Head Office	45 Des Voeux Road Central
	Johnston Road Branch	118 Johnston Road
Kowloon	Mongkok Branch	B/F Bank Centre 636 Nathan Road
	Tsim Sha Tsui Branch	4 Carnarvon Road
New Territories	Shatin Plaza Branch	21 Shatin Centre Street

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, 13 February 2012 until 12:00 noon on Thursday, 16 February 2012 from:

(1) the Customer Service Center of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong; or

(2) your stockbroker, who may have such Application Forms and this prospectus available.

How to complete the Application Form and make payment

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions your application may be rejected and returned by ordinary post together with the accompanying cheque or banker's cashier order to you (or the first-named applicant in the case of joint applicants) at your own risk at the address stated in the Application Form.

You should note that by completing and submitting the Application Form, among other things, you:

(i) **agree** with our Company and each Shareholder of our Company, and our Company agrees with each of its Shareholders, to observe and comply with the Companies Ordinance, the Memorandum and the Articles;

(ii) **agree** with our Company and each Shareholder of our Company that the Shares in our Company are freely transferable by the holders thereof;

(iii) **authorise** our Company to enter into a contract on your behalf with each of the Directors and executive officers of our Company whereby each such Director and officer undertakes to observe and comply with his obligations to shareholders as stipulated in the Memorandum and Articles;

(iv) **confirm** that you have only relied on the information and representations in this prospectus in making your application and will not rely on any other information and representations save as set out in any supplement to this prospectus;

(v) **agree** that our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Hong Kong Public Offering is or will be liable only for the information and representations contained in this prospectus and any supplement thereto;

(vi) **undertake** and **confirm** that, you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares;

(vii) **agree** to disclose to our Company, its registrar, receiving banks, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters and their respective advisers and agents personal data and any information which they require about you or the person(s) for whose benefit you have made the application;

(viii) **instruct** and **authorise** our Company and/or the Sole Sponsor as agents for our Company (or their respective agents or nominees) to do on your behalf all things necessary to effect registration of any Hong Kong Offer Shares allocated to you in your name(s) or HKSCC Nominees, as the case may be, as required by the Articles and otherwise to give effect to the arrangements described in this prospectus and the Application Forms;

(ix) **represent**, **warrant** and **undertake** that you are not, and none of the other person(s) for whose benefit you are applying, is a U.S. person (as defined in Regulation S);

(x) **represent** and **warrant** that you understand that the Shares have not been and will not be registered under the U.S. Securities Act and you are outside the United States (as defined in Regulation S) when completing the Application Form or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(xi) **agreed** (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it other than as provided in this prospectus and the Application Form;

(xii) (if the application is made for your own benefit) **warrant** that this is the only application which has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the HK eIPO White Form Service Provider via the **HK eIPO White Form** service;

(xiii) (if you are an agent for another person) **warrant** that reasonable enquiries have been made of that other person that this is the only application which has been and will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS and that you are duly authorised to sign this Application Form as that other person's agent;

(xiv) **warrant** the truth and accuracy of the information contained in your application;

(xv) **agree** that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;

(xvi) **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and the Application Form and agree to be bound by them;

(xvii) **undertake** and **agree** to accept the Shares applied for, or any lesser number allocated to you under the application; and

(xviii) if the laws of any place outside Hong Kong are applicable to your application, **agree** and **warrant** that you have complied with all such laws and none of our Company, the Sole Global Coordinator, the Sole Sponsor and the Hong Kong Underwriters nor any of their respective officers or advisers will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any actions arising from your rights and obligations under the terms and conditions contained in this prospectus.

In order for the **YELLOW** Application Forms to be valid:

You, as the applicant(s), must complete the form as indicated below and sign on the first page of the Application Form. Only written signature will be accepted.

(a) if the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):

(i) the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its CCASS Participant ID in the appropriate box in Application Form.

(b) if the application is made by an individual CCASS Investor Participant:

(i) the Application Form must contain the CCASS Investor Participant's full name and Hong Kong identity card number; and

(ii) the individual CCASS Investor Participant must insert its CCASS Participant ID in the appropriate box in the Application Form.

(c) if the application is made by joint individual CCASS Investor Participants:

(i) the Application Form must contain all joint CCASS Investor Participants' names and the Hong Kong identity card numbers of all of the joint CCASS Investor Participants; and

(ii) the CCASS Participant ID must be inserted in the appropriate box in the Application Form.

(d) if the application is made by corporate CCASS Investor Participant:

(i) the Application Form must contain the CCASS Investor Participant's company name and the Hong Kong business registration certificate number; and

(ii) the CCASS Participant ID must be inserted and the company chop (bearing the CCASS Investor Participant's company name) chopped in the appropriate box in the Application Form.

Incorrect or omission of details of the CCASS Participant (include participant ID and/or company chop bearing its company name) or other similar matters may render your application invalid.

If your application is made through a duly authorised attorney, our Company, the Sole Sponsor, the Joint Lead Managers and/or their respective agents or nominees may accept the application at their discretion, and subject to any conditions they think fit, including evidence of the authority of your attorney. Our Company, the Sole Sponsor, the Joint Lead Managers and/or their respect agents or nominees will have full discretion to reject or accept any application, in full or in part, without assigning any reasons.

Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are requested to designate on each Application Form in the box marked "For nominees" account numbers or other identification codes for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner.

How to apply through HK eIPO White Form

(a) If you are an individual and meet the criteria set out above in "WHO CAN APPLY FOR HONG KONG OFFER SHARES", you may apply through **HK eIPO White Form** by submitting an application through designated website at **www.hkeipo.hk**. If you apply through **HK eIPO White Form** the Shares will be issued in your own name.

(b) Detailed instructions for application through the **HK eIPO White Form** service are set out on the designated website at **www.hkeipo.hk**. You should read these instructions carefully. If you do not know the instructions, your application may be rejected by the designated HK eIPO White Form Service Provider and may not be submitted to our company.

(c) In addition to the terms and conditions set out in this Prospectus, the designated HK eIPO White Form Service Provider may impose additional terms and conditions upon you for the use of the **HK eIPO White Form** service. Such terms and conditions are set out on the designated website at **www.hkeipo.hk**. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.

(d) By submitting an application to the designated HK eIPO White Form Service Provider through the **HK eIPO White Form** service (**www.hkeipo.hk**), you are deemed to have authorised the designated HK eIPO White Form Service Provider to transfer the details of your application to our company and our registrar.

(e) You may submit an application through the **HK eIPO White Form** service in respect of a minimum of 1,000 Hong Kong Offer Shares. Each electronic application instruction in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at **www.hkeipo.hk**.

(f) You may submit your application to the designated HK eIPO White Form Service Provider through the designated website at **www.hkeipo.hk** from 9:00 a.m. on Monday, 13 February 2012 until 11:30 a.m. on Thursday, 16 February 2012 or such later time as described under the paragraph entitled "Effect of bad weather on the opening of the application lists" below (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, 16 February 2012, the last application day, or, if the application lists are not open on that day, then by the time and date stated in the paragraph entitled "Effect of bad weather on the opening of the application lists" below.

(g) You will not be permitted to submit your application to the designated HK eIPO White Form Service Provider through the designated website at **www.hkeipo.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close. If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Thursday, 16 February 2012, or such later time as described under the paragraph entitled "Effect of bad weather on the opening of the application lists," the designated HK eIPO White Form Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at **www.hkeipo.hk**.

(h) Once you have completed payment in respect of any **electronic application instruction** given by you or for your benefit to the designated **HK eIPO White Form** Service Provider to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **HK eIPO White Form** more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular payment reference number will not constitute an actual application.

(i) Warning**:** The application for Hong Kong Offer Shares through the **HK eIPO White Form** service (**www.hkeipo.hk**) is only a facility provided by the designated HK eIPO White Form Service Provider to public investors. Our Company, our Directors, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Underwriters take no responsibility for such applications, and provide no assurance that applications through the **HK eIPO White Form** service **(www.hkeipo.hk)** will be submitted to our company or that you will be allotted any Hong Kong Offer Shares.

Please note that the internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the **HK eIPO White Form** service (**www.hkeipo.hk**), you are advised not to wait until the last day for submitting applications in the Hong Kong Public Offering to submit your electronic application instructions. In the event that you have problems connecting to the designated website for the **HK eIPO White Form** service (**www.hkeipo.hk**), you should submit a **WHITE** Application Form. However, once you have submitted electronic application instructions and completed payment in full using the payment reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a **WHITE** Application Form. Please see the subsection entitled "How many applications you may make" below.

Additional information

For the purposes of allocating Hong Kong Offer Shares, each applicant giving electronic application instructions through **HK eIPO White Form** service to the HK eIPO White Form Service Provider through the designated website at **www.hkeipo.hk** will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Hong Kong Offer Shares for which you have applied, or if your application is otherwise rejected by the designated HK eIPO White Form service provider, the designated HK eIPO White Form Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated HK eIPO White Form service provider on the designated website at **www.hkeipo.hk**.

Otherwise, any monies payable to you due to a refund for any of the reasons set out below in the subsection entitled "Refund of application monies."

How to make payment for the application

Each completed **WHITE** or **YELLOW** Application Form must be accompanied by either one cheque or one banker's cashier order, which must be stapled to the top left hand corner of the Application Form.

If you pay by cheque, the cheque must:

- be in Hong Kong dollars;
- be drawn on your Hong Kong dollar bank account in Hong Kong;
- bear an account name (or, in the case of joint applicants, the name of the first-named applicant) (either pre-printed on the cheque or endorsed on the reverse of the cheque by an authorised signatory of the bank on which it is drawn), which must be the same as the name on your Application Form (or, in the case of joint applicants, the name of the first-named applicant). If the cheque is drawn on a joint account, one of the joint account names must be the same as the name of the first-named applicant);
- be made payable to The Bank of East Asia (Nominees) Limited — Xiwang Special Steel Public Offer;
- be crossed "Account Payee Only"; and
- not be post dated.

Your application may be rejected if your cheque does not meet all of these requirements or is dishonored on first presentation.

If you pay by banker's cashier order, the banker's cashier order must:

- be in Hong Kong dollars;
- be issued by a licensed bank in Hong Kong and have your name certified on the reverse of the banker's cashier order by an authorised signatory of the bank on which it is drawn. The name on the reverse of the banker's cashier order and the name on the Application Form must be the same. If the application is a joint application, the name on the back of the banker's cashier order must be the same as the name of the first-named applicant;
- be made payable to The Bank of East Asia (Nominees) Limited — Xiwang Special Steel Public Offer;
- be crossed "Account Payee Only"; and
- not be post-dated.

Your application may be rejected if your banker's cashier order does not meet all of these requirements.

The right is reserved to present all or any remittance for payment. However, your cheque or banker's cashier order will not be presented for payment before 12:00 noon on Thursday, 16 February 2012. Our Company will not give you a receipt for your payment. Our Company will keep any interest accrued on your application monies (up until, in the case of monies to be refunded, the date of despatch of refund cheques). The right is also reserved to retain any Share certificates and/or any surplus application monies or refunds pending clearance of your cheque or banker's cashier order.

How many applications you may make

You may make more than one application for Hong Kong Offer Shares if and only if:

You are a nominee, in which case you may both give electronic application instructions to HKSCC (if you are a CCASS Participant) and lodge more than one Application Form in your own name if each application is made on behalf of different owners. In the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for **each** beneficial owner (or in the case of joint beneficial owners, for each such beneficial owner). If you do not include this information, the application will be treated as being made for your benefit.

Otherwise, multiple applications are not allowed.

It will be a term and condition of all applications that by completing and delivering an Application Form, you (and if you are joint applicants each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee:

- (if the application is made for your own benefit) warrant that this is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by submitting any application to the designated HK eIPO White Form Service Provider through the website at **www.hkeipo.hk** or by giving **electronic application instructions** to HKSCC;
- (if the application is made by an agent on your behalf) warrant that you have validly and irrevocably conferred on your agent all necessary power and authority to make the application; or
- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form by giving **electronic application instructions** to HKSCC and that you are duly authorised to sign the Application Form as that other person's agent.

Except where you are a nominee and provide the information required to be provided in your application, all of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together:

- make more than one application (whether individually or jointly) on a **WHITE** or **YELLOW** Application Form or by submitting any application to the designated HK eIPO White Form Service Provider through the designated website at **www.hkeipo.hk** or by giving **electronic application instructions** to HKSCC;

- both apply (whether individually or jointly) on one **WHITE** Application Form and one **YELLOW** Application Form or on one **WHITE** or **YELLOW** Application Form and submit a HK eIPO White Form or give **electronic application instructions** to HKSCC;

- apply on one **WHITE** or **YELLOW** Application Form (whether individually or jointly) or and submit a HK eIPO White Form or by giving **electronic application instructions** to HKSCC for more than 25,000,000 Hong Kong Offer Shares, as more particularly described in the section entitled "Structure of the Global Offering — The Hong Kong Public Offering"; or

- have applied for or taken up, or indicated an interest for, or have been or will be placed (including conditionally and/or provisionally) International Offer Shares.

All of your applications will also be rejected as multiple applications if more than one application is made for **your benefit** (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and

- you exercise statutory control over that company,

then the application will be treated as being made for your benefit.

Unlisted company means a company with no equity securities listed on Hong Kong Stock Exchange.

Statutory control means you:

- control the composition of the board of directors of the company; or

- or control more than half of the voting power of the company; or

- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

Members of the public — time for applying for Hong Kong Offer Shares

Completed **WHITE** or **YELLOW** Application Forms, together with payment attached, must be lodged by 12:00 noon on Thursday, 16 February 2012, or, if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed "Effect of bad weather on the opening of the application lists" below.

Your completed Application Form, together with payment attached, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed under the section entitled "Methods of Applying for the Hong Kong Offer Shares — Where to collect the Application Forms" above at the following times:

Monday, 13 February 2012	**—**	**9:00 a.m. to 5:00 p.m.**
Tuesday, 14 February 2012	**—**	**9:00 a.m. to 5:00 p.m.**
Wednesday, 15 February 2012	**—**	**9:00 a.m. to 5:00 p.m.**
Thursday, 16 February 2012	**—**	**9:00 a.m. to 12:00 noon**

HK eIPO White Form

You may submit your application to the designated **HK eIPO White Form** Service Provider through the designated website at **www.hkeipo.hk** from 9:00 a.m. on Monday, 13 February 2012 until 11:30 a.m. on Thursday, 16 February 2012 or such later time as described under the subsection entitled "Effect of bad weather on the opening of the application lists" below (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, 16 February 2012, the last application day, or, if the application lists are not open on that day, then by the time and date stated in subsection entitled "Effect of bad weather on the opening of the application lists" below.

You will not be permitted to submit your application to the designated HK eIPO White Form Service Provider through the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

The application lists will be open from 11:45 a.m. on Thursday, 16 February 2012 to 12:00 noon on Thursday, 16 February 2012. No proceedings will be taken on applications for the Hong Kong Offer Shares and no allotment of any such Hong Kong Offer Shares will be made until after the closing of the application lists.

Applicants should note that cheques or banker's cashier orders will not be presented for payment before the closing of the application lists but may be presented at any time thereafter.

Effect of bad weather on the opening of the application lists

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above, or
- a "black" rainstorm warning signal

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 16 February 2012. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon. Business day means a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong.

Publication of results

The results of allocations of the Hong Kong Offer Shares under the Hong Kong Public Offering, including applications made under **WHITE** and **YELLOW** Application Forms and by giving **electronic application instructions** to HKSCC via CCASS or to the designated HK eIPO White Form Service Provider through **HK eIPO White Form** service (**www.hkeipo.hk**) are expected to be published on Wednesday, 22 February 2012 in the South China Morning Post (in English) and the Hong Kong Economics Times (in Chinese).

The results of allocations and the Hong Kong Identity Card/passport/Hong Kong Business Registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- Results of allocations for the Hong Kong Public Offering can be found in the announcement to be posted on our company's website at **www.xiwangsteel.com** on Wednesday, 22 February 2012;
- Results of allocations for the Hong Kong Public Offering will be available from our results of allocations website at **www.tricor.com.hk/ipo/result/** on a 24-hour basis from 8:00 a.m. on Wednesday, 22 February 2012 to 12:00 midnight on Tuesday, 28 February 2012. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its application form to search for his/her/its own allocation result;
- Results of allocations will be available from our Hong Kong Public Offering allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Hong Kong Offer Shares allocated to them, if any, by calling 3691 8488 between 9:00 a.m. and 6:00 p.m. from Wednesday, 22 February 2012 to Monday, 27 February 2012 (excluding Saturday, Sunday and Public Holiday);
- Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches from Wednesday, 22 February 2012 to Friday, 24 February 2012 at all the receiving bank branches and sub-branches at the addresses set out in the section entitled "How to Apply for Hong Kong Offer Shares — Where to Collect the Application Forms".

Despatch/collection of share certificates and refund cheques

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the offer price of HK$3.36 per Share (excluding brokerage, SFC transaction levyand Hong Kong Stock Exchange trading fee thereon) initially paid on application, or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section entitled "Structure of the Global Offering — The Hong Kong Public Offering" or if any application is revoked or any allotment pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levyand Hong Kong Stock Exchange trading fee, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

No temporary documents of title will be issued in respect of the Hong Kong Offer Shares. No receipt will be issued for sums paid on application but, subject to personal collection as mentioned below, in due course there will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on your Application Form:

(a) for applications on **WHITE** Application Forms or by **HK eIPO White Form**: (i) Share certificate(s) for all the Hong Kong Offer Shares applied for, if the application is wholly successful; or (ii) Share certificate(s) for the number of Hong Kong Offer Shares successfully applied for, if the application is partially successful (for wholly successful and partially successful applicants on **YELLOW** Application Forms: Share certificates for their Hong Kong Offer Shares successfully applied for will be deposited into CCASS as described below); and/or

(b) for applications on **WHITE** or **YELLOW** Application Forms, refund cheque(s) crossed "Account Payee Only" in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Hong Kong Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the Maximum Offer Price per Share paid on application in the event that the Offer Price is less than the offer price per Share initially paid on application, in each case including the brokerage of 1 %, SFC transaction levy of 0.003 %, and Hong Kong Stock Exchange trading fee of 0.005 %, attributable to such refund/surplus monies but without interest; and/or

(c) for applicants who apply through the **HK eIPO White Form** service by paying the application monies through a single bank account and whose application is wholly or partially unsuccessful and/or the final Offer Price being different from the Offer Price initially paid on the application, e-Auto Refund payment instructions (if any) will be dispatched to the application payment bank account; and/or

(d) for applicants who apply through the **HK eIPO White Form** service by paying the application monies through multiple bank accounts and whose application is wholly or partially unsuccessful and/or the final Offer Price being different from the Offer Price initially paid on the application, refund cheque(s) will be sent to the address as specified on the **HK eIPO White Form** application by ordinary post and at the applicant's own risk.

Subject to personal collection as mentioned below, refund cheques for surplus application monies (if any) in respect of wholly and partially unsuccessful applications and the difference between the Offer Price and the offer price per Share initially paid on application (if any) under **WHITE** or **YELLOW** Application Forms; and Share certificates for wholly and partially successful applicants under **WHITE** Application Forms are expected to be posted on or around Wednesday, 22 February 2012. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s).

You will receive one share certificate for all the Hong Kong Offer Shares issued to you under the Hong Kong Offer (except pursuant to applications made on YELLOW application form or by electronic application instructions to HKSCC where share certificates will be deposited in CCASS).

Share certificates will only become valid certificates of title at 8:00 a.m. on Thursday, 23 February 2012 provided that the Hong Kong Public Offering has become unconditional in all respects and the right of termination described in the section entitled "Underwriting — Grounds for Termination" has not been exercised.

(a) If you apply using a WHITE Application Form:

- If you apply for 1,000,000 Hong Kong Offer Shares or more on a **WHITE** Application Form and have indicated your intention in your Application Form to collect your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) from Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong and have provided all information required by your Application Form, you may collect your refund cheque(s) (where applicable) and Share certificate(s) (where applicable) from Tricor Investor Services Limited from 9:00 a.m. to 1:00 p.m. on Wednesday, 22 February 2012 or such other place and date as notified by our company in the newspapers as the place and date of collection/despatch of refund cheques/Share certificates.

- If you are an individual who opts for personal collection, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant which opts for personal collection, you must attend by your authorised representative bearing a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to the Share Registrar.

- If you do not collect your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) personally within the time specified for collection, they will be sent to the address as specified in your Application Form promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares or if you apply for 1,000,000 Hong Kong Offer Shares or more but have not indicated on your Application Form that you will collect your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) in person, your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) will be sent to the address on your Application Form on Wednesday, 22 February 2012, by ordinary post and at your own risk.

(b) If you apply using a YELLOW Application Form:

If you apply for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **YELLOW** Application Form to collect your refund cheque (where applicable) in person, please follow the same instructions as those for **WHITE** Application Form applicants as described above.

If you apply for less than 1,000,000 Hong Kong Offer Shares or if you apply for 1,000,000 Hong Kong Offer Shares or more but have not indicated on your Application Form that you will collect your refund cheque(s) (where applicable) in person, your refund cheque(s) (where applicable) will be sent to the address on your Application Form on Wednesday, 22 February 2012, by ordinary post and at your own risk.

If you apply for Hong Kong Offer Shares using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form on Wednesday, 22 February 2012, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant) for Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allocated to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant, our company expects to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the newspapers on Wednesday, 22 February 2012. You should check the announcement published by our company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 22 February 2012 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

If you apply for Hong Kong Offer Shares using a **YELLOW** Application Form, in addition to the confirmation and agreements referred to in (a) above, you (and if you are joint applicants, each of you jointly and severally) agreed that:

- any Hong Kong Offer Shares allocated to you shall be registered in the name of HKSCC Nominees and deposited directly into CCASS operated by HKSCC for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant in accordance with your election on the Application Form;

- each of HKSCC and HKSCC Nominees reserves the right (1) not to accept any or part of such allotted Hong Kong Offer Shares issued in the name of HKSCC Nominees or not to accept such allotted Hong Kong Offer Shares for deposit into CCASS; (2) to cause such allotted Hong Kong Offer Shares to be withdrawn from CCASS and transferred into your name (or, if you are a joint applicant, to the firstnamed applicant) at your own risk and costs; and (3) to cause such allotted Hong Kong Offer Shares to be issued in your name (or, if you are a joint applicant, to the first-named applicant) and in such a case, to post the Share certificates for such allotted Hong Kong Offer Shares at your own risk to the address on your Application Form by ordinary post or to make available the same for your collection;

- each of HKSCC and HKSCC Nominees may adjust the number of allotted Hong Kong Offer Shares issued in the name of HKSCC Nominees;
- neither HKSCC nor HKSCC Nominees shall have any liability for the information and representations not so contained in this prospectus and the Application Form;
- neither HKSCC nor HKSCC Nominees shall be liable to you in any way.

(c) If You Apply Using a HK eIPO White Form

If you apply for 1,000,000 Hong Kong Offer Shares or more through the **HK eIPO White Form** service by submitting an electronic application to the designated HK eIPO White Form Service Provider through the designated website at **www.hkeipo.hk** and your application is wholly or partially successful, you may collect your Share certificate(s) and/or refund cheque(s) (where applicable) in person from our Share Registrar, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 22 February 2012, or such other date as notified by our company in the newspapers as the date of dispatch/ collection of Share certificates/refund cheques.

If you do not collect your Share certificate(s) and/or refund cheque(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions to the designated HK eIPO White Form Service Provider promptly thereafter by ordinary post and at your own risk.

If you have applied through the **HK eIPO White Form** service by paying the application monies through a single bank account and your application is wholly or partially unsuccessful and/or the Final Offer Price being less than the Offer Price initially paid on your application, e-Auto Refund payment instructions (if any) will be despatched to your application payment bank account on or around Wednesday, 22 February 2012.

If you apply through the **HK eIPO White Form** service by paying the application monies through multiple bank accounts and your application is wholly or partially unsuccessful and/or the final Offer Price being different from the Offer Price initially paid on your application, refund cheque(s) will be sent to the address specified in your application instructions to the designated HK eIPO White Form Service Provider on or around Wednesday, 22 February 2012 by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) and/or refund cheque(s) (where applicable) will be sent to the address specified in your application instructions to the designated HK eIPO White Form Service Provider through the designated website at **www.hkeipo.hk** on Wednesday, 22 February 2012 by ordinary post and at your own risk.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the designated HK eIPO White Form Service Provider set out in the paragraph entitled "How to apply through HK eIPO White Form — Additional information" above.

III. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

General

CCASS Participants may give **electronic application instructions** to HKSCC to apply for the Hong Kong Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (**https://ip.ccass.com**) (using the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Center
2/F, Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form. Prospectuses are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to our company and its registrars.

Giving electronic application instructions to HKSCC to apply for Hong Kong Offer Shares by HKSCC Nominees On Your Behalf

Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Offer Shares:

(i) HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(ii) HKSCC Nominees does the following things on behalf of each such person:

- agrees that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;

- undertakes and agrees to accept the Hong Kong Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;

- undertakes and confirms that that person has not applied for or taken up any International Offer Shares nor otherwise participated in the International Offering;

- (if the **electronic application instructions** are given for that person's own benefit) declares that only one set of **electronic application instructions** has been given for that person's benefit;

- (if that person is an agent for another person) declares that that person has only given one set of **electronic application instructions** for the benefit of that other person and that that person is duly authorised to give those instructions as that other person's agent;

- understands that the above declaration will be relied upon by our Company, the Directors and the Sole Global Coordinator in deciding whether or not to make any allotment of Hong Kong Offer Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;

- authorises our company to place the name of HKSCC Nominees on the register of members of our company as the holder of the Hong Kong Offer Shares allotted in respect of that person's **electronic application instructions** and to send Share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between our company and HKSCC;

- confirms that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;

- confirms that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf;

- agrees that our company and the Directors are liable only for the information and representations contained in this prospectus;

- agrees to disclose that person's personal data to our company, the Sole Global Coordinator and/or their respective agents and any information which they may require about that person;

- agrees (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation;

- agrees that that person cannot revoke the **electronic application instructions** on or before the fifth day after the time of opening of the application lists (excluding for this purpose and day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with our company and to become binding when that person gives the instructions and such collateral contract to be in consideration of our company agreeing that it will not offer any Hong Kong Offer Shares to any person on or before the fifth day after the time of opening of the application lists (excluding for this purpose and day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, that person may revoke the instructions on or before the fifth day after the time of opening of the application lists (excluding for this purpose and day which is Saturday, Sunday or public holiday in Hong Kong), if a person responsible for this prospectus under Section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;

- agrees that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering published by our company;

- agrees to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Hong Kong Offer Shares;

- agrees with our company, for itself and for the benefit of each of the shareholders of our company (and so that our company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the shareholders of our company, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance, the Memorandum and Articles;

- agrees with our company (for our company itself and for the benefit of each of the shareholders of our company) that the Shares in our company are freely transferable by the holders thereof;

- authorises our company to enter into a contract on its behalf with each of the Directors and executive officers of our company whereby each such Director and executive officer undertakes to observe and comply with his obligations to shareholders stipulated in the Memorandum and Articles; and

- agrees that that person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.

Effect of giving electronic application instructions to HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;

- instructed and authorised HKSCC to arrange payment of the Maximum Offer Price, brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or the Offer Price is less than the offer price per Share initially paid on application, refund of the application monies, in each case including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee, by crediting your designated bank account; and

- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form.

Multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Minimum subscription amount and permitted multiples

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** in respect of a minimum of 1,000 Hong Kong Offer Shares. Such instructions in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers or multiples set out in the table in the Application Forms.

Time for inputting electronic application instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Monday, 13 February, 2012	**—**	**9:00 a.m. to 8:30 p.m.(1)**
Tuesday, 14 February, 2012	**—**	**8:00 a.m. to 8:30 p.m.(1)**
Wednesday, 15 February, 2012	**—**	**8:00 a.m. to 8:30 p.m.(1)**
Thursday, 16 February, 2012	**—**	**8:00 a.m.(1) to 12:00 noon**

Note:(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Monday, 13 February 2012 until 12:00 noon on Thursday, 16 February 2012 (24 hours daily, except the last application day).

Effect of bad weather on the last application day

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Thursday, 16 February 2012, the last application day. If:

- a tropical cyclone warning signal number 8 or above; or

- a "black" rainstorm warning signal,

is in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 16 February 2012, the last application day will be postponed to the next business day which does not have either of those warning signals in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on such day. **Business day** means a day that is not a Saturday, Sunday or public holiday in Hong Kong.

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instructions is given will be treated as an applicant.

Deposit of share certificates into CCASS and refund of application monies

- No temporary document of title will be issued. No receipt will be issued for application monies received.

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant stock account on Wednesday, 22 February 2012, or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.

- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our company will include information relating to the relevant beneficial owner), your Hong Kong identity card/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the newspapers on Wednesday, 22 February 2012. You should check the announcement published by our company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 22 February 2012 or such other date as shall be determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, 22 February 2012. On Thursday, 23 February 2012, (i.e., the next business day following the credit of the Hong Kong Offer Shares to your CCASS Investor Participant stock account and the credit of refund monies to your designated bank account), HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the offer price per Share initially paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, 22 February 2012. No interest will be paid thereon.

Section 40 of the Companies Ordinance

For the avoidance of doubt, our company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies Ordinance.

Personal Data

The section of the Application Form entitled "Personal Data" applies to any personal data held by our company and the Hong Kong Offer Share registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

The main provisions of the Personal data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong) came into effect in Hong Kong on December 20, 1996. This Personal Information Collection Statement informs the applicant for and holder of the Shares of the policies and practices of our company and our Share Registrar in relation to personal data and the Personal Data (Privacy) Ordinance.

(a) Reasons for the Collection of Your Personal Data

From time to time it is necessary for applicants for securities or registered holders of securities to supply their latest correct personal data to our company and the Share Registrar when applying for securities or transferring securities into or out of their names or in procuring the services of the registrars.

Failure to supply the requested data may result in your application for securities being rejected or in delay or inability of our company or the Share Registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfer of the Hong Kong Offer Shares which you have successfully applied for and/or the despatch of Share certificate(s), and/ or the despatch or encashment of refund cheque(s) to which you are entitled.

(b) Purposes

The personal data of the applicants and the holders of securities may be used, held and/or stored (by whatever means) for the following purposes:

- processing of your application and refund cheque, where applicable, and verification of compliance with the terms and application procedures set out in the application forms and this prospectus and announcing results of allocations of the Hong Kong Offer Shares;

- enabling compliance with all applicable laws and regulations in Hong Kong and elsewhere;

- registering new issues or transfers into or out of the name of holders of securities including, where applicable, in the name of HKSCC Nominees;

- maintaining or updating the registrars of holders of securities of our company;

- conducting or assisting in the conduct of signature verifications, any other verification or exchange of information;

- establishing benefit entitlements of holders of securities of our company, such as dividends, rights issues and bonus issues;

- distributing communications from our company and our subsidiaries;

- compiling statistical information and shareholder profiles;

- making disclosures as required by laws, rules or regulations;

- disclosing relevant information to facilitate claims on entitlements; and

- any other incidental or associated purposes relating to the above and/or to enable our company and our Share Registrar to discharge our obligations to holders of securities and/or regulators and/or other purpose to which the holders of securities may from time to time agree.

(c) Transfer of Personal Data

Personal data held by our company and our Share Registrar relating to the applicants and the holders of securities will be kept confidential but our company and our Share Registrar, to the extent necessary for achieving the above purposes or any of them, may make such enquiries as they consider necessary to confirm the accuracy of the personal data and in particular, they may disclose, obtain, transfer (whether within or outside Hong Kong) the personal data of the applicants and the holders of securities to, from or with any and all of the following persons and entities:

- our company or our respective appointed agents such as financial advisers and receiving banks;

- HKSCC and HKSCC Nominees, who will use the personal data for the purposes of operating CCASS (in cases where the applicants have requested for the Hong Kong Offer Shares to be deposited into CCASS);

- any agents, contractors or third party service providers who offer administrative, telecommunications, computer, payment or other services to our company and/or our Share Registrar in connection with the operation of their business;

- the Hong Kong Stock Exchange, the SFC and any other statutory, regulatory or governmental bodies; and

- any other persons or institutions with which the holders of securities have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers.

By signing an application form or by giving **electronic application instructions** to HKSCC, you agree to all of the above.

(d) Access and Correction of Personal Data

The Personal Data (Privacy) Ordinance provides the holders of securities with rights to ascertain whether our company or our Share Registrar holds their personal data, to obtain a copy of that data, and to correct any data that is inaccurate.

In accordance with the Personal Data (Privacy) Ordinance, the company and our Share Registrar have the right to charge a reasonable fee for the processing of any data access request. All requests for access to data or correction of data or for information regarding policies and practices and kinds of data held should be addressed to us, at our registered address disclosed in the "Corporate Information" section in this prospectus or as notified from time to time in accordance with applicable law, for the attention of our company secretary or our Share Registrar for the attention of the privacy compliance officer.

Warning

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Our company, the Directors, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions** to the systems. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions**, they should either: (i) submit a **WHITE** or **YELLOW** Application Form; or (ii) go to HKSCC's Customer Service Center to complete an input request form for **electronic application instructions** before 12:00 noon on Thursday, 16 February 2012.

IV. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG OFFER SHARES

Full details of the circumstances in which you will not be allotted the Hong Kong Offer Shares are set out in the notes attached to the Application Forms (whether you are making your application by an Application Form or electronically instructing HKSCC to cause HKSCC Nominees to apply on your behalf), and you should read them carefully. You should note in particular the following situations in which Hong Kong Offer Shares will not be allotted to you:

- ***If your application is revoked***

By completing and submitting an Application Form or **electronic application instructions** to HKSCC or to the HK eIPO White Form Service Provider you agree that your application or the application made by HKSCC Nominees on your behalf may not be revoked on or before the fifth day after the time of opening of the application lists (excluding for this purpose and day which is Saturday, Sunday or public holiday in Hong Kong) , unless a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus. This agreement will take effect as a collateral contract with the company, and will become binding when you lodge your Application Form or submit your **electronic application instructions** to HKSCC or give electronic instruction to the designated HK eIPO White Form Service Provider through **HK eIPO White Form** service (**www.hkeipo.hk**). This collateral contract will be in consideration of our agreeing that we will not offer any Hong Kong Offer Shares to any person on or before the fifth day after the time of opening of the application lists (excluding for this purpose and day which is Saturday, Sunday or public holiday in Hong Kong) except by means of one of the procedures referred to in this prospectus.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before the fifth day after the time of opening of the application lists (excluding for this purpose and day which is Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

For the avoidance of doubt, we and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives, or causes to give, **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies Ordinance.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the announcement of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

- ***Full discretion of our company or its agents to reject or accept your application***

Our company and the Bookrunners (as agent for our company), or their respective agents and nominees, have full discretion to reject or accept any application, or to accept only part of any application.

Our company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriter(s), in their capacity as our company's agents, and their agents and nominees do not have to give any reason for any rejection or acceptance.

- ***If the allotment of Hong Kong Offer Shares is void***

The allotment of Hong Kong Offer Shares to you or to HKSCC Nominees (if you give **electronic application instructions** or apply by a **YELLOW** Application Form) will be void if the Listing Committee does not grant permission to list the Hong Kong Offer Shares either:

  - within three weeks from the closing of the application lists; or
  - within a longer period of up to six weeks if the Listing Committee notifies our company of that longer period within three weeks of the closing date of the application lists.

- ***You will not receive any allotment if:***

  - you make multiple applications or suspected multiple applications;
  - you or the person for whose benefits you apply for have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) our Hong Kong Offer Shares and/or our International Offer Shares. By filling in any of the Application Forms or applying by giving **electronic application instructions**

to HKSCC or give electronic instruction to the designated HK eIPO White Form Service Provider through **HK eIPO White Form** service (**www.hkeipo.hk**), you agree not to apply for our Hong Kong Offer Shares as well as our International Offer Shares. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received our International Offer Shares, and to identify and reject indications of interest in the International Offer from investors who have received our Hong Kong Offer Shares in the Hong Kong Public Offering;

- your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonored upon its first presentation;

- your Application Form is not completed in accordance with the instructions as stated in the Application Form (if you apply by an Application Form);

- the Hong Kong Underwriting Agreements do not become unconditional;

- the Hong Kong Underwriting Agreements are terminated in accordance with their respective terms;

- your electronic application instructions through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions set out in the designated website at **www.hkeipo.hk**;

- the Company and the Joint Bookrunners (as agent for the Company) or their respective agents or nominees believe that by accepting your application, it would violate the applicable securities laws or other laws, rules or regulations of the jurisdiction in which your application is made; or

- your application is for more than 50% of the Hong Kong Offer Shares initially offered for public subscription in either pool A and pool B (as referred to in paragraph D above).

You should also note that you may apply for Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest for International Offer Shares, but may not do both.

V. HOW MUCH ARE THE HONG KONG OFFER SHARES

The Maximum Offer Price is HK$3.36 per Share. You must also pay brokerage of 1%, SFC transaction levy of 0.003%, and Hong Kong Stock Exchange trading fee of 0.005 % in full. This means that for every board lot of 1,000 Offer Shares you will pay approximately HK$3,393.87. The Application Forms have tables showing the exact amount payable for certain multiples of Offer Shares up to 25,000,000 Offer Shares.

You must pay the amount payable upon application for the Hong Kong Offer Shares by one cheque or one banker's cashier order in accordance with the terms set out in the Application Form (if you apply by an Application Form).

If your application is successful, brokerage is paid to participants of the Hong Kong Stock Exchange or the Hong Kong Stock Exchange (as the case may be), the SFC transaction levy and the Hong Kong Stock Exchange trading fee are paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy, collected on behalf of the SFC).

VI. REFUND OF APPLICATION MONIES

If you do not receive any Hong Kong Offer Shares for any reason, our company will refund your application monies, including brokerage of 1%, SFC transaction levy of 0.003%, and Hong Kong Stock Exchange trading fee of 0.005% No interest will be paid thereon. All interest accrued on such monies prior to the date of dispatch of refund cheques will be retained for the benefit of our company.

If your application is accepted only in part, our company will refund the appropriate portion of your application monies, including the related brokerage of 1%, SFC transaction levy of 0.003%, and Hong Kong Stock Exchange trading fee of 0.005%, without interest.

If the Offer Price as finally determined is less than the Maximum Offer Price per Share (excluding brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee thereon) initially paid on application, our company will refund the surplus application monies, together with the related brokerage of 1%, SFC transaction levy of 0.003%, and Hong Kong Stock Exchange trading fee of 0.005%, without interest.

In a contingency situation involving a substantial over-subscription, at the discretion of our company and the Bookrunners, cheques for applications for certain small denominations of Hong Kong Offer Shares (apart from successful applications) may not be cleared.

If you are a CCASS Participant subscribing for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS, all refunds will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, 22 February 2012.

Refund of your application monies (if any) will be made on Wednesday, 22 February 2012 in accordance with the various arrangements as described above.

All refunds by cheque will be crossed "Account Payee Only," and made out to you (or in case of joint applicants, the first-named applicant on the Application Form). Part of your Hong Kong identity card number/passport number, (or in case of joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant) provided by you may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purpose. A banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of or may invalidate your refund cheque.

VII. DEALINGS AND SETTLEMENT

Commencement of dealings in the Shares

Dealings in the Shares on the Hong Kong Stock Exchange are expected to commence on Thursday, 23 February 2012.

The Shares will be traded in board lots of 1,000 Shares each. The stock code of the Shares is 1266.

Hong Kong Offer Shares will be eligible for admission into CCASS

If Hong Kong Stock Exchange grants the listing of, and permission to deal in, the Shares and our company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of Hong Kong Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.

ERNST & YOUNG
安 永

22nd Floor
CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

13 February 2012

The Directors
Xiwang Special Steel Company Limited
J.P. Morgan Securities (Asia Pacific) Limited

Dear Sirs,

We set out below our report on the financial information of Xiwang Special Steel Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") comprising the consolidated income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011 (the "Relevant Periods"), and the consolidated statements of financial position of the Group as at 31 December 2008, 2009 and 2010 and 30 September 2011, together with the notes thereto (the "Financial Information"), and the comparative consolidated income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for the nine months ended 30 September 2010 (the "Interim Comparative Information"), prepared on the basis of presentation set out in note 2.1 of Section II below, for inclusion in the prospectus of the Company dated 13 February 2012 (the "Prospectus") in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated in Hong Kong on 6 August 2007 as a company with limited liability under the Hong Kong Companies Ordinance. Pursuant to a group reorganisation (the "Reorganisation") as set out in note 2.1 of Section II below, which was completed on 31 March 2009, the Company became the holding company of the subsidiaries comprising the Group. Apart from investment holding, the Company has not commenced any business or operation since its incorporation.

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in note 1 of Section II below. All companies now comprising the Group have adopted 31 December as their financial year end date. The statutory financial statements of the companies now comprising the Group were prepared in accordance with the relevant accounting principles applicable to these companies in the jurisdictions in which they were incorporated and/or established. Details of their statutory auditors during the Relevant Periods are set out in note 1 of Section II below.

For the purpose of this report, the directors of the Company (the "Directors") have prepared the consolidated financial statements of the Group (the "Underlying Financial Statements") 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 (the "HKICPA").

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

Directors' responsibility

The Directors are responsible for the preparation of the Underlying Financial Statements, the Financial Information and the Interim Comparative Information that give a true and fair view in accordance with HKFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Financial Information and the Interim Comparative Information that are free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

It is our responsibility to form an independent opinion and a review conclusion on the Financial Information and the Interim Comparative Information, respectively, and to report our opinion and review conclusion thereon to you.

For the purpose of this report, we have examined the Underlying Financial Statements and have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

We have also performed a review of the Interim Comparative Information in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an opinion on the Interim Comparative Information.

Opinion in respect of the Financial Information

In our opinion, for the purpose of this report and on the basis of presentation set out in note 2.1 of Section II below, the Financial Information gives a true and fair view of the state of affairs of the Group and the Company as at 31 December 2008, 2009 and 2010 and 30 September 2011 and of the consolidated results and cash flows of the Group for each of the Relevant Periods.

Review conclusion in respect of the Interim Comparative Information

Based on our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the Interim Comparative Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

I. FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENTS

	Notes	Year ended 31 December			Nine months ended 30 September	
		2008	2009	2010	2010	2011
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
REVENUE	7	3,858,329	3,776,933	5,387,340	3,836,630	6,350,387
Cost of sales		(3,732,691)	(3,530,462)	(4,786,344)	(3,443,552)	(5,346,154)
Gross profit		125,638	246,471	600,996	393,078	1,004,233
Other income and gains	7	23,782	23,701	45,066	31,210	11,144
Selling and distribution costs		(2,844)	(4,479)	(4,307)	(3,012)	(4,183)
Administrative expenses		(9,089)	(13,753)	(19,469)	(14,019)	(40,439)
Other expenses		(927)	(422)	(1,053)	(983)	(230)
Finance costs	9	(31,178)	(13,342)	(24,814)	(16,704)	(48,930)
PROFIT BEFORE TAX	8	105,382	238,176	596,419	389,570	921,595
Income tax expense	12	(25,661)	(39,282)	(103,611)	(65,025)	(219,842)
PROFIT FOR THE YEAR/PERIOD		79,721	198,894	492,808	324,545	701,753
Attributable to:						
Owners of the parent		43,469	194,096	492,808	324,545	701,753
Non-controlling interests		36,252	4,798	–	–	–
		79,721	198,894	492,808	324,545	701,753
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT basic and diluted	13	2.72 cents	12.13 cents	30.80 cents	20.28 cents	43.86 cents

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December			Nine months ended 30 September	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
PROFIT FOR THE YEAR/PERIOD	79,721	198,894	492,808	324,545	701,753
OTHER COMPREHENSIVE INCOME					
Exchange differences on translation of foreign operations	616	(72)	5,376	3,198	370
OTHER COMPREHENSIVE INCOME FOR THE YEAR/PERIOD, NET OF TAX	616	(72)	5,376	3,198	370
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD	80,337	198,822	498,184	327,743	702,123
Attributable to:					
Owners of the parent	44,085	194,024	498,184	327,743	702,123
Non-controlling interests	36,252	4,798	–	–	–
	80,337	198,822	498,184	327,743	702,123

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December			As at 30 September
		2008	2009	2010	2011
		RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	*15*	594,531	1,563,151	2,138,647	3,080,690
Prepaid land lease payments	*16*	4,487	–	155,680	92,477
Deferred tax assets	*25*	1,001	–	–	1,797
Total non-current assets		600,019	1,563,151	2,294,327	3,174,964
CURRENT ASSETS					
Inventories	*18*	259,693	367,726	306,790	613,134
Trade and bills receivables	*19*	6,502	23,764	57,135	69,411
Prepayments, deposits and other receivables	*20*	252,383	306,142	192,650	569,317
Due from fellow subsidiaries	*37*	10,178	7,131	10,990	–
Pledged deposits	*21*	30,000	1,560,868	210,000	296,551
Cash and cash equivalents	*21*	49,480	25,600	72,528	38,596
Total current assets		608,236	2,291,231	850,093	1,587,009
CURRENT LIABILITIES					
Trade and bills payables	*22*	79,973	1,720,097	206,394	676,603
Receipts in advance, other payables and accruals	*23*	387,424	733,041	510,090	539,216
Interest-bearing bank and other borrowings	*24*	243,855	570,190	941,200	664,453
Due to the ultimate holding company	*37*	55,559	319,554	384,189	–
Due to the immediate holding company	*37*	108,380	120,626	132,332	–
Due to fellow subsidiaries	*37*	57,754	3,417	67,895	–
Due to a related party	*37*	42,553	21,980	–	–
Income tax payable		19,820	15,153	53,812	74,326
Total current liabilities		995,318	3,504,058	2,295,912	1,954,598
NET CURRENT LIABILITIES		(387,082)	(1,212,827)	(1,445,819)	(367,589)
TOTAL ASSETS LESS CURRENT LIABILITIES		212,937	350,324	848,508	2,807,375

	Notes	As at 31 December			As at 30 September
		2008	2009	2010	2011
		RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		212,937	350,324	848,508	2,807,375
NON-CURRENT LIABILITIES					
Interest-bearing bank and other borrowings	*24*	35,180	–	–	1,100,000
Deferred tax liability	*25*	–	–	–	22,233
Total non-current liabilities		35,180	–	–	1,122,233
Net assets		177,757	350,324	848,508	1,685,142
EQUITY					
Equity attributable to owners of the parent					
Share capital	*26*	–	–	–	133,392
Reserves	*27*	78,526	350,324	848,508	1,551,750
		78,526	350,324	848,508	1,685,142
Non-controlling interests		99,231	–	–	–
Total equity		177,757	350,324	848,508	1,685,142

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the parent							
	Share capital	Contributed reserve	Statutory surplus reserve	Exchange fluctuation reserve	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000 (note 27 (b))	RMB'000 (note 27 (c))	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2007 and 1 January 2008	–	1,164	7,827	–	25,450	34,441	62,979	97,420
Profit for the year	–	–	–	–	43,469	43,469	36,252	79,721
Exchange differences on translation of foreign operations	–	–	–	616	–	616	–	616
Total comprehensive income for the year	–	–	–	616	43,469	44,085	36,252	80,337
Profit appropriation to reserves	–	–	13,716	–	(13,716)	–	–	–
At 31 December 2008 and 1 January 2009	–	1,164*	21,543*	616*	55,203*	78,526	99,231	177,757
Profit for the year	–	–	–	–	194,096	194,096	4,798	198,894
Exchange differences on translation of foreign operations	–	–	–	(72)	–	(72)	–	(72)
Total comprehensive income for the year	–	–	–	(72)	194,096	194,024	4,798	198,822
Profit appropriation to reserves	–	–	44,619	–	(44,619)	–	–	–
Acquisition of non-controlling interests *(note 27(a))*	–	77,774	–	–	–	77,774	(104,029)	(26,255)
At 31 December 2009 and 1 January 2010	–	78,938*	66,162*	544*	204,680*	350,324	–	350,324
Profit for the year	–	–	–	–	492,808	492,808	–	492,808
Exchange differences on translation of foreign operations	–	–	–	5,376	–	5,376	–	5,376
Total comprehensive income for the year	–	–	–	5,376	492,808	498,184	–	498,184
Profit appropriation to reserves	–	–	69,153	–	(69,153)	–	–	–
At 31 December 2010	–	78,938*	135,315*	5,920*	628,335*	848,508	–	848,508

	Attributable to owners of the parent							
	Share capital	Share premium	Contributed reserve	Statutory surplus reserve	Exchange fluctuation reserve	Retained profits	Total	Total equity
	RMB'000	RMB'000	RMB'000 (note 27 (b))	RMB'000 (note 27 (c))	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2010 and 1 January 2011	–	–	78,938	135,315	5,920	628,335	848,508	848,508
Profit for the period	–	–	–	–	–	701,753	701,753	701,753
Exchange differences on translation of foreign operations	–	–	–	–	370	–	370	370
Total comprehensive income for the period	–	–	–	–	370	701,753	702,123	702,123
Issue of shares *(note 26)*	133,392	1,119	–	–	–	–	134,511	134,511
Profit appropriation to reserves	–	–	–	79,752	–	(79,752)	–	–
At 30 September 2011	133,392	1,119*	78,938*	215,067*	6,290*	1,250,336*	1,685,142	1,685,142
(unaudited)								
At 1 January 2010	–	–	78,938	66,162	544	204,680	350,324	350,324
Profit for the period	–	–	–	–	–	324,545	324,545	324,545
Exchange differences on translation of foreign operations	–	–	–	–	3,198	–	3,198	3,198
Total comprehensive income for the period	–	–	–	–	3,198	324,545	327,743	327,743
Profit appropriation to reserves	–	–	–	52,773	–	(52,773)	–	–
At 30 September 2010	–	–	78,938	118,935	3,742	476,452	678,067	678,067

* These reserve accounts comprise the consolidated reserves of RMB78,526,000, RMB350,324,000, RMB848,508,000 and RMB1,551,750,000 in the consolidated statements of financial position as at 31 December 2008, 2009, 2010 and 30 September 2011, respectively.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	Year ended 31 December			Nine months ended 30 September	
		2008	2009	2010	2010	2011
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax		105,382	238,176	596,419	389,570	921,595
Adjustments for:						
Finance costs	9	31,178	13,342	24,814	16,704	48,930
Interest income from the ultimate holding company	7	(18,378)	(8,408)	–	–	–
Bank interest income	7	(465)	(8,390)	(4,956)	(4,477)	(8,384)
Exchange (gain)/loss, net	7	(4,274)	118	44	44	(2,098)
Gain on disposal of prepaid land lease payments	7	–	(3,788)	–	–	–
Depreciation	8	15,666	20,448	76,681	56,015	81,364
Amortisation of prepaid land lease payments	8	101	45	1,259	–	1,308
Loss on disposal of a subsidiary	31	–	–	769	769	–
		129,210	251,543	695,030	458,625	1,042,715
Decrease/(increase) in inventories		37,983	(177,501)	65,889	(12,099)	(306,344)
Decrease/(increase) in trade and bills receivables		6,942	(33,595)	(33,371)	(13,037)	(12,276)
Decrease/(increase) in prepayments, deposits and other receivables		81,334	(45,211)	106,953	(230,653)	(364,428)
Decrease/(increase) in amounts due from fellow subsidiaries		6,748	3,046	(3,859)	342	10,990
Increase/(decrease) in trade and bills payables		13,137	1,647,337	(343,703)	(279,359)	470,209
Increase/(decrease) in receipts in advance, other payables and accruals		(38,909)	(206,304)	182,006	(31,949)	264,689
Increase/(decrease) in amounts due to fellow subsidiaries		53,572	(54,337)	(482,666)	(363,540)	(67,895)
Increase/(decrease) in an amount due to a related party		(39,612)	27,728	(15,740)	(9,753)	–

	Notes	Year ended 31 December			Nine months ended 30 September	
		2008	2009	2010	2010	2011
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Cash generated from/(used in) operations		250,405	1,412,706	170,539	(481,423)	1,037,660
Interest received		18,843	10,683	5,404	4,925	7,524
PRC tax paid		(29,185)	(42,947)	(64,871)	(39,551)	(178,892)
Net cash flows from/(used in) operating activities		240,063	1,380,442	111,072	(516,049)	866,292
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of items of property, plant and equipment		(258,923)	(381,527)	(1,023,212)	(566,390)	(1,273,259)
Purchase of prepaid land lease payments	*16*	–	–	(160,172)	–	–
Disposal of metal construction business	*30*	–	(536)	–	–	–
Proceeds from refund of a prepaid land lease payment	*16*	–	–	–	–	63,184
Proceeds from disposal of items of property, plant and equipment		–	–	–	–	246
Disposal of a subsidiary	*31*	–	–	(2,107)	(2,107)	–
Decrease/(increase) in pledged deposits		10,000	(1,530,868)	280,868	370,868	(86,551)
Net cash flows used in investing activities		(248,923)	(1,912,931)	(904,623)	(197,629)	(1,296,380)

	Notes	Year ended 31 December			Nine months ended 30 September	
		2008	2009	2010	2010	2011
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES						
Increase/(decrease) in an amount due to the ultimate holding company		19,913	272,326	164,634	221,945	(384,189)
Increase/(decrease) in an amount due to the immediate holding company		78,726	(14,009)	11,706	–	–
New bank loans		202,974	931,500	941,200	789,141	1,764,453
Repayments of bank loans		(209,000)	(615,728)	(219,776)	(257,718)	(941,200)
Repayments of other loans		(17,101)	(24,736)	(20,413)	(20,413)	–
Interest paid		(41,025)	(40,672)	(42,248)	(16,704)	(45,458)
Net cash flows from financing activities		34,487	508,681	835,103	716,251	393,606
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		25,627	(23,808)	41,552	2,573	(36,482)
Cash and cash equivalents at beginning of year/period		23,237	49,480	25,600	25,600	72,528
Effect of foreign exchange rate changes, net		616	(72)	5,376	3,197	2,550
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		49,480	25,600	72,528	31,370	38,596
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and bank balances	*21*	49,480	25,600	72,528	31,370	38,596
Cash and cash equivalents as stated in the statements of cash flows		49,480	25,600	72,528	31,370	38,596

STATEMENTS OF FINANCIAL POSITION

Company	Notes	As at 31 December			As at 30 September
		2008	2009	2010	2011
		RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS					
Investments in subsidiaries	*17*	–	108,336	108,336	108,336
Investment in an associate	*17*	39,656	–	–	–
Total non-current assets		39,656	108,336	108,336	108,336
CURRENT ASSETS					
Due from a subsidiary	*17*	–	17,372	34,068	22,750
Due from an associate	*17*	17,301	–	–	–
Prepayments	*20*	–	–	–	3,522
Cash and bank balances		–	–	–	1,482
Total current assets		17,301	17,372	34,068	27,754
CURRENT LIABILITIES					
Other payables	*23*	–	165	296	4,362
Due to the immediate holding company	*37*	56,970	125,708	137,115	–
Due to a subsidiary	*17*	–	–	–	3,585
Total current liabilities		56,970	125,873	137,411	7,947
NET CURRENT ASSETS/ (LIABILITIES)		(39,669)	(108,501)	(103,343)	19,807
Net assets/(liabilities)		(13)	(165)	4,993	128,143
EQUITY/(DEFICIT)					
Share capital	*26*	–	–	–	133,392
Reserves	*27*	(13)	(165)	4,993	(5,249)
Total equity/(deficit)		(13)	(165)	4,993	128,143

II. NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION AND THE REORGANISATION

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 is an investment holding company. During the Relevant Periods, the subsidiaries now comprising the Group were involved in the production and sale of steel products.

In the opinion of the Directors, the immediate holding company of the Company is Xiwang Investment Limited Company ("Xiwang Investment") (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 Relevant Periods, the ultimate holding company of the Company was Xiwang Group Company Limited ("Xiwang Group") (西王集團有限公司) for the period from 1 January 2008 to 8 July 2011 and Xiwang Holdings for the remaining period.

The Company and its subsidiaries now comprising the Group underwent the reorganisation as set out in the section headed "History, Reorganisation and Group Structure" to the Prospectus, which was completed on 31 March 2009.

As at the end of the Relevant Periods, the Company had direct and indirect interests in its subsidiaries, all of which have substantially similar characteristics to a private company incorporated in Hong Kong, the particulars of which are set out below:

Company Name	Place and date of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shandong Xiwang Metal Material Co., Ltd. ("Xiwang Metal") (ii) 山東西王金屬材料有限公司	People's Republic of China ("PRC")/ Mainland China 20 April 2004	US$21,000,000 (v)	100%	–	Production and sale of steel products
Shandong Xiwang Steel Co., Ltd. ("Xiwang Steel") (ii) 山東西王鋼鐵有限公司	PRC/Mainland China 31 December 2003	RMB240,000,000 (vi)	–	100%	Production and sale of steel products
Shandong Xiwang Special Steel Co., Ltd. ("Shandong Xiwang Special Steel") (iii) 山東西王特鋼有限公司	PRC/Mainland China 29 December 2007	US$11,800,000	49%	51%	Production and sale of steel products
Shandong Xiwang Recycling Resources Co., Ltd. ("Xiwang Recycling Resources") (iv) 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

(i) The statutory audited financial statements of the Company for the period from its date of incorporation to 31 December 2008 prepared in accordance with HKFRSs were audited by TO & HO Certified Public Accountants registered in Hong Kong. The statutory audited financial statements of the Company for the years ended 31 December 2009 and 2010 were audited by Morison Heng Certified Public Accountants registered in Hong Kong.

(ii) Xiwang Metal was registered as a wholly-foreign-owned enterprise under the PRC Law. The statutory audited financial statements of Xiwang Metal and Xiwang Steel for the years ended 31 December 2008, 2009 and 2010 prepared in accordance with PRC generally accepted accounting principles ("PRC GAAP") were audited by Shandong Jianxin Certified Public Accountants (山東鑿鑫會計師事務所有限公司) registered in the PRC.

(iii) The statutory audited financial statements of Shandong Xiwang Special Steel for the period from its date of incorporation to 31 December 2008 and the years ended 31 December 2009 and 2010 prepared in accordance with PRC GAAP were audited by Shandong Jianxin Certified Public Accountants (山東鑿鑫會計師事務所有限公司) registered in the PRC.

(iv) The statutory audited financial statements of Xiwang Recycling Resources for the period from its date of incorporation to 31 December 2009 and the year ended 31 December 2010 prepared in accordance with PRC GAAP were audited by Shandong Jianxin Certified Public Accountants (山東鑿鑫會計師事務所有限公司) registered in the PRC.

(v) On 29 June 2009, the registered share capital of Xiwang Metal was increased from US$10,000,000 to US$21,000,000 by the transfer from the retained profits.

(vi) On 27 August 2010, the registered share capital of Xiwang Steel was increased from RMB100,000,000 to RMB240,000,000.

On 20 January 2010, the Company disposed of its indirect interests in the following subsidiary, which is registered in the PRC. The particulars of the subsidiary are set out below:

Company name	Place and date of registration and operations	Nominal value of registered share capital	Percentage of ownership interest attributable to the Company		Principal activities
			Direct	Indirect	
			%	%	
Zouping Shengtang Metal Material Trading Co., Ltd. ("Shengtang Metal") (鄒平縣盛唐金屬材料貿易有限公司)	PRC/Mainland China 14 August 2008	RMB100,000,000	–	100%	Purchase and sale of steel products

The English names of certain of the subsidiaries registered in the PRC represent the best effort made by management of the Company to translate their Chinese names as those subsidiaries do not have official English names.

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganisation as more fully explained in the section headed "History, Reorganisation and Group Structure" to the Prospectus, the Company became the holding company of the companies now comprising the Group on 31 March 2009. The companies now comprising the Group were under the common control of the controlling shareholders before and after the Reorganisation. Accordingly, for the purpose of this report, the Financial Information has been prepared by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the Relevant Periods.

The consolidated income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for the Relevant Periods include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries first came under the common control of the controlling shareholders, where this is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2008, 2009 and 2010 and 30 September 2011 have been prepared to present the assets and liabilities of the subsidiaries using the existing book values from the controlling shareholders' perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

Equity interests in subsidiaries held by parties other than the controlling shareholders, and changes therein, prior to the Reorganisation are presented as non-controlling interests in equity in applying the principles of merger accounting.

All intra-group transactions and balances have been eliminated on consolidation.

2.2 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting periods commencing from 1 January 2010 and 2011, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Financial Information throughout the Relevant Periods.

The Financial Information has been prepared under the historical cost convention. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

The Group finances its operations primarily through proceeds from the shareholders, bank borrowings and the sale of steel products. The Directors of the Company are of the opinion that the Group will have sufficient working capital to finance its operations and to maintain its operating existence in the foreseeable future and accordingly have prepared the Financial Information on a going concern basis.

3. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRS – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[1]
HKFRS 9	*Financial Instruments*[6]
HKFRS 10	*Consolidated Financial Statements*[4]
HKFRS 11	*Joint Arrangements*[4]
HKFRS 12	*Disclosure of Interests in Other Entities*[4]
HKFRS 13	*Fair Value Measurement*[4]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2]
HKAS 19 (2011)	*Employee Benefits*[4]
HKAS 27 (2011)	*Separate Financial Statements*[4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
HKAS 32 Amendments	Amendment to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[5]
HK(IFRIC) – Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidation policy of the acquisition among the entities under common control is dealt with in accordance with the principles set out in Accounting Guideline 5 *Merger Accounting for Common Control Combinations* issued by the HKICPA ("AG5") as if the acquisition had occurred from the date when the combining entities first came under the control of the controlling party. The purchase method of accounting is used to account for the acquisition of subsidiaries not under common control.

The merger method of accounting involves incorporating the financial statement items of the combining entities or businesses which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of the acquirers' interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest. The consolidated income statements and the consolidated statements of comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. For the acquisition of subsidiaries not under common control, the results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

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

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

Subsidiaries

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

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

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. The results of associates are included in the Company's income statements to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

Business combinations

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 acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

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

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 net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

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 income statements 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 the Relevant Periods as to whether there is any 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 is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Related parties

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

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the Group (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

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

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

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

Construction in progress represents 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 or investment properties when completed and ready for use.

Prepaid land lease payments

Prepaid land lease payments represent prepayments for acquiring rights to use land in Mainland China under operating leases. Land use rights granted are recognised initially at acquisition cost. Land use rights of the Group are held for own use. They are stated at cost, less accumulated amortisation and any impairment losses. Amortisation is charged to the income statements on the straight-line basis over the lease terms.

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 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 classified as held for sale are not depreciated or amortised.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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.

The Group's financial assets include cash and bank balances, trade and bills receivables, deposits and other receivables and amounts due from fellow subsidiaries.

Subsequent measurement

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated 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 finance income in the income statements. The loss arising from impairment is recognised in the income statements.

Derecognition of financial assets

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

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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 the consolidated income statements.

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and bills payables, other payables, amounts due to the ultimate holding company, the immediate holding company, fellow subsidiaries and a related party, and interest-bearing loans and borrowings.

Subsequent measurement

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

Loans and borrowings

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

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

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the Relevant Periods; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position if, and only 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 statements 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 statements 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 Relevant Periods, 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 Relevant Periods 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:

- where 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, where 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.

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

- where 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 the Relevant Periods 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 the Relevant Periods 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 Relevant Periods.

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 over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

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) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" below;

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

(d) rental income, on a time proportion basis over the lease terms.

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction.

Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Retirement benefits

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

Borrowing costs

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

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging between 6.8% and 9.7% has been applied to the expenditure on the individual assets during the Relevant Periods.

Dividends

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

Foreign currencies

These financial statements are presented in RMB, which is the Group's presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling 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 Relevant Periods. All differences are taken to the income statements.

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 Relevant Periods, the assets and liabilities of the Company are translated into the presentation currency of the Group at the exchange rate ruling at the end of the Relevant Periods and its income statements are translated into RMB at the weighted average exchange rate for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve.

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

5. SIGNIFICANT ACCOUNTING JUDGEMENTS 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 the disclosure of contingent liabilities, at the end of the Relevant Periods. However, 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.

Judgements

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

Withholding taxes arising from the distributions of dividends

The Group's determination as to whether to accrue for withholding taxes from the distribution of dividends from the subsidiaries in the PRC 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 the PRC 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 Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year/period, are discussed 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 the Relevant Periods. The non-financial assets rather than indefinite life intangible assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Useful lives and residual values of property, plant and equipment

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

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 10% 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 liabilities that can be recognised, based upon the likely dividends declared.

6. OPERATING SEGMENT INFORMATION

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

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

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

(c) Others, which includes the sale of by-products and the rendering of metal construction services.

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 gross profit.

Geographical information

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

Information about major customers

For the nine months ended 30 September 2011, sales to one of the Group's customers of RMB887,742,000 (nine months ended 30 September 2010: RMB267,753,000), which represented 14.0% of the Group's total revenue, were derived from sales by the ordinary steel segment and the special steel segment. For the year ended 31 December 2010, sales to one of the Group's customers of RMB705,508,000 (2008: Nil, 2009: RMB272,821,000), which represented 13.1% of the Group's total revenue, were derived from sales by the ordinary steel segment. There was no single customer who contributed to 10% or more of the Group's sales during the years ended 31 December 2008 and 2009.

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

For the year ended 31 December 2008

	Ordinary steel	Special steel	Others	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:				
Sales to external customers	3,773,739	–	84,590	3,858,329
Cost of sales	(3,666,460)	–	(66,231)	(3,732,691)
Gross profit	107,279	–	18,359	125,638
Reconciliation:				
Other income and gains				23,782
Selling and distribution costs				(2,844)
Administrative expenses				(9,089)
Other expenses				(927)
Finance costs				(31,178)
Profit before tax				105,382

For the year ended 31 December 2009

	Ordinary steel	Special steel	Others	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:				
Sales to external customers	3,739,268	–	37,665	3,776,933
Cost of sales	(3,508,332)	–	(22,130)	(3,530,462)
Gross profit	230,936	–	15,535	246,471
Reconciliation:				
Other income and gains				23,701
Selling and distribution costs				(4,479)
Administrative expenses				(13,753)
Other expenses				(422)
Finance costs				(13,342)
Profit before tax				238,176

For the year ended 31 December 2010

	Ordinary steel	Special steel	Others	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:				
Sales to external customers	4,928,456	420,035	38,849	5,387,340
Cost of sales	(4,374,452)	(392,633)	(19,259)	(4,786,344)
Gross profit	554,004	27,402	19,590	600,996
Reconciliation:				
Other income and gains				45,066
Selling and distribution costs				(4,307)
Administrative expenses				(19,469)
Other expenses				(1,053)
Finance costs				(24,814)
Profit before tax				596,419

For the nine months ended 30 September 2010 (unaudited)

	Ordinary steel	Special steel	Others	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:				
Sales to external customers	3,571,433	241,142	24,055	3,836,630
Cost of sales	(3,198,573)	(236,667)	(8,312)	(3,443,552)
Gross profit	372,860	4,475	15,743	393,078
Reconciliation:				
Other income and gains				31,210
Selling and distribution costs				(3,012)
Administrative expenses				(14,019)
Other expenses				(983)
Finance costs				(16,704)
Profit before tax				389,570

For the nine months ended 30 September 2011

	Ordinary steel	Special steel	Others	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:				
Sales to external customers	3,641,867	2,648,298	60,222	6,350,387
Cost of sales	(3,210,887)	(2,112,524)	(22,743)	(5,346,154)
Gross profit	430,980	535,774	37,479	1,004,233
Reconciliation:				
Other income and gains				11,144
Selling and distribution costs				(4,183)
Administrative expenses				(40,439)
Other expenses				(230)
Finance costs				(48,930)
Profit before tax				921,595

7. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, net of value-added tax and government surcharges, and an appropriate proportion of contract revenue of construction services during the Relevant Periods.

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

	Note	Year ended 31 December			Nine months ended 30 September	
		2008	2009	2010	2010	2011
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue						
Sales of ordinary steel		3,773,739	3,739,268	4,928,456	3,571,433	3,641,867
Sales of special steel		–	–	420,035	241,142	2,648,298
Sales of by-products		69,373	28,990	38,849	24,055	60,222
Metal construction services		15,217	8,675	–	–	–
		3,858,329	3,776,933	5,387,340	3,836,630	6,350,387
Other income						
Interest income from the ultimate holding company	*37*	18,378	8,408	–	–	–
Bank interest income		465	8,390	4,956	4,477	8,384
Rental income from fellow subsidiaries	*37*	419	80	100	75	25
Subsidy income*		–	3,132	39,684	26,114	–
Others		246	21	370	588	637
		19,508	20,031	45,110	31,254	9,046
Gains						
Foreign exchange gain/(loss), net		4,274	(118)	(44)	(44)	2,098
Gain on disposal of prepaid land lease payments *(note 37(b)(iii))*		–	3,788	–	–	–
		4,274	3,670	(44)	(44)	2,098
		23,782	23,701	45,066	31,210	11,144

* Subsidy income represented the VAT refund from the government to Xiwang Recycling Resources, a PRC subsidiary of the Company, for the purchase of steel scrap. There are no unfulfilled conditions or contingencies relating to these subsidies.

8. PROFIT BEFORE TAX

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

	Notes	Year ended 31 December 2008	Year ended 31 December 2009	Year ended 31 December 2010	Nine months ended 30 September 2010	Nine months ended 30 September 2011
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Cost of inventories sold^		3,728,688	3,530,462	4,786,344	3,443,552	5,346,154
Depreciation^	*15*	15,666	20,448	76,681	56,015	81,364
Amortisation of prepaid land lease payments^	*16*	101	45	1,259	–	1,308
Auditors' remuneration		60	190	606	520	244
Employee benefit expenses (including directors' remuneration)^:						
Wages and salaries		19,565	31,733	50,101	35,659	68,685
Pension scheme contributions**		1,320	2,684	4,223	3,366	5,358
Staff welfare expenses		3,124	3,328	4,040	3,725	5,020
		24,009	37,745	58,364	42,750	79,063
Foreign exchange differences, net	*7*	(4,274)	118	44	44	(2,098)
Bank interest income	*7*	(465)	(8,390)	(4,956)	(4,477)	(8,384)
Loss on disposal of a subsidiary	*31*	–	–	769	769	–
Interest income from the ultimate holding company	*7*	(18,378)	(8,408)	–	–	–
Write-down of inventories to net realisable value*	*18*	4,003	–	–	–	–

^ Included in the cost of inventories sold are direct employee benefit expenses, depreciation of manufacturing facilities and amortisation of prepaid land lease payments amounting to approximately RMB35,792,000, RMB41,135,000, RMB125,015,000, RMB89,448,000 and RMB143,877,000 for the years ended 31 December 2008, 2009, 2010 and for the nine months ended 30 September 2010 and 2011, respectively. These amounts are also included in the amounts for the respective types of expenses disclosed above.

* Write-down of inventories to net realisable value is included in "Cost of sales" in the consolidated income statements.

** As at the end of the Relevant Periods, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years.

9. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 December			Nine months ended 30 September	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Interest on bank borrowings wholly repayable within five years	19,227	18,927	32,465	23,699	62,630
Interest payable to the ultimate holding company	14,977	18,005	9,559	996	17,542
Effective interest rate amortisation for a loan from the immediate holding company *(note 37(b)(iv))*	3,975	772	224	224	–
Interest on bills discounted	2,846	2,968	–	–	–
Total interest expense on financial liabilities not at fair value through profit or loss	41,025	40,672	42,248	24,919	80,172
Less: Interest capitalised	(9,847)	(27,330)	(17,434)	(8,215)	(31,242)
	31,178	13,342	24,814	16,704	48,930

10. DIRECTORS' REMUNERATION

In May 2011, Mr. Liang Wang, Mr. Gang Wang and Mr. Tao Wang were appointed as executive directors of the Company. Mr. Yong Wang, Mr. Di Wang and Mr. Xinhu Sun were appointed as non-executive directors of the Company, and Mr. Shu Sun Sunny Leung, Mr. Gongxue Zhang and Mr. Kou Yu were appointed as independent non-executive directors of the Company.

Details of directors' remuneration for the Relevant Periods are as follows:

	Year ended 31 December			Nine months ended 30 September	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Fees	–	–	–	–	–
Other emoluments:					
Salaries, allowances and benefits in kind	–	–	–	–	98
Pension scheme contributions	–	–	–	–	4
	–	–	–	–	102
Total	–	–	–	–	102

(a) Non-executive directors and independent non-executive directors

There were no emoluments payable to non-executive directors and independent non-executive directors during the Relevant Periods.

(b) Executive directors

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000
Nine months ended 30 September 2011				
Executive directors:				
Mr. Liang Wang	–	117	3	120
Mr. Gang Wang	–	–	–	–
Mr. Tao Wang	–	64	3	67
	–	181	6	187

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

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the Relevant Periods are analysed as follows:

	Year ended 31 December			Nine months ended 30 September	
	2008	2009	2010	2010	2011
				(unaudited)	
Directors	–	–	–	–	2
Non-director, highest paid employees	5	5	5	5	3
	5	5	5	5	5

Details of the remuneration of the non-directors, highest paid employees for the Relevant Periods are as follows:

	Year ended 31 December			Nine months ended 30 September	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Salaries, allowances and benefits in kind	196	199	435	344	266
Performance related bonus	287	916	675	–	–
Pension scheme contributions	4	6	11	4	3
	487	1,121	1,121	348	269

Remuneration to each of the non-directors, highest paid employees, for each of the Relevant Periods, was less than HK$1,000,000.

12. INCOME TAX

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

Pursuant to the PRC Corporate Income Tax Law (the "New CIT Law") effective on 1 January 2008, the CIT rate was unified as 25% for enterprises in the PRC. Accordingly, the applicable tax rate for Xiwang Steel, Shandong Xiwang Special Steel and Xiwang Recycling Resources was 25% for the Relevant Periods.

Xiwang Metal was registered as a foreign investment enterprise on 20 April 2004. Pursuant to the approval of the tax bureau, Xiwang Metal is exempted from CIT for its first two profit-making years (after deducting losses incurred in previous years) and is entitled to a 50% tax reduction for the succeeding three years. In accordance with the New CIT Law, a company is still able to enjoy the above-mentioned tax holiday within a five-year transitional period from 1 January 2008. The Company would be deemed to trigger the tax holiday from 1 January 2008 if it has not yet started to enjoy the tax holiday at that time. Since Xiwang Metal was under an accumulative loss position and has not yet started to enjoy the tax holiday as of 1 January 2008, its tax holiday was deemed to have started in 2008 regardless of whether it made profit in 2008. Therefore, Xiwang Metal was exempted from CIT for the years ended 31 December 2008 and 2009 and subject to the CIT rate of 12.5% for the year ended 31 December 2010 and the nine months ended 30 September 2011.

The income tax expenses of the Group for the Relevant Periods are analysed as follows:

	Year ended 31 December			**Nine months ended 30 September**	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (unaudited)**	**RMB'000**
Current – Mainland China					
Charge for the year/period	26,662	38,281	103,611	66,857	199,406
Deferred *(note 25)*	(1,001)	1,001	–	(1,832)	20,436
Total tax charge for the year/period . .	25,661	39,282	103,611	65,025	219,842

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

	Year ended 31 December						Nine months ended 30 September			
	2008		2009		2010		2010		2011	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Profit before tax	105,382		238,176		596,419		389,570		921,595	
Tax at the statutory tax rates	26,346	25%	59,544	25%	149,105	25%	97,392	25%	230,399	25%
Lower tax rate enacted by local authority	(907)	(1%)	(27,944)	(12%)	(46,384)	(8%)	(33,642)	(9%)	(36,768)	(4%)
Expenses not deductible for tax	220	–	159	–	890	–	1,275	–	2,028	–
Effect of withholding tax at 10% on the transfer of retained profits to paid-in capital of a PRC subsidiary	–	–	7,516	3%	–	–	–	–	–	–
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	–	–	–	–	–	–	–	–	22,233	2%
Tax losses not recognised	2	–	7	–	–	–	–	–	1,950	–
Tax charge at the Group's effective tax rate	25,661	24%	39,282	16%	103,611	17%	65,025	17%	219,842	24%

The Group has tax losses arising in Hong Kong of approximately RMB13,000, RMB165,000, RMB271,000, RMB185,000 and RMB11,876,000 as at 31 December 2008, 2009, 2010 and 30 September 2010 and 2011, respectively, that are available for offsetting against future taxable profits of the Company in which they arose. A deferred tax asset has not been recognised as at the end of the Relevant Periods 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.

13. EARNINGS PER SHARE

The calculation of basic earnings per share amounts is based on the profit attributable to ordinary equity holders of the parent for the Relevant Periods, and the weighted average number of ordinary shares in issue during the Relevant Periods, as adjusted retrospectively to reflect the Share Split and the Debt Settlement, as detailed in note 26 to the Financial Information, as if the events had occurred at the beginning of the earliest period presented.

The calculation of basic earnings per share is based on:

	Year ended 31 December			Nine months ended 30 September	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Earnings					
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:	43,469	194,096	492,808	324,545	701,753

	Number of shares				
	Year ended 31 December			Nine months ended 30 September	
	2008	2009	2010	2010	2011
Shares					
Weighted average number of ordinary shares in issue used in the basic earnings per share calculation, as adjusted retrospectively to reflect the Share Split and the Debt Settlement *(note 26)*	1,600,000,000	1,600,000,000	1,600,000,000	1,600,000,000	1,600,000,000

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

14. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2010 and 2011 includes a loss of RMB13,000, RMB152,000, RMB106,000, RMB20,000 and RMB11,605,000 respectively, which has been dealt with in the financial statements of the Company (note 27).

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and equipment	Motor vehicles	Office equipment and fixtures	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2008						
At 1 January 2008:						
Cost	108,964	179,092	87	499	13,743	302,385
Accumulated depreciation	(3,410)	(18,008)	(8)	(260)	–	(21,686)
Assets included in a discontinued operation *(note 28)*	13,821	35,223	137	166	–	49,347
Net carrying amount	119,375	196,307	216	405	13,743	330,046
At 1 January 2008, net of accumulated depreciation	119,375	196,307	216	405	13,743	330,046
Additions	142	388	87	60	320,092	320,769
Acquisition of a business *(note 29)*	3,605	3,641	1,395	88	–	8,729
Depreciation provided during the year	(3,536)	(11,792)	(195)	(143)	–	(15,666)
Disposal of assets included in a discontinued operation *(note 28)*	(13,821)	(35,223)	(137)	(166)	–	(49,347)
Transfers	49	–	–	–	(49)	–
At 31 December 2008, net of accumulated depreciation	105,814	153,321	1,366	244	333,786	594,531
At 31 December 2008:						
Cost	112,760	183,121	1,569	647	333,786	631,883
Accumulated depreciation	(6,946)	(29,800)	(203)	(403)	–	(37,352)
Net carrying amount	105,814	153,321	1,366	244	333,786	594,531

	Buildings	Machinery and equipment	Motor vehicles	Office equipment and fixtures	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2009						
At 1 January 2009:						
Cost	112,760	183,121	1,569	647	333,786	631,883
Accumulated depreciation	(6,946)	(29,800)	(203)	(403)	–	(37,352)
Net carrying amount	105,814	153,321	1,366	244	333,786	594,531
At 1 January 2009, net of accumulated depreciation	105,814	153,321	1,366	244	333,786	594,531
Additions	–	126,272	–	58	870,724	997,054
Disposal of a business *(note 30)*	(3,537)	(3,196)	(1,165)	(88)	–	(7,986)
Depreciation provided during the year	(4,490)	(15,712)	(116)	(130)	–	(20,448)
Transfers	568,680	585,807	–	5,109	(1,159,596)	–
At 31 December 2009, net of accumulated depreciation	666,467	846,492	85	5,193	44,914	1,563,151
At 31 December 2009:						
Cost	677,693	891,290	116	5,662	44,914	1,619,675
Accumulated depreciation	(11,226)	(44,798)	(31)	(469)	–	(56,524)
Net carrying amount	666,467	846,492	85	5,193	44,914	1,563,151

	Buildings	Machinery and equipment	Motor vehicles	Office equipment and fixtures	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2010						
At 1 January 2010:						
Cost	677,693	891,290	116	5,662	44,914	1,619,675
Accumulated depreciation	(11,226)	(44,798)	(31)	(469)	–	(56,524)
Net carrying amount	666,467	846,492	85	5,193	44,914	1,563,151
At 1 January 2010, net of accumulated depreciation	666,467	846,492	85	5,193	44,914	1,563,151
Additions	1,495	5,471	13	16	647,580	654,575
Disposal	(2,398)	–	–	–	–	(2,398)
Depreciation provided during the year	(21,296)	(54,240)	(16)	(1,129)	–	(76,681)
Transfers	4,350	1,724	–	1,327	(7,401)	–
At 31 December 2010, net of accumulated depreciation	648,618	799,447	82	5,407	685,093	2,138,647
At 31 December 2010:						
Cost	680,796	898,485	129	7,005	685,093	2,271,508
Accumulated depreciation	(32,178)	(99,038)	(47)	(1,598)	–	(132,861)
Net carrying amount	648,618	799,447	82	5,407	685,093	2,138,647

	Buildings	Machinery and equipment	Motor vehicles	Office equipment and fixtures	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
30 September 2011						
At 1 January 2011:						
Cost	680,796	898,485	129	7,005	685,093	2,271,508
Accumulated depreciation	(32,178)	(99,038)	(47)	(1,598)	–	(132,861)
Net carrying amount	648,618	799,447	82	5,407	685,093	2,138,647
At 1 January 2011, net of accumulated depreciation	648,618	799,447	82	5,407	685,093	2,138,647
Additions	2,613	4,470	4,477	2,045	1,010,150	1,023,755
Disposal	(348)	–	–	–	–	(348)
Depreciation provided during the period	(27,109)	(52,315)	(443)	(1,497)	–	(81,364)
Transfers	707,622	311,240	2,273	3,797	(1,024,932)	–
At 30 September 2011, net of accumulated depreciation	1,311,396	1,062,842	6,389	9,752	670,311	3,080,690
At 30 September 2011:						
Cost	1,390,660	1,214,195	6,879	12,847	670,311	3,294,892
Accumulated depreciation	(59,264)	(151,353)	(490)	(3,095)	–	(214,202)
Net carrying amount	1,331,396	1,062,842	6,389	9,752	670,311	3,080,690

As at 30 September 2011, the Group has not yet obtained the building ownership certificates in respect of the buildings with a net book value of RMB627,052,631.

Certain of the Group's buildings with a carrying amount of RMB16,882,000 and machinery with a carrying amount of RMB66,658,000 as at 31 December 2008 were pledged as security for the Group's bank loans and other borrowings (note 24).

16. PREPAID LAND LEASE PAYMENTS

	As at 31 December			As at 30 September
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount at 1 January	4,689	4,588	–	158,913
Additions	–	–	160,172	–
Disposal	–	(4,543)	–	–
Refund	–	–	–	(63,184)
Recognised during the year/period	(101)	(45)	(1,259)	(1,308)
Carrying amount at end of year/period	4,588	–	158,913	94,421
Current portion included in prepayments, deposits and other receivables	(101)	–	(3,233)	(1,944)
Non-current portion	4,487	–	155,680	92,477

In 2010, the Group paid RMB160,172,000 to the Land and Resource Department of Zouping County (鄒平縣國土資源局) for the purchase of certain land use rights. The related land area was revised with a corresponding refund of an amount of RMB63,184,000 by the Land and Resource Department of Zouping County to the Group subsequent to 31 December 2010. The refund was received by the Group on 27 April 2011.

During the years ended 31 December 2008, 2009 and 2010, certain land with an area of 61,461 square metres were provided by Xiwang Group for use by the Group free of charge. Pursuant to an operating lease agreement entered into between the Group and Xiwang Group on 11 April 2011, the Group will pay annual rental of RMB368,766 to Xiwang Group for the use of the land with effect from 11 April 2011 for 20 years. For the nine months ended 30 September 2011, the Group has recorded rental expenses of RMB174,000 payable to Xiwang Group as disclosed in note 37(a)(ii).

17. INVESTMENTS IN SUBSIDIARIES AND INVESTMENT IN AN ASSOCIATE

	As at 31 December			As at 30 September
Investments in subsidiaries	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted shares, at cost	–	108,336	108,336	108,336

The amount due from a subsidiary included in the Company's current assets of nil, RMB17,372,000, RMB34,068,000 and RMB22,750,000 as at 31 December 2008, 2009, 2010 and 30 September 2011, respectively, is unsecured, interest-free and has no fixed terms of repayment.

	As at 31 December			As at 30 September
Investment in an associate	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted shares, at cost	39,656	–	–	–

Investment in an associate as at 31 December 2008 represented the direct interest of 49% held by the Company in Shandong Xiwang Special Steel which became a subsidiary of the Company upon completion of the Reorganisation.

The amount due from an associate included in the Company's current assets of RMB17,301,000 as at 31 December 2008 is unsecured non-interest-bearing and has no fixed terms of repayment.

The amount due to a subsidiary included in the Company's current liabilities of RMB3,585,000 as at 30 September 2011 is unsecured, non-interest-bearing and has no fixed terms of repayment.

18. INVENTORIES

	As at 31 December			As at 30 September
	2008	**2009**	**2010**	**2011**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Raw materials	53,842	275,523	133,214	185,884
Work in progress	618	680	1,152	570
Finished goods	209,236	91,523	172,424	426,680
	263,696	367,726	306,790	613,134
Provision for inventory obsolescence and net realisable value	(4,003)	–	–	–
	259,693	367,726	306,790	613,134

Certain of the Group's inventories with carrying amounts of RMB87,140,000, RMB251,726,000. RMB246,828,000 and RMB180,382,000 as at 31 December 2008, 2009, 2010, and 30 September 2011, respectively, were pledged as security for the Group's bank loans and other borrowings (note 24). Certain of the Group's inventories with a carrying amount of RMB148,034,000 as at 31 December 2009 were pledged as security for the Group's bills payable (note 22).

19. TRADE AND BILLS RECEIVABLES

	As at 31 December			As at 30 September
	2008	**2009**	**2010**	**2011**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Bills receivable	950	23,689	43,075	69,411
Trade receivables	5,552	75	14,060	–
	6,502	23,764	57,135	69,411

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

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

	As at 31 December			As at 30 September
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	3,523	23,043	53,975	64,801
3 to 6 months	376	646	2,908	4,610
6 months to 1 year	2,603	–	–	–
Over 1 year	–	75	252	–
	6,502	23,764	57,135	69,411

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

	As at 31 December			As at 30 September
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	3,523	23,043	53,975	69,411
Less than 1 month past due	376	646	2,908	–
1 to 3 months past due	–	–	–	–
Over 3 months past due	2,603	75	252	–
	6,502	23,764	57,135	69,411

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. The Group does not hold any collateral or other credit enhancements over these balances.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	As at 31 December			As at 30 September
	2008	**2009**	**2010**	**2011**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Prepayments	232,822	227,505	129,036	539,809
Bank interest receivables	–	6,115	–	860
VAT recoverable	–	49,784	39,673	25,559
Subsidy receivables	–	3,132	17,572	–
Deposits and other receivables	19,460	19,606	3,136	1,145
Current portion of prepaid land lease payments *(note 16)*	101	–	3,233	1,944
	252,383	306,142	192,650	569,317

Company

	As at 31 December			As at 30 September
	2008	**2009**	**2010**	**2011**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Prepayments	–	–	–	3,522

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.

21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

		As at 31 December			As at 30 September
	Notes	**2008**	**2009**	**2010**	**2011**
		RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Cash and bank balances		49,480	25,600	72,528	38,596
Time deposits		30,000	1,560,868	210,000	296,551
		79,480	1,586,468	282,528	335,147
Less: Pledged deposits:					
Guarantee deposits for issuance of bills payable	*22*	(30,000)	(1,540,868)	(162,000)	(225,000)
Guarantee deposits for certain bank borrowings	*24*	–	(20,000)	(48,000)	(71,551)
Cash and cash equivalents		49,480	25,600	72,528	38,596

At 31 December 2008, 2009, 2010 and 30 September 2011, the Group's cash and bank balances denominated in RMB were RMB49,480,000, RMB25,600,000, RMB72,528,000 and RMB37,114,000 respectively. 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 day and six months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

22. TRADE AND BILLS PAYABLES

	As at 31 December			As at 30 September
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Bills payable	50,000	1,687,160	100,000	450,000
Trade payables	29,973	32,937	106,394	226,603
	79,973	1,720,097	206,394	676,603

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

	As at 31 December			As at 30 September
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 month	29,973	690,097	81,490	475,745
1 to 3 months	50,000	1,030,000	124,904	200,858
	79,973	1,720,097	206,394	676,603

The bills payable as at 31 December 2008, 31 December 2010 and 30 September 2011 were secured by the pledged time deposits of RMB30,000,000, RMB162,000,000 and RMB225,000,000 respectively (note 21). The bills payable amounting to RMB1,687,160,000 as at 31 December 2009 were secured by the pledged time deposits of RMB1,540,868,000 (note 21) and the pledged inventories of RMB148,034,000 (note 18).

Additionally, an independent third party guaranteed certain of the Group's bills payable up to RMB250,000,000 as at 30 September 2011.

The trade payables are non-interest-bearing and are normally settled on 30-day terms.

23. RECEIPTS IN ADVANCE, OTHER PAYABLES AND ACCRUALS

Group

	As at 31 December			As at 30 September
	2008	**2009**	**2010**	**2011**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Advances from customers	281,690	74,637	132,429	152,490
Salaries and welfare payables	5,496	7,986	13,370	22,477
Other tax payables	10,501	1,713	16,476	25,686
Other payables	89,737	648,705	347,815	335,090
Interest payables	–	–	–	3,473
	387,424	733,041	510,090	539,216

Company

	As at 31 December			As at 30 September
	2008	**2009**	**2010**	**2011**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Other payables	–	165	296	4,362

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

24. INTEREST-BEARING BANK AND OTHER BORROWINGS

	As at 31 December									As at 30 September		
	2008			2009			2010			2011		
	Effective interest rate	Maturity	RMB'000	Effective interest rate	Maturity	RMB'000	Effective interest rate	Maturity	RMB'000	Effective interest rate	Maturity	RMB'000
Current												
Bank loans – unsecured	–	–	–	–	–	–	5.56%	2011	100,000	–	–	–
Bank loans – secured	5.7%-8.42%	2009	150,000	5.31%-6.9%	2010	550,000	6.17%-9%	2011	841,200	5.85%-7.34%	2012	477,753
Current portion of long term bank loans – secured	7.18%-8%	2009	55,000	–	–	–	–	–	–	–	–	–
Current portion of long term other loan – unsecured	8%	2009	38,855	8%	2010	20,190	–	–	–	10.25%	2012	186,700
			243,855			570,190			941,200			664,453
Non-current												
long term bank loans – secured	7.18%	2010	30,000	–	–	–	–	–	–	–	–	–
long term bank loans – unsecured	–	–	–	–	–	–	–	–	–	5.85%	2012	100,000
long term other loan – unsecured	8%	2010	5,180	–	–	–	–	–	–	–	–	–
long term other loan – secured	–	–	–	–	–	–	–	–	–	6.06%	2013	1,000,000
			35,180			–			–			1,100,000

	As at 31 December			As at 30 September
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Analysed into:				
Within one year	243,855	570,190	941,200	664,453
In the second year	35,180	–	–	1,100,000
	279,035	570,190	941,200	1,764,453

Notes:

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

a. certain of the Group's buildings with a carrying amount of RMB16,882,000 and machinery with a carrying amount of RMB66,658,000 as at 31 December 2008 (note 15).

b. certain of the Group's inventories totalling RMB87,140,000, RMB251,726,000, RMB246,828,000 and RMB180,382,000 as at 31 December 2008, 2009, 2010 and 30 September 2011 respectively (note 18).

c. the pledge of certain of the Group's time deposits amounting to RMB20,000,000, RMB48,000,000 and RMB71,551,000 as at 31 December 2009, 31 December 2010 and 30 September 2011, respectively (note 21).

In addition, the Company's ultimate holding company has guaranteed certain of the Group's bank borrowings up to RMB115,000,000 and RMB195,200,000 as at 31 December 2008 and 31 December 2010 (note 37), respectively. Mr. Yong Wang, the Chairman and non-executive director of the Company has guaranteed certain of the Group's bank borrowings up to RMB45,000,000 and RMB195,200,000 as at 31 December 2008 and 31 December 2010 (note 37), respectively. Certain fellow subsidiaries have guaranteed certain of the Group's bank borrowings up to RMB70,000,000 as at 31 December 2008. Certain independent third parties guaranteed certain of the Group's bank borrowings up to RMB125,000,000, RMB300,000,000, RMB431,200,000 and RMB306,700,000 as at 31 December 2008, 2009, 2010 and 30 September 2011, respectively.

(ii) The Group's other loan as at 31 December 2008 and 2009 is unsecured and payable to Xiwang Investment, the immediate holding company. The original principal amount of the other loan was US$10,400,000. The loan is unsecured, interest-free and repayable by four annual instalments commencing on 1 August 2006.

(iii) The Group's other loan as at 30 September 2011 was obtained from a financial institution with a total amount of RMB1,186,700,000. The loan was guaranteed by certain subsidiaries of the Group and repayable on 17 March 2013.

(iv) Except for the other loan payable to Xiwang Investment, which is denominated in United States dollars, all borrowings are in RMB.

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

25. DEFERRED TAX

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

Deferred tax assets

	Note	Year ended 31 December			Nine months ended 30 September	
		2008	2009	2010	2010	2011
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
At 1 January		–	1,001	–	–	–
Deferred tax		–	–	–	–	–
Credited/(charged) to the income statements during the year/period	*12*	1,001	(1,001)	–	1,832	1,797
Gross deferred tax assets at the end of the year/period		1,001	–	–	1,832	1,797

For the year ended 31 December 2008, deferred tax assets were recognised in respect of the write-down of inventories to net realisable value. For the nine months ended 30 September 2010 and 2011, deferred tax assets were recognised in respect of the unrealised profit arising from intra-group sales.

Deferred tax liability

	Withholding tax on the distributable profits
	RMB'000
At 1 January 2008, 31 December 2008, 31 December 2009, 31 December 2010 and 1 January 2011	–
Deferred tax charged to the income statement during the period *(note 12)*	22,233
At 30 September 2011	22,233

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

The Group considers it is not probable that its subsidiaries established in Mainland China will distribute any accumulated earnings generated from 1 January 2008 other than a 30% of its profit for the year ended 31 December 2011. As such, the Group recognised deferred tax liability in respect of 30% of the profit for the nine months ended 30 September 2011.

The aggregate amounts of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised were approximately RMB2,975,000, RMB17,923,000, RMB60,289,000 and RMB102,615,000 as at 31 December 2008, 2009, 2010 and 30 September 2011, respectively.

26. SHARE CAPITAL

	Notes	Number of shares	Amounts
			HK$'000
Authorised:			
At 31 December 2008, 2009 and 2010 (HK$1 each)	*(a)*	10,000	10,000
At 30 September 2011 (HK$0.1 each)	*(b)*	100,000,000,000	10,000,000,000
Issued and fully paid:			
At 31 December 2008, 2009 and 2010 (HK$1 each)	*(a)*	1	–
At 30 September 2011 (HK$0.1 each)	*(c)*	1,600,000,000	160,000,000

The movements in the Company's issued ordinary share capital during the Relevant Periods are as follows:

	Notes	Number of shares in issue	Issued share capital	Share premium account	Total
			RMB'000	RMB'000	RMB'000
At 1 January 2008, 31 December 2008, 31 December 2009, 31 December 2010 and 1 January 2011	*(a)*	1	–	–	–
Share Split	*(b)*	9	–	–	–
Issue of shares	*(c)*	1,599,999,990	133,392	1,119	134,511
At 30 September 2011		1,600,000,000	133,392	1,119	134,511

Notes:

(a) The Company was incorporated in Hong Kong on 6 August 2007, with authorised share capital of HK$10,000 divided into 10,000 shares of HK$1 each. One ordinary share of HK$1 was issued and fully paid as at 31 December 2008, 2009 and 2010.

(b) On 27 July 2011, the Company passed an ordinary resolution to sub-divide each of the issued and unissued shares comprising 10,000 shares of HK$1 each into 100,000 shares of HK$0.10 each and increase the authorised share capital of the Company to HK$10,000,000,000 divided into 100,000,000,000 shares of HK$0.10 each by the creation of 99,999,900,000 new shares of HK$0.10 each (the "Share Split").

(c) On 27 July 2011, the Company and Xiwang Investment, the immediate holding company, entered into a debt settlement agreement (the "Debt Settlement"), pursuant to which, the Company issued additional 1,599,999,990 shares of HK$0.10 each to Xiwang Investment, the consideration for which was set-off by the amount of HK$161,341,779 (equivalent to approximately RMB134,511,000) owed by the Company to Xiwang Investment.

For the purpose of this report, the issued capital of the Group at the end of the Relevant Periods represented the issued capital of the Company.

27. RESERVES

Group

(a) On 27 February 2009, Xiwang Group, the ultimate holding company of the Company, acquired the non-controlling interests in Xiwang Metal through its subsidiary at a consideration of US$3,873,448 (equivalent to RMB26,255,000) pursuant to the Reorganisation. The consideration was paid by the ultimate holding company. Subsequently, the legal title of the entire equity interests in Xiwang Metal was transferred to the Company on 31 March 2009. The difference between the consideration and the non-controlling interests in Xiwang Metal was accounted for as the contributed reserve.

(b) The contributed reserve of the Group as at 1 January 2008 represents the difference between the aggregate value of the net assets of the subsidiaries acquired pursuant to the Reorganisation (note 2.1 of Section II) over the consideration paid by the Group.

(c) In accordance with the PRC Company Law and the respective articles of association of the subsidiaries registered in the PRC (the "PRC Subsidiaries"), the PRC Subsidiaries are required to appropriate 10% of the 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.

Company

	Exchange reserve	Accumulated losses	Share premium	Total Reserves
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008	–	–	–	–
Loss for the year	–	(13)	–	(13)
At 31 December 2008 and 1 January 2009	–	(13)	–	(13)
Loss for the year	–	(152)	–	(152)
At 31 December 2009 and 1 January 2010	–	(165)	–	(165)
Exchange differences on translation of foreign operations	5,264	–	–	5,264
Loss for the year	–	(106)	–	(106)
At 31 December 2010 and 1 January 2011	5,264	(271)	–	4,993
Exchange differences on translation of foreign operations	244	–	–	224
Loss for the period	–	(11,605)	–	(11,605)
Issue of shares *(note 26)*	–	–	1,119	1,119
At 30 September 2011	5,508	(11,876)	1,119	(5,249)
At 1 January 2010	–	(165)	–	(165)
Exchange differences on translation of foreign operations (unaudited)	2,652	–	–	2,652
Loss for the period	–	(20)	–	(20)
At 30 September 2010 (unaudited)	2,652	(185)	–	2,467

28. DISPOSAL OF OIL BUSINESS

On 31 August 2006, the Group decided to dispose of the oil business of Xiwang Metal in order to focus its resources on the steel business. As at 31 December 2007, final negotiations for the sale were in progress and the related assets and liabilities for the oil business were classified as a disposal group held for sale.

On 11 February 2008, Shandong Xiwang Food Co., Ltd. ("Xiwang Food") (山東西王食品有限公司), a fellow subsidiary of the Company, acquired Xiwang Metal's oil business for a consideration of approximately RMB122,905,000 with reference to its relevant net asset value immediately before the disposal. The purchase consideration was settled by an amount due from Xiwang Food.

	Note	1 January 2008 RMB'000
Disposal group held for sale disposed of:		
Property, plant and equipment	*15*	49,347
Trade receivables		73,146
Inventories		46,917
Prepayments and other receivables		28,818
Cash and bank balances		2,099
Trade payables		(56,429)
Other payables and accruals		(20,993)
Satisfied by an amount due from Xiwang Food		122,905

29. BUSINESS COMBINATION

On 25 January 2008, the Group acquired the metal construction business of Shandong Xiwang Steel Structure Co., Ltd. ("Xiwang Steel Structure") (山東西王鋼結構有限公司), a related company (note 37(a)(iv)) at a consideration of approximately RMB14,596,000, which was payable to Xiwang Group as agreed among the Group, Xiwang Steel Structure and Xiwang Group.

The fair values of the identifiable assets and liabilities of the metal construction business as at the date of acquisition were as follows:

	Fair value recognised on acquisition RMB'000
Property, plant and equipment	8,729
Trade and bills receivables	918
Inventories	9,391
Prepayments and other receivables	1,718
Trade payables	(2,730)
Accruals and other payables	(3,430)
Satisfied by an amount due to Xiwang Group	14,596

There was no cash flow incurred in respect of the acquisition of the metal construction business.

Since its acquisition, the metal construction business contributed RMB15,217,000 to the Group's turnover and RMB3,730,100 to the consolidated profit for the year ended 31 December 2008.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year 2008 would have been RMB3,858,329,000 and RMB79,721,000, respectively.

30. DISPOSAL OF METAL CONSTRUCTION BUSINESS

On 26 June 2009, the Group disposed of the metal construction business (note 29) to Xiwang Steel Structure at a consideration of approximately RMB26,050,000 which was payable by Xiwang Group as agreed among the Group, Xiwang Steel Structure and Xiwang Group.

	Note	30 June 2009 RMB'000
Net assets disposed of:		
Property, plant and equipment	*15*	7,986
Cash and bank balances		536
Trade receivables		16,334
Prepayments and other receivables		1,403
Inventories		5,556
Construction contracts		63,913
Trade payables		(7,213)
Accruals and other payables		(62,465)
Satisfied by the deduction of an amount due to Xiwang Group		26,050

An analysis of the net cash flow in respect of the disposal of the metal construction business is as follows:

	RMB'000
Cash and bank balances disposed of	536
Net outflow of cash and cash equivalents in respect of the disposal of the metal construction business	(536)

31. DISPOSAL OF A SUBSIDIARY

On 20 January 2010, the Group disposed of the 100% interests in Shengtang Metal to Xiwang Group, the then ultimate holding company at a consideration of RMB100,000,000. The consideration was settled by the deduction of an amount due to Xiwang Group.

	20 January 2010
	RMB'000
Net assets disposed of:	
Prepayments, deposits and other receivables	544,887
Pledged deposits	1,070,000
Cash and bank balances	2,107
Bills payable	(1,170,000)
Other payables and accruals	(10,882)
Due to the ultimate holding company	(5,262)
Interest-bearing bank borrowings	(330,000)
Tax payable	(81)
	100,769
Loss on disposal of a subsidiary	(769)
Satisfied by the deduction of an amount due to Xiwang Group	100,000

An analysis of the net cash flow in respect of the disposal of a subsidiary is as follows:

	RMB'000
Cash and bank balances disposed of	2,107
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	(2,107)

32. NOTE TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

On 27 July 2011, the Company issued additional 1,599,999,990 shares of HK$0.10 each to Xiwang Investment pursuant to the Debt settlement, the consideration for which was set-off by the amount of HK$161,341,779 (equivalent to approximately RMB134,511,000) owed by the Company to Xiwang Investment. Further details of the Debt Settlement are included in note 26(c).

33. CONTINGENT LIABILITIES

At the end of the Relevant Periods, contingent liabilities not provided for in the financial statements were as follows:

	As at 31 December			As at 30 September
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Guarantees given to a bank in connection with banking facilities granted to:				
A third party	–	–	300,000	–

The guarantees were provided by the Group for bank facilities to an independent third party on 22 December 2010, and were discharged on 25 May 2011.

34. PLEDGE OF ASSETS

Details of the Group's bank loans and overdrafts, and bills payable, which were secured by the assets of the Group, are included in notes 22 and 24, respectively, to the Financial Information.

35. OPERATING LEASE ARRANGEMENTS

The Group leases certain land from Xiwang Group under operating lease arrangements (note 16). At the end of the Relevant Periods, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December			As at 30 September
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	–	–	–	369
In the second to fifth years, inclusive	–	–	–	1,476
After five years	–	–	–	5,345
	–	–	–	7,190

36. COMMITMENTS

The Group had the following capital commitments at the end of the Relevant Periods:

	As at 31 December			As at 30 September
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:				
Property, plant and equipment	275,865	38,731	546,872	157,217

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

	As at 31 December			As at 30 September
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:				
Consulting services	–	–	6,062	2,558

37. **RELATED PARTY TRANSACTIONS AND BALANCES**

(a) **In addition to the transactions disclosed elsewhere in the Financial Information, the Group had the following transactions with related parties during the Relevant Periods:**

		Year ended 31 December			Nine months ended 30 September	
	Notes	2008	2009	2010	2010	2011
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Sales of products to:	*(i)*					
The ultimate holding company#		141	4	134	133	–
Fellow subsidiaries#	*(iii)*	326	6,850	163,349	160,513	–
A related company#	*(iv)*	4,797	–	–	–	–
		5,264	6,854	163,483	160,646	–
Purchase of raw materials from:	*(i)*					
Fellow subsidiaries#	*(iii)*	–	–	605,265	505,471	377,547
Purchase of machinery from:						
A fellow subsidiary#	*(vi)*	–	–	–	–	22,269
Interest income from:	7					
The ultimate holding company#	*(v)*	18,378	8,408	–	–	–
Interest expenses to:	9					
The ultimate holding company#	*(v)*	14,977	18,005	9,559	996	17,542
Rental income from:	7					
Fellow subsidiaries#	*(ii)*	419	80	100	75	25
Rental expenses to:	16					
The ultimate holding company	*(ii)*	–	–	–	–	116
A related company	*(ii)*	–	–	–	–	58
		–	–	–	–	174

In the opinion of the Directors, these related party transactions will be discontinued after the listing of the Company's shares on the Hong Kong Stock Exchange.

(i) The sales to and purchase from the related parties were made according to the published prices and conditions offered to the major customers and by the major suppliers of the Group.

(ii) The rental income from the fellow subsidiaries and the rental expenses to the ultimate holding company and a related company were charged by reference to the market prices.

The operating lease agreement entered into by the Group as a lessor with the fellow subsidiaries was terminated in April 2011. The rental expense of RMB174,000 was paid to Xiwang Group. On 8 July 2011, Xiwang Holdings became the ultimate holding company of the Group pursuant to a share transfer agreement entered into between the shareholders of Xiwang Group and Xiwang Hong Kong Company Limited, a subsidiary of Xiwang Group.

(iii) The sales to and purchase from fellow subsidiaries in 2010 included the sales of products to and the purchase of raw materials from Shengtang Metal after the disposal of Shengtang Metal by the Group in January 2010 (note 31) and Shengtang Metal had become a fellow subsidiary of the Group after the disposal. On 13 April 2011, Shengtang Metal was disposed of by Xiwang Group and became an independent third party. The purchase from fellow subsidiaries for the nine months ended 30 September 2011 represented the purchase of raw materials from Shengtang Metal before it was disposed of by Xiwang Group and from Xiwang Import & Export.

(iv) It represented the sales of products to Xiwang Steel Structure, which was owned by two individual shareholders of Xiwang Group in 2008. Xiwang Steel Structure was disposed of by the two individual shareholders of Xiwang Group on 24 February 2010, and became an independent third party of the Group since then.

(v) Interest income and interest expenses were calculated for the amounts that the Group had loaned to and borrowed from Xiwang Group. The Group had settled all the balances with Xiwang Group as at 30 September 2011. The interest rates charged for the balances with Xiwang Group were disclosed in note (c) below.

(vi) It represented the purchase of machinery from Xiwang Import & Export. The purchase was made according to the published prices and conditions offered by Xiwang Import & Export to its major customers.

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

(b) Other transactions with related parties

(i) During the year 2008, the Group disposed of the oil business to Xiwang Food (山東西王食品有限公司), a fellow subsidiary of the Company at a consideration of RMB122,905,000. Further details of the transaction are included in note 28 to the Financial Information.

(ii) In 2008, the Group acquired the metal construction business from Xiwang Steel Structure at a consideration of RMB14,596,000. Further details of the transaction are included in note 29 to the Financial Information. The metal construction business was subsequently disposed of to Xiwang Steel Structure in 2009 at a consideration of RMB26,050,000 (note 30).

(iii) In 2009, the Group transferred the prepaid land lease payments with a net carrying value of RMB4,543,000 to Xiwang Group, at a consideration of RMB8,331,306. The excess of the consideration over the net carrying value was reflected as a gain on disposal of prepaid land lease payments (note 7).

(iv) In 2006, Xiwang Investment, the immediate holding company, provided a loan with an amount of US$10,400,000 to the Group (note 24 (ii)). The loan was interest-free and fully repaid on 13 May 2010. The effective interest rate amortisation for the loan amounted to RMB3,975,000, RMB772,000 and RMB224,000 for the years ended 31 December 2008, 2009 and 2010, respectively.

(v) As detailed in note 24(i) to the Financial Information, Xiwang Group has guaranteed certain of the Group's bank borrowings up to RMB115,000,000 and RMB195,200,000 as at 31 December 2008 and 31 December 2010, respectively. Mr. Yong Wang, the Chairman and non-executive director of the Company, has guaranteed certain of the Group's bank borrowings up to RMB45,000,000 and RMB195,200,000 as at 31 December 2008 and 31 December 2010, respectively. Certain fellow subsidiaries have guaranteed certain of the Group's bank borrowings up to RMB70,000,000 as at 31 December 2008. The guarantees provided by the related parties as at 31 December 2008 and 31 December 2010 had expired in March 2009 and June 2011, respectively.

(vi) In 2010, the Group disposed of Shengtang Metal, a subsidiary to Xiwang Group, at a consideration of RMB100,000,000. Further details of the transaction are included in note 31 to the Financial Information.

(vii) Pursuant to an agreement dated 6 May 2011 entered into between the Group and Xiwang Group, Xiwang Group had transferred five patent rights related to the production of steel products to the Group at zero consideration.

(c) Outstanding balances with related parties

Group

	Notes	As at 31 December			As at 30 September
		2008	2009	2010	2011
		RMB'000	RMB'000	RMB'000	RMB'000
Due from fellow subsidiaries					
Shandong Xiwang Sugar Industry Limited ("Shandong Xiwang Sugar") (山東西王糖業有限公司)		10	19	118	–
Shandong Xiwang Bio-Chem Co., Ltd ("Xiwang Biochem") (山東西王生化科技有限公司)		1,828	49	3,505	–
Xiwang Food		8,340	6,286	4,367	–
Shandong Xiwang Functional Sugar Co., Ltd ("Functional Sugar") (山東西王功能糖有限公司)	*(i)*	–	777	–	–
Shandong Xiwang Import & Export Trading Co., Ltd ("Xiwang Import & Export") (山東西王進出口貿易有限公司)		–	–	3,000	–
		10,178	7,131	10,990	–
Due to the ultimate holding company					
Xiwang Group		55,559	319,554	384,189	–
Due to the immediate holding company					
Xiwang Investment		108,380	120,626	132,332	–
Due to fellow subsidiaries					
Shandong Xiwang Properties Co., Ltd ("Xiwang Properties") (山東西王置業有限公司)	*(ii)*	24,869	3,417	–	–
Shandong Xiwang Logistics Co., Ltd ("Xiwang Logistics") (山東西王物流有限公司)	*(iii)*	32,885	–	–	–
Shengtang Metal		–	–	67,895	–
		57,754	3,417	67,895	–
Due to a related party					
Xiwang Steel Structure	*(a)(iv)*	42,553	21,980	–	–

(i) Functional Sugar was deregistered on 12 August 2010.

(ii) Xiwang Properties was disposed of by Xiwang Group on 13 April 2010 and became an independent third party of the Group since then.

(iii) Xiwang Logistics was disposed of by Xiwang Group on 16 October 2009 and became an independent third party of the Group since then.

Company

	As at 31 December			As at 30 September
	2008	**2009**	**2010**	**2011**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Due to the immediate holding company				
Xiwang Investment	56,970	125,708	137,115	–

Except for the balances due to the ultimate holding company, which bore interest at 7.4%, 9.6%, 6.9% and 6.9%-7.8% for the years ended 31 December 2008, 2009, 2010 and the nine months ended 30 September 2011, respectively, the balances with other related parties are unsecured, interest-free and have no fixed terms of repayment. On 27 July 2011, the Group has fully settled the amount due to the immediate holding company through the Debt Settlement (note 26).

(d) Compensation of key management personnel of the Group

	Year ended 31 December			Nine months ended 30 September	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (unaudited)**	**RMB'000**
Employee benefit expense	575	1,425	1,508	522	601
Pension scheme contributions	8	10	15	10	15
Total compensation paid to key management personnel	583	1,435	1,523	532	616

Further details of directors' emoluments are included in note 10 to the Financial Information.

38. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments of the Group as at the end of the Relevant Periods are as follows:

Group

Financial assets – loans and receivables	As at 31 December 2008	As at 31 December 2009	As at 31 December 2010	As at 30 September 2011
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills receivables	6,502	23,764	57,135	69,411
Financial assets included in prepayments, deposits and other receivables	19,460	28,853	20,708	2,005
Due from fellow subsidiaries	10,178	7,131	10,990	–
Pledged deposits	30,000	1,560,868	210,000	296,551
Cash and cash equivalents	49,480	25,600	72,528	38,596
Total	115,620	1,646,216	371,361	406,563

Financial liabilities at amortised cost	As at 31 December 2008	As at 31 December 2009	As at 31 December 2010	As at 30 September 2011
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	79,973	1,720,097	206,394	676,603
Financial liabilities included in receipts in advance, other payables and accruals	100,238	650,418	364,291	361,040
Due to the ultimate holding company	55,559	319,554	384,189	–
Due to the immediate holding company	108,380	120,626	132,332	–
Due to fellow subsidiaries	57,754	3,417	67,895	–
Due to a related party	42,553	21,980	–	–
Interest-bearing bank and other borrowings	279,035	570,190	941,200	1,577,753
Total	723,492	3,406,282	2,096,301	2,615,396

The carrying amounts of each of the categories of financial instruments of the Company as at the end of the Relevant Periods are as follows:

Company

Financial assets – loans and receivables	As at 31 December			As at 30 September
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Due from a subsidiary	–	17,372	34,068	22,750
Due from an associate	17,301	–	–	–
Cash and bank balances	–	–	–	1,482
	17,301	17,372	34,068	24,232

Financial liabilities at amortised cost	As at 31 December			As at 30 September
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Other payables	–	165	296	4,362
Due to the immediate holding company	56,970	125,708	137,115	–
Due to a subsidiary	–	–	–	3,585
Total	56,970	125,873	137,411	7,947

39. FAIR VALUE AND FAIR VALUE HIERARCHY

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

Group

Financial assets	Carrying amount as at				Fair value as at			
	31 December			30 September	31 December			30 September
	2008	2009	2010	2011	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills receivables	6,502	23,764	57,135	69,411	6,502	23,764	57,135	69,411
Financial assets included in prepayments, deposits and other receivables	19,460	28,853	20,708	2,005	19,460	28,853	20,708	2,005
Due from fellow subsidiaries	10,178	7,131	10,990	–	10,178	7,131	10,990	–
Pledged deposits	30,000	1,560,868	210,000	296,551	30,000	1,560,868	210,000	296,551
Cash and cash equivalents	49,480	25,600	72,528	38,596	49,480	25,600	72,528	38,596
Total	115,620	1,646,216	371,361	406,563	115,620	1,646,216	371,361	406,563

	Carrying amount as at				Fair value as at			
	31 December			30 September	31 December			30 September
Financial liabilities	2008	2009	2010	2011	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	79,973	1,720,097	206,394	676,603	79,973	1,720,097	206,394	676,603
Financial liabilities included in receipts in advance, other payables and accruals	100,238	650,418	364,291	361,040	100,238	650,418	364,291	361,040
Due to the ultimate holding company	55,559	319,554	384,189	–	55,559	319,554	384,189	–
Due to the immediate holding company	108,380	120,626	132,332	–	108,380	120,626	132,332	–
Due to fellow subsidiaries	57,754	3,417	67,895	–	57,754	3,417	67,895	–
Due to a related party	42,553	21,980	–	–	42,553	21,980	–	–
Interest-bearing bank and other borrowings	279,035	570,190	941,200	1,577,753	279,035	570,190	941,200	1,577,753
Total	723,492	3,406,282	2,096,301	2,615,396	723,492	3,406,282	2,096,301	2,615,396

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

Company

	Carrying amount as at				Fair value as at			
	31 December			30 September	31 December			30 September
Financial assets	2008	2009	2010	2011	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Due from a subsidiary	–	17,372	34,068	22,750	–	17,372	34,068	22,750
Due from an associate	17,301	–	–	–	17,301	–	–	–
Cash and bank balances	–	–	–	1,482	–	–	–	1,482
	17,301	17,372	34,068	24,232	17,301	17,372	34,068	24,232

	Carrying amount as at				Fair value as at			
	31 December			30 September	31 December			30 September
Financial liabilities	2008	2009	2010	2011	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Other payables	–	165	296	4,362	–	165	296	4,362
Due to the immediate holding company	56,970	125,708	137,115	–	56,970	125,708	137,115	–
Due to a subsidiary	–	–	–	3,585	–	–	–	3,585
Total	56,970	125,873	137,411	7,947	56,970	125,873	137,411	7,947

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

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

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank loans, amounts due from/to fellow subsidiaries, due to the ultimate holding company, due to the immediate 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 and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board 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 borrowings. The Group's policy is to obtain the most favourable interest rate available. The effective interest rates and terms of repayment of the interest-bearing bank loans of the Group are set out in note 24 to the Financial Information.

The Group has not used any interest swaps to hedge its exposure to interest rate risk. At the end of the Relevant Periods, approximately 66%, 79%, 89% and 77% 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 on floating rate borrowings):

	Increase/(decrease) in basis points	Increase/(decrease) in profit before tax
		RMB'000
2008		
RMB	+100	(876)
RMB	–100	876
2009		
RMB	+100	(43)
RMB	–100	43
2010		
RMB	+100	(11)
RMB	–100	11
Nine months ended 30 September 2011		
RMB	+100	(1,904)
RMB	–100	1,904

Foreign currency risk

All of the operating income of the Group's business is in RMB and the assets held and all of the committed borrowings of the Group are mainly denominated in RMB, except for the other loan payable to Xiwang Investment which was denominated in United States dollars and repaid on 13 May 2010, and the intercompany loan borrowed by Shandong Xiwang Special Steel from the Company which was denominated in United States dollars and repayable on 31 January 2012.

The following table demonstrates the sensitivity at the end of the Relevant Periods to a reasonably possible change in the 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 United States dollar rate	Increase/(decrease) in profit before tax
		RMB'000
2008		
If the United States dollar weakens against the RMB	5%	2,252
If the United States dollar strengthens against the RMB	5%	(2,252)
2009		
If the United States dollar weakens against the RMB	5%	1,021
If the United States dollar strengthens against the RMB	5%	(1,021)
2010		
If the United States dollar weakens against the RMB	5%	1,656
If the United States dollar strengthens against the RMB	5%	(1,656)
Nine months ended 30 September 2011		
If the United States dollar weakens against the RMB	5%	1,144
If the United States dollar strengthens against the RMB	5%	(1,144)

Credit risk

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

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

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

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables, deposits and other receivables are disclosed in note 19 and note 20, respectively, to the Financial Information.

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 Relevant Periods, based on the contractual undiscounted payments, is as follows:

Group

	31 December 2008					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank and other borrowings	–	116,696	133,255	36,176	–	286,127
Trade and bills payables	–	54,652	25,321	–	–	79,973
Financial liabilities included in receipts in advance, other payables and accruals	–	–	100,238	–	–	100,238
Due to the ultimate holding company	55,559	–	–	–	–	55,559
Due to the immediate holding company	108,380	–	–	–	–	108,380
Due to fellow subsidiaries	57,754	–	–	–	–	57,754
Due to a related party	42,553	–	–	–	–	42,553
	264,246	171,348	258,814	36,176	–	730,584

	31 December 2009					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank and other borrowings	–	–	583,925	–	–	583,925
Trade and bills payables	–	1,031,070	689,027	–	–	1,720,097
Financial liabilities included in receipts in advance, other payables and accruals	2,905	104,961	542,552	–	–	650,418
Due to the ultimate holding company	319,554	–	–	–	–	319,554
Due to the immediate holding company	120,626	–	–	–	–	120,626
Due to fellow subsidiaries	3,417	–	–	–	–	3,417
Due to a related company	21,980	–	–	–	–	21,980
	468,482	1,136,031	1,815,504	–	–	3,420,017

	31 December 2010					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank and other borrowings	–	548,156	409,723	–	–	957,879
Trade and bills payables	–	106,174	100,220	–	–	206,394
Financial liabilities included in receipts in advance, other payables and accruals	4,057	86,263	273,971	–	–	364,291
Due to the ultimate holding company	384,189	–	–	–	–	384,189
Due to the immediate holding company	132,332	–	–	–	–	132,332
Due to fellow subsidiaries	67,895	–	–	–	–	67,895
	588,473	740,593	783,914	–	–	2,112,980

	30 September 2011					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank and other borrowings	–	29,309	734,924	1,129,521	–	1,893,754
Trade and bills payables	–	81,304	595,299	–	–	676,603
Financial liabilities included in receipts in advance, other payables and accruals	31,537	68,898	260,605	–	–	361,040
	31,537	179,511	1,590,828	1,129,521	–	2,931,397

The maturity profile of the Company's financial liabilities as at the end of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

Company

	31 December 2008					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Due to the immediate holding company	56,970	–	–	–	–	56,970

	31 December 2009					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Other payables	–	–	165	–	–	165
Due to the immediate holding company	125,708	–	–	–	–	125,708
	125,708	–	165	–	–	125,873

	31 December 2010					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Other payables	–	–	296	–	–	296
Due to the immediate holding company	137,115	–	–	–	–	137,115
	137,115	–	296	–	–	137,411

	30 September 2011					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Other payables	–	–	4,362	–	–	4,362
Due to a subsidiary	–	–	3,585	–	–	3,585
	–	–	7,947	–	–	7,947

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 or policies for managing capital during the Relevant Periods.

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

		As at 31 December			As at 30 September
	Notes	2008	2009	2010	2011
		RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank and other borrowings	*24*	279,035	570,190	941,200	1,764,453
Due to the ultimate holding company	*37*	55,559	319,554	384,189	–
Total debt		334,594	889,744	1,325,389	1,764,453
Total assets		1,208,255	3,854,382	3,144,420	4,761,973
Gearing ratio		27.7%	23.1%	42.2%	37.1%

41. EVENTS AFTER THE RELEVANT PERIODS

The Group did not have any significant events taking place subsequent to 30 September 2011.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group or any of its subsidiaries in respect of any period subsequent to 30 September 2011.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The information sets out in this Appendix does not form part of the Accountants' Report prepared by Ernst & Young, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, as set out in Appendix I to this prospectus, and is included herein for information only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial information" in this prospectus and the "Accountants' Report" set out in Appendix I to this prospectus.

For illustrative purpose only, the unaudited pro forma financial information prepared in accordance with Rule 4.29 of the Listing Rules is set out herein to provide prospective investors with further financial information about (i) how the proposed listing might have affected the consolidated net tangible assets of the Group as if the Global Offering had occurred on 30 September 2011 and (ii) how the proposed listing might have affected the unaudited pro forma estimated earnings per Share for the year ended 31 December 2011 as if the Global Offering had taken place on 1 January 2011.

The accompanying unaudited pro forma financial information of the Group is based on currently available information along with a number of assumptions, estimates and uncertainties. As a result of these assumptions, estimates and uncertainties, the accompanying unaudited pro forma financial information of the Group does not purport to predict the Group's future financial position or results of operations. Although reasonable care has been exercised in preparing the said information, prospective investors should bear in mind that these figures are inherently subject to adjustments and may not give a true picture of the Group's financial results and position of the financial periods concerned.

A. UNAUDITED PRO FORMA NET TANGIBLE ASSETS

The following is an illustrative statement of unaudited pro forma adjusted net tangible assets of the Group which has been prepared in accordance with Rule 4.29 of the Hong Kong Listing Rules for the purpose of illustrating the effect of the Global Offering as if it had occurred on 30 September 2011 and based on the audited consolidated net tangible assets of our Group attributable to owners of the parent as at 30 September 2011 as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below.

	Audited consolidated net tangible assets of the Group attributable to owners of the parent as at 30 September 2011	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the parent	Unaudited pro forma adjusted consolidated net tangible assets per Share	
	(Note 1)	(Note 2)		(Note 3)	(Note 4)
	RMB'000	RMB'000	RMB'000	RMB	HK$
Based on an Offer Price of HK$2.65 per Share . .	1,685,142	807,646	2,492,788	1.25	1.53
Based on an Offer Price of HK$3.36 per Share . .	1,685,142	1,030,979	2,716,121	1.36	1.67

Notes:

(1) The audited consolidated net tangible assets attributable to owners of the parent as of 30 September 2011 is arrived from the audited consolidated net assets of the Group attributable to owners of the parent as of 30 September 2011 of RMB1,685.1 million.

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK$2.65 and HK$3.36 per Share, respectively (after deduction of the underwriting fees and other related expenses), and take no account of any Shares which may be issued upon the exercise of the Over-allotment Option. For the purpose of the estimated net proceeds from the Global Offering, the amount stated in Hong Kong dollars has been converted into Renminbi at the rate of RMB0.8166 to HK$1.00. No representation is made that the Renminbi amounts have been, could have been or may be converted into Hong Kong dollars, or vice versa, at that rate.

(3) The unaudited pro forma adjusted consolidated net tangible assets per Share is determined after the adjustment as described above and on the basis that 2,000,000,000 Shares are issued and outstanding assuming the Global Offering was completed on 30 September 2011 (being the number of Shares expected to be in issue immediately after completion of the Global Offering, without taking into account of any Shares which may be issued upon the exercise of the Over-allotment Option).

(4) For the purpose of this unaudited pro forma adjusted consolidated net tangible assets, the balance stated in Renminbi are converted into Hong Kong dollars at the rate of RMB0.8166 to HK$1.00. No representation is made that the Renmibi amounts have been, could have been or may be converted into Hong Kong dollars, or vice versa, at that rate.

B. UNAUDITED PRO FORMA ESTIMATED EARNINGS PER SHARE

The following unaudited pro forma estimated earnings per Share of the Group for the year ended 31 December 2011 has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 1 January 2011. This unaudited pro forma estimated earnings per Share has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial results of the Group following the Global Offering.

Estimated consolidated profit attributable to owners of the parent for the year ended 31 December 2011(1) and (3)	Unaudited pro forma estimated earnings per Share based on estimated profit attributable to owners of the parent for the year ended 31 December 2011(2) and (3)
Not less than RMB907.9 million (approximately HK$1,111.8 million)	Not less than RMB0.45 (approximately HK$0.56)

Notes:

(1) The estimated consolidated profit attributable to owners of the parent for the year ended 31 December 2011 is extracted from the profit estimate as set out in the section headed "Financial Information — Profit Estimate for the year ended 31 December 2011" in this prospectus. The bases on which the above profit estimate has been prepared are set out in Appendix III to this prospectus.

(2) The calculation of unaudited pro forma estimated earnings per Share is based on the estimated consolidated profit attributable to the owners of the parent for the year ended 31 December 2011 and on the basis that 2,000,000,000 Shares were in issue during the entire year and assuming that the Global Offering had been completed on 1 January 2011. The calculation takes no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option.

(3) For the purpose of this unaudited pro forma estimated earnings per Share, the estimated consolidated profit attributable to owners of the parent for the year ended 31 December 2011 and the unaudited pro forma estimated earnings per Share are converted into Hong Kong dollars at an exchange rate of RMB0.8166 to HK$1.00. No representation is made that the Renminbi amounts have been, could have been or may be converted into Hong Kong dollars, or vice versa, at that rate.

C. LETTER FROM THE REPORTING ACCOUNTANTS ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants of our Company, Ernst & Young, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this prospectus, in respect of the unaudited pro forma financial information of our Group:

ERNST & YOUNG
安 永

22nd Floor
CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

13 February 2012

The Directors
Xiwang Special Steel Company Limited
J.P. Morgan Securities (Asia Pacific) Limited

Dear Sirs,

We report on the unaudited pro forma adjusted consolidated net tangible assets and unaudited pro forma estimated earnings per share (the "Unaudited Pro Forma Financial Information") of Xiwang Special Steel Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which have been prepared by the directors of the Company (the "Directors") for illustrative purposes only, to provide information about how the global offering of 500,000,000 shares of HK$0.1 each in the capital of the Company might have affected the financial information presented, for inclusion in Appendix II to the prospectus of the Company dated 13 February 2012 (the "Prospectus"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out in Appendix II to the Prospectus.

Respective Responsibilities of the Directors and Reporting Accountants

It is the responsibility solely of the Directors to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments, and discussing the Unaudited Pro Forma Financial Information with the Directors. This engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or a review made in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Our work has not been carried out in accordance with the auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those standards.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the Directors, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 30 September 2011 or any future dates; or
- the estimated earnings per share of the Group for the year ended 31 December 2011 or any future periods.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The estimate of the consolidated profit attributable to owners of the parent for the year ended 31 December 2011 is set out in the section headed "Financial Information — Profit Estimate for the year ended 31 December 2011" in this prospectus.

A. BASES

The Directors have prepared the estimate of the consolidated profit attributable to owners of the parent for the year ended 31 December 2011, based on the audited consolidated results of the Group for the nine months ended 30 September 2011 and the unaudited consolidated management accounts for the three months ended 31 December 2011. The profit estimate has been prepared on a basis consistent in all material respects with the accounting policies that the Group has presently adopted as set out in note 4 of Section II of the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

B. LETTER FROM THE REPORTING ACCOUNTANTS

The following is the text of a letter, prepared for inclusion in this prospectus received from the Company's reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, in connection with the estimate of the Group's consolidated profit attributable to owners of the parent for the year ended 31 December 2011.

Ernst & Young
安 永

22nd Floor
CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

13 February 2012

The Directors
Xiwang Special Steel Company Limited
J.P. Morgan Securities (Asia Pacific) Limited

Dear Sirs,

We have reviewed the calculations of and the accounting policies adopted in arriving at the estimate of the consolidated profit attributable to equity holders of Xiwang Special Steel Company Limited (the "Company", together with its subsidiaries, hereinafter collectively referred to as the "Group") for the year ended 31 December 2011 (the "Profit Estimate") as set out in the paragraph headed "Profit Estimate for the year ended 31 December 2011" under the section headed "Financial Information" in the prospectus of the Company dated 13 February 2012 (the "Prospectus") for which the directors of the Company (the "Directors") are solely responsible.

We conducted our work with reference to Auditing Guideline 3.341 "Accountants' Report on Profit Forecasts" issued by the Hong Kong Institute of Certified Public Accountants.

The Profit Estimate has been prepared by the Directors based on the audited consolidated results of the Group for the nine months ended 30 September 2011 and the unaudited consolidated results of the Group for the three months ended 31 December 2011.

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Estimate has been properly compiled in accordance with the bases made by the Directors as set out in Part A of Appendix III to the Prospectus, and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants' report dated 13 February 2012, the text of which is set out in Appendix I to the Prospectus.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

C. LETTER FROM THE SOLE SPONSOR

The following is the text of a letter, prepared for inclusion in this prospectus received from the Sole Sponsor in connection with the estimate of the consolidated profit attributable to owners of the Company for the year ended 31 December 2011.

J.P. Morgan Securities (Asia Pacific) Limited
28/F Chater House
8 Connaught Road
Central
Hong Kong

13 February 2012

The Directors
XIWANG SPECIAL STEEL COMPANY LIMITED

Dear Sirs,

We refer to the estimate of the consolidated profit attributable to the equity holders of Xiwang Special Steel Company Limited (the "**Company**", together with its subsidiaries, hereinafter collectively referred to as the "**Group**") for the year ended 31 December 2011 (the "**Profit Estimate**") as set out in the prospectus issued by the Company dated 13 February 2012 (the "**Prospectus**").

We understand that the Profit Estimate, for which the directors of the Company are solely responsible, has been prepared by them based on the audited consolidated results of the Group for the nine months ended 30 September 2011 and the unaudited consolidated results of the Group for the three months ended 31 December 2011.

We have discussed with you the bases and assumptions made by the directors of the Company as set out in Appendix III to the Prospectus, to the extent applicable, upon which the Profit Estimate has been made. We have also considered the letter dated 13 February 2012 addressed to yourselves and ourselves from Ernst & Young (the "**Reporting Accountant**") regarding the accounting policies and calculations upon which the Profit Estimate has been made.

On the basis of the information comprising the Profit Estimate and on the basis of the accounting policies and calculations adopted by you and reviewed by the reporting accountant, we are of the opinion that the Profit Estimate, for which you as the directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully
For and on behalf of
J.P. Morgan Securities (Asia Pacific) Limited

Jiandong Lu	**David Pak Wai Lau**
Managing Director	**Managing Director**

The following is the text of a letter with the summary of values and valuation certificates received from CBRE HK Limited, prepared for the purpose of incorporation in the prospectus, in connection with their valuation as at 31 December 2011 of all the property interests of the Group.

CBRE

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8 Connaught Place
Central, Hong Kong
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地產代理(公司)牌照號碼
Estate Agent's Licence No: C-004065

13 February 2012

The Board of Directors,
Xiwang Special Steel Company Limited,
Xiwang Industrial Area,
Zouping County,
Binzhou City, Shandong Province,
the People's Republic of China

Dear Sirs,

In accordance with your instructions for us to value the property interests held by Xiwang Special Steel Company Limited (the "Company") and its subsidiaries (hereinafter together know as the "Group") in the People's Republic of China ("the PRC"). We confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of such property interests as at 31 December 2011 (the "date of valuation").

Our valuation is our opinion of Market Value which is defined to mean *"the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."*

Unless otherwise stated, our valuation is prepared in accordance with the "First Edition of The HKIS Valuation Standards on Properties" published by The Hong Kong Institute of Surveyors ("HKIS"). We have also complied with all the requirements contained in Paragraph 46 of the Third Schedule to the Companies Ordinance (Cap. 32), Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Our valuation has been made on the assumption that the owner sells the properties on the open market without the benefit or the burden of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which would serve to affect the values of the property interests.

Unless otherwise stated, all the property interests are valued by the comparison method on the assumption that each property can be sold with the benefit of vacant possession. Comparison is based on prices realized on actual transactions or asking price of comparable properties. Comparable properties with similar sizes, character and locations are analyzed, and carefully weighted against all respective advantages and disadvantages of each property in order to arrive at a fair comparison of value.

In valuing the property interests in Group I, which is held by the Group for occupation in the PRC, we have valued the property interests by the direct comparison approach assuming sale of each of these property interests in its existing state with the benefit of vacant possession and by making reference to comparable sales transactions as available in the relevant market.

In our valuation, completed real estate developments are those with the Completed Construction Works Certified Reports or Building Ownership Certificates or any other documents certifying the completion of the building thereof has (have) been issued by the relevant local authorities.

For the property interests in Group II which are rented by the Group in the PRC, we have attributed no commercial value due mainly to the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

In the course of our valuation for the property interests in the PRC, we have relied on the legal opinion provided by the Group's PRC legal adviser, Jingtian & Gongcheng Law Firm (the "PRC Legal Opinion"). We have been provided with extracts from title documents relating to such property interests. We have not, however, searched the original documents to verify ownership or existence of any amendment which does not appear on the copies handed to us. All documents have been used for reference only.

We have relied to a considerable extent on information given by the Group, in particular, but not limited to, the sales records, planning approvals, statutory notices, easements, tenancies and floor areas. No on-site measurement has been taken. Dimensions, measurements and areas included in the valuation certificates are only approximations. We have taken every reasonable care both during inspecting the information provided to us and in making relevant enquiries. We have no reason to doubt the truth and accuracy of the information provided to us by the Group, which is material to the valuation. We were also advised by the Group that no material facts have been omitted from the information provided to us.

We have inspected the properties to such extent as for the purpose of this valuation. In the course of our inspection, we did not notice any serious defects. However, we have not carried out any structural survey nor any tests were made on the building services. Therefore, we are not able to report whether the properties are free of rot, infestation or any other structural defects. We have not carried out investigations on the site to determine the suitability of the ground conditions and the services etc. for any future development.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoing of an onerous nature which could affect their values.

Unless otherwise stated, all monetary amounts are stated in Renminbi ("RMB").

We enclose herewith our summary of values and valuation certificate.

Yours faithfully,
For and on behalf of
CBRE HK Limited

Leo M Y Lo
MHKIS MRICS RPS (GP)
Director
Valuation & Advisory Services

Note: Mr. Leo M Y Lo is a member of Royal Institution of Chartered Surveyors, a member of the Hong Kong Institute of Surveyors and a Registered Professional Surveyor (General Practice). He has over 8 years' valuation experience in the PRC and Hong Kong.

SUMMARY OF VALUES

	Property Interests	Capital Value in existing state as at 31 December 2011	Interests attributable to the Group	Capital Value attributable to the Group as at 31 December 2011
		(RMB)		(RMB)
Group I — Property interests held by the Group for occupation in the PRC				
1.	An Industrial Complex located at Xiwang Industrial Area, Zouping County, Binzhou City, Shandong Province, the PRC	1,036,000,000	100%	1,036,000,000
			Group I Sub-total:	**1,036,000,000**
Group II — Property interests rented by the Group in the PRC				
2.	An Industrial land located at Xiwang Industrial Area, Zouping County, Binzhou City, Shandong Province, the PRC			No commercial value
			Group II Sub-total:	**No commercial value**
			Grand total:	**1,036,000,000**

Group I — Property interests held by the Group for occupation in the PRC

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 December 2011 (RMB)
1.	An Industrial Complex located at Xiwang Industrial Area, Zouping County, Binzhou City, Shandong Province, the PRC	The property comprises various workshops, offices, facilities and dormitory buildings with a total gross floor area of approximately 280,583.13 sq.m. occupying on a site with an area of approximately 494,810.4 sq.m. (the "Site"). Most of the properties were completed from 2004 to 2010. The land use rights of the property are held under 7 State-owned Land Use Rights Certificates with a land use term expiring on 18 April 2060 and 19 April 2060 for industrial use.	The property is currently occupied by the Group as factory, office, dormitory, warehouse, canteen, etc.	1,036,000,000 (100% interests attributable to the Group: RMB 1,036,000,000)

Notes:

a) Pursuant to following State-owned Land Use Rights Certificates issued by People's Government of Zouping County, the land use rights of the Site with an area of approximately 494,810.4 sq.m. have been granted to the Group.

State-owned Land Use Rights Certificate Number	Date of Issuance	Site Area (sq.m.)	Use/Date of Expiry	Owner
Zou Guo Yong (2011) No.100187	2 April 2011	109,255.6	Industrial/ 18 April 2060	Shandong Xiwang Metal Material Company Limited
Zou Guo Yong (2011) No.100188	2 April 2011	108,704	Industrial/ 18 April 2060	Shandong Xiwang Steel Company Limited
Zou Guo Yong (2011) No.100189	2 April 2011	149,947.3	Industrial/ 18 April 2060	Shandong Xiwang Special Steel Company Limited

State-owned Land Use Rights Certificate Number	Date of Issuance	Site Area (sq.m.)	Use/Date of Expiry	Owner
Zou Guo Yong (2011) No.100190	2 April 2011	87,782.1	Industrial/ 18 April 2060	Shandong Xiwang Metal Material Company Limited
Zou Guo Yong (2011) No.100191	2 April 2011	19,670.1	Industrial/ 18 April 2060	Shandong Xiwang Steel Company Limited
Zou Guo Yong (2011) No.100193	2 April 2011	14,411.3	Industrial/ 19 April 2060	Shandong Xiwang Steel Company Limited
Zou Guo Yong (2011) No.100194	2 April 2011	5,040	Industrial/ 19 April 2060	Shandong Xiwang Special Steel Company Limited
	Total	494,810.4		

b) Pursuant to the following Zouping County Building Ownership Certificates, the building ownership of the Property with a total gross floor area of proximately 280,583.13 sq.m. has been granted to the Group.

Real Estate Title and Rights Certificate Number	Date of Issuance	Gross Floor Area (sq.m.)	Owner
Zouping County Zi No.008021	29 April 2011	8,052.36	Shandong Xiwang Steel Company Limited
Zouping County Zi No.008026	29 April 2011	63,630.16	Shandong Xiwang Steel Company Limited
Zouping County Zi No.008027	29 April 2011	12,617.41	Shandong Xiwang Steel Company Limited
Zouping County Zi No.008024	29 April 2011	10,825.4	Shandong Xiwang Special Steel Company Limited
Zouping County Zi No.008025	29 April 2011	94,434.55	Shandong Xiwang Special Steel Company Limited

Real Estate Title and Rights Certificate Number	Date of Issuance	Gross Floor Area (sq.m.)	Owner
Zouping County Zi No.008022	29 April 2011	55,972.79	Shandong Xiwang Metal Material Company Limited
Zouping County Zi No.008023	29 April 2011	35,050.46	Shandong Xiwang Metal Material Company Limited
	Total	280,583.13	

c) We have been provided with a legal opinion on the property prepared by the Group's legal adviser, which contains, inter alia, the following information:

i. The Group has obtained the State-owned Land Use Rights Certificates and Building Ownership Certificates of the property, the Group is entitled to legally own the use rights to the property during the terms of the land use rights.

ii. The property shall be possessed, used, transferred, let, mortgaged or legally disposed in other ways by the Group, without necessarily to obtain approval or permit from any administrations or authorities, but to register in relevant authorities in accordance with provisions of Chinese laws and regulations.

Group II — Property interests rented by the Group in the PRC

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 December 2011 (RMB)
2.	An Industrial land located at Xiwang Industrial Area, Zouping County, Binzhou City, Shandong Province, the PRC	As advised by the Group, the property occupying on a site with an area of approximately 61,461 sq.m.. The property is leased by Xiwang Group Company Limited (西王集團有限公司) to the Group for a term of 20 years commencing from 11 April 2011.	The property is currently occupied by the Group as a industrial complex.	No commercial value

Notes:

a) Pursuant to the tenancy agreement entered into between Xiwang Group Company Limited (西王集團有限公司) ('Party A') and Shandong Xiwang Steel Company Limited (山東西王鋼鐵有限公司) ('Party B'). Party A agreed to lease portion of the property with a site area of 10,132 sq.m. to Party B with the yearly rent of RMB60,792 commenced from 11 April 2011 to 10 April 2031.

b) Pursuant to the tenancy agreement entered into between Xiwang Group Company Limited (西王集團有限公司) ('Party A') and Shandong Xiwang Steel Company Limited (山東西王鋼鐵有限公司) ('Party B'). Party A agreed to lease portion of the property with a site area of 14,274 sq.m. to Party B with the yearly rent of RMB85,644 commenced from 11 April 2011 to 10 April 2031.

c) Pursuant to the tenancy agreement entered into between Xiwang Group Company Limited (西王集團有限公司) ('Party A') and Shandong Xiwang Special Steel Company Limited (山東西王特鋼有限公司) ('Party B'). Party A agreed to lease portion of the property with a site area of 6,067 sq.m. to Party B with the yearly rent of RMB36,402 commenced from 11 April 2011 to 10 April 2031.

d) Pursuant to the tenancy agreement entered into between Xiwang Group Company Limited (西王集團有限公司) ('Party A') and Shandong Xiwang Recycling Resources Company Limited (山東西王再生資源有限公司) ('Party B'). Party A agreed to lease portion of the property with a site area of 30,988 sq.m. to Party B with the yearly rent of RMB185,928 commenced from 11 April 2011 to 10 April 2031.

e) Pursuant to the Collective-owned Land Use Rights Certificate Zhou Ji Yong (2009) Zi No.100217 issued by People's Government of Zhoupin County, the land use rights of the property with a land area of approximately 563,514 sq.m., in which the property is located therein, has been allocated to Xiwang Group Company Limited.

f) As advised by the group, the lessor is a connected party of the Group.

g) We have been provided with a legal opinion on the property prepared by the Group's legal adviser, which contains, inter alia, the following information:

    i. The tenancy agreements of land use rights could possibly be found by relevant authorities or courts to be invalid or unenforceable due to its violation of rules under the Law of Land Administration of the PRC. If the tenancy agreements are null and void, the Group would be required to return the use right of the collective-owned land to Xiwang Group Company Limited. The invalidity of the agreement will not affect the provisions or parts of settlement of disputes, all of which shall remain in full force and effect to both parties.

This Appendix contains a summary of the Articles of Association of our Company. The principal objective is to provide potential investors with an overview of the Articles of Association. As the information set out below is in summary form, it does not contain all of the information that may be important to potential investors. As stated in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix VII to this prospectus, a copy of the Memorandum and Articles of Association is available for inspection.

The existing Articles of Association were adopted on 30 January 2012. The following is a summary of certain provisions of the Articles of Association. The powers conferred or permitted by the Articles of Association are subject to the provisions of the Companies Ordinance, other ordinances, subsidiary legislation and the Listing Rules.

CHANGES IN CAPITAL

The Company may exercise any powers conferred or permitted by the Companies Ordinance or any other ordinance and from time to time purchase or otherwise acquire its own shares and warrants (including any redeemable shares) or to give, directly or indirectly, by means of a loan, guarantee, the provision of security or otherwise, financial assistance for the purpose of or in connection with a purchase or other acquisition made or to be made by any person of any shares or warrants in the Company, and should the Company purchase or otherwise acquire its own shares or warrants, neither the Company nor the Board shall be required to select the shares or warrants to be purchased or otherwise acquired rateably or in any other particular manner as between the holders of shares or warrants of the same class or as between them and the holders of shares or warrants of any other class or in accordance with the rights as to dividends or capital conferred by any class of shares, provided that in the case of purchases of redeemable shares, (a) purchases not made through the market or by tender shall be limited to a maximum price and (b) if purchases are by tender, tenders shall be available to all shareholders alike and provided further that any such purchase or other acquisition or financial assistance shall only be made or given in accordance with any relevant rules or regulations issued by the Hong Kong Stock Exchange or the SFC from time to time.

The Company may, from time to time, by ordinary resolution increase its authorised share capital by such sum divided into shares of such amounts as the resolution shall prescribe.

The Company may, from time to time, by ordinary resolution:

(a) by sub-division of its existing shares or any of them, divide its share capital or any part thereof into shares of smaller amounts than is fixed by its memorandum of association, so however that in the sub-division the proportion between the amount paid up and the amount (if any) not paid up on each such share of smaller amount shall be the same as it was in the case of the share from which it was derived. Any resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have such preferred or other special rights, or may have such qualified or deferred rights or be subject to such restrictions, as compared with the other or others, as the Company has power to attach to new shares;

(b) cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled;

(c) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares;

(d) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, or conditions or such restrictions which in the absence of any such determination by the Company in general meeting; and

(e) make provision for the issue and allotment of shares which do not carry rights, the word "non-voting" shall appear in the designation of such shares and where the equity capital includes shares with different voting rights, the designation of each class of shares, other than those with the most favorable voting rights, must include the words "restricted voting" or "limited voting".

Save as provided by the Companies Ordinance, the Articles of Association or any resolution of the Company to the contrary, all unissued shares shall be at the disposal of the Directors who may offer, allot, grant options over or otherwise deal with or dispose of the same to such persons and upon such terms as they shall consider fit, provided that no shares of any class shall be issued at a discount to their nominal value except in accordance with the provisions of the Companies Ordinance, the Articles of Association and any resolution of the Company.

The Company may by special resolution reduce its share capital and any capital redemption reserve fund, any share premium account or any undistributable reserve in any manner allowed by law.

VARIATION OF RIGHTS

If, at any time, the Company's share capital is divided into different classes of shares, all or any of the special rights attached to any class of shares (unless otherwise provided for by the terms of issue of the shares of that class) may, subject to the provisions of the Companies Ordinance, be varied, either while the Company is a going concern or during or in contemplation of a winding-up either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of shares of that class. All the provisions contained in the Articles of Association relating to general meetings shall mutatis mutandis apply to every such meeting except that the quorum thereof (other than an adjourned meeting) shall be not less than two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of the class, and that any holder of shares of that class present in person or by proxy may demand a poll.

TRANSFERS OF SHARES

All transfers of shares must be effected by an instrument of transfer in writing and in any usual form or in a form prescribed by the Hong Kong Stock Exchange or in any other form which the Directors may approve and shall be executed under hand or, if the transferor or transferee is a clearing house or its nominee(s), the instrument of transfer shall be executed by hand or by machine imprinted signature or in writing in the usual common form or in such other form as the Board may approve by such manner of execution as the Board may approve from time to time. The instrument of transfer must be executed by or on behalf of the transferor and by or on behalf of the transferee. The transferor shall be deemed to remain the holder of the shares concerned until the name of the transferee is entered in the Company's register of members in respect thereof. Nothing in the Memorandum and Articles of Association shall preclude the Directors from recognizing a renunciation of the allotment or provisional allotment of any share by the allottee in favor of some other person.

The Board may, at any time in their absolute discretion and without assigning any reason therefore, decline to register any transfer of any share (not being a fully paid up share).

The Board may also decline to register any transfer unless:

(a) the instrument of transfer is duly stamped and lodged at the Company's registered office or at such other place as the Directors may appoint and is accompanied by the certificate for the shares to which it relates, and such other evidence (if any) as the Board may reasonably require to prove the title of the intending transferor or his right to transfer the shares (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do);

(b) the instrument of transfer is in respect of only one class of shares;

(c) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;

(d) the instrument of transfer is accompanied by payment of such fee, not exceeding the maximum amount prescribed by the Hong Kong Stock Exchange from time to time, as the Board may from time to time require;

(e) the shares concerned are free of any lien in favor of the Company;

(f) such other conditions as the Directors may from time to time impose for the purpose of guarding against losses arising from forgery are satisfied;

(g) a fee not exceeding the maximum fee prescribed or permitted from time to time by the Hong Kong Stock Exchange is paid to the Company in respect thereof; and

(h) issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists.

If the Board refuses to register a transfer they shall, within two months after the date on which the transfer was lodged with the Company, send to the transferor and transferee notice of the refusal.

NOTICE OF GENERAL MEETINGS

Subject to section 116C of the Companies Ordinance, at least 21 clear days' notice of every annual general meeting and of every extraordinary general meeting at which it is proposed to pass a special resolution, and at least 14 clear days' notice of every other extraordinary general meeting shall be given in writing to all members. The accidental omission to give such notice of a general meeting or (in cases where instruments of proxy are sent out with the notice) the accidental omission to send an instrument of proxy to, or the non-receipt of either or both by, any person entitled to receive such notice shall not invalidate any resolution passed or proceeding had at that meeting.

The notice shall specify the place, the day and the time of the meeting and, in the case of special business, the general nature of such business. In the case of a meeting convened for passing a special resolution, the notice shall also specify the intention to propose the resolution as a special resolution. Every notice of meeting shall also state with reasonable prominence that a member entitled to attend and vote at the meeting may appoint one or more proxies to attend and vote instead of him and that a proxy need not also be a member.

Notwithstanding that a meeting of the Company is convened by shorter notice than that specified in the Articles of Association, it shall be deemed to have been duly convened if it is so agreed: (a) in the case of an annual general meeting, by all the members entitled to attend and vote at the meeting; and (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right.

VOTING AT GENERAL MEETINGS

Subject to the Articles of Association and to any special rights or restrictions as to voting for the time being attached to any shares of the Company, every member who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative at any general meeting shall have one vote for every fully paid-up share of which he is the holder.

At any general meeting, a resolution put to the vote of a meeting shall be decided by poll except where the chairman of the meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands.

Where a member is a recognized clearing house (within the meaning of the SFO) or its nominee, it may authorise any number of person or persons as it thinks fit to act as its proxy (or proxies) or representative (or representatives) at any general meeting of the Company or any separate meeting of any class of members of the Company provided that, if more than one person so authorised, the instrument of proxy or authorisation must specify the number and class of shares in respect of which each such person is so authorised. Notwithstanding anything contained in these Articles, each person so authorised, and any instrument of proxy or authorisation signed by any officer of the recognized clearing house, shall be deemed to have been duly authorised without further evidence of the facts. The person so authorised will be entitled to exercise the same rights and powers on behalf of the recognized clearing house (or its nominee) as if such person was the registered holder of the shares of the Company held by that recognized clearing house (or its nominee), including the right to vote on a poll.

Where any member is, under the rules prescribed by the Hong Kong Stock Exchange, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any vote cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

QUALIFICATIONS OF DIRECTORS

A Director is not required to hold any qualification shares. No person is required to vacate office or be ineligible for re-election or re-appointment as a Director, and no person is ineligible for appointment as a Director, by reason only of his having attained any particular age.

BORROWING POWERS

The Board may exercise all the powers of the Company to raise or borrow money and to mortgage or charge all or any part of its undertaking, property, assets and uncalled capital. The Board may issue debentures, debenture stock, bonds and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

DIRECTORS' REMUNERATION AND EXPENSES

The Directors are entitled to receive by way of remuneration for their services such sum as determined by the remuneration committee established by the Board with a majority of the members being independent non-executive Directors and chaired by an independent non-executive Director, which (unless otherwise directed by the resolution by which it is voted) is to be divided amongst the Directors in such proportions and in such manner as the Board may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. The foregoing shall not apply to a Director who holds any salaried employment or office in the Company except in the case of sums paid in respect of Directors' fees.

The Directors are also entitled to be repaid their reasonable travelling, hotel and other expenses properly incurred by them in connection with their attendance at meetings of the Board, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors.

The Board, may award special remuneration (by way of bonus, commission, participation in profits or otherwise as the Directors may determine) to any Director who performs services which, in the opinion of the remuneration committee of the Company, goes beyond the scope of the ordinary duties of a Director.

DIRECTORS' INTERESTS

No Director or intended Director is disqualified by his office from contracting with the Company, nor is any contract or arrangement entered into by or on behalf of the Company in which any Director is in any way interested be liable to be avoided, nor is any Director so contracting or being so interested be liable to account to the Company for any profit realized by any such contract or arrangement by reason of such Director holding that office or of any fiduciary relationship thereby established, provided that such Director shall disclose the nature of his interest in any contract or arrangement in which he is interested as required by and subject to the provisions of the Companies Ordinance.

A Director shall not vote nor be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or matter in which he or any of his associate(s) has, directly or indirectly, a material interest, but this prohibition does not apply to any of the following matters:

(a) any contract or arrangement for the giving of any guarantee, security or indemnity to the Director or his associate(s) in respect of money lent to, or obligations incurred by him or any of them at the request of or for the benefit of, the Company or any of its subsidiaries;

(b) any contract or arrangement for the giving of any guarantee, security or indemnity to a third party in respect of an obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;

(c) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or his associate(s) is/are intending to become interested as a participant in the underwriting or sub-underwriting of the offer;

(d) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in those shares or debentures or other securities of the Company;

(e) any proposal or arrangement concerning the benefit of the employees of the Company or any of its subsidiaries, including the adoption, modification or operation of a pension fund or retirement, death or disability benefit scheme, which relates to the Directors, his associates and employees of the Company or any of its subsidiaries and does not accord to any Director or his associate(s) as such any privilege or advantage not generally accorded to the employees to whom such arrangement relates; and

(f) any proposal or arrangement concerning the adoption, modification or operation of any employees' share scheme or any share incentive or share option scheme for the benefit of the employees of the Company or any of its subsidiaries under which the Director or his associate(s) may benefit.

Notwithstanding the above, any conflicted Director, meaning any Director who is also a director or member of senior management of the Controlling Shareholders or their respective subsidiaries (other than the Group) shall abstain from participating in any Board meeting or part thereof when matters in which any conflicted Director or his associates have a material interest are discussed, unless his attendance is requested by a majority of the independent non-executive Directors. Notwithstanding his attendance, he shall not vote or be counted towards the quorum in respect of such matters.

Any Director may continue to be or become a member or director of, or hold any other office or place of profit under, any other company in which the Company may be interested, and no such Director shall be accountable for any dividend, remuneration, superannuating payment or other benefits received by him as a member or director of, or holder of any other office or place of profit under, any such other company. The Board may also cause any voting power conferred by the shares in any other company held or owned by the Company or any power of appointment to be exercised in such manner in all respects as it thinks fit (including the exercise of the voting power or power of appointment in favor of the appointment of the Directors or any of them as directors or officers of the other company or in favor of the payment of any benefit to the directors or officers of the other company) PROVIDED ALWAYS THAT a Director who is also a director or a member of senior management of any Controlling Shareholder or their respective subsidiaries (other than the Group) shall not hold any executive position in either: (i) the Company or its subsidiaries; or (ii) any Controlling Shareholder or their respective subsidiaries (other than the Group) which is engaged in the same or similar business as that of the Company, save for any Director who has been previously appointed to the board or management of a Controlling Shareholder who may continue to hold office under such appointment until he resigns.

DIVIDENDS

Subject to the Companies Ordinance, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board. The Company in general meeting may also make a distribution to its members out of contributed surplus (as ascertained in accordance with the Companies Ordinance). No dividend shall be paid or distribution made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realizable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium account.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Board may deduct from any dividend or other monies payable to a member by the Company on or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

The Board may from time to time pay to the members such interim dividends as appear to the Board to be justified by the profits of the Company and in particular (but without prejudice to the generality of the foregoing) if at any time the share capital of the Company is divided into different classes, the Board may pay such interim dividends in respect of those shares in the capital of the Company which confer on the holders thereof deferred or non-preferential rights as well as in respect of those shares which confer on the holders thereof preferential rights with regard to dividend and provided that the Board acts bona fide, the Board shall not incur any responsibility to the holders of shares conferring any preference for any damage that they may suffer by reason of the payment of an interim dividend on any shares having deferred or non-preferential rights and may also pay any fixed dividend which is payable on any shares of the Company half-yearly or on any other dates, whenever such profits, in the opinion of the Board, justifies such payment.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the Board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit. The Company may also upon the recommendation of the Board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or partly by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the Board and shall revert to the Company.

INDEMNITY

Each of the Directors or other officer or auditors of the Company shall be indemnified out of the assets of the Company against all liabilities incurred by him in defending any proceedings, whether civil or criminal, in which judgment is given in his favor or in which he is acquitted or in connection with any application in which relief from liability is granted to him by the court.

Subject to the provisions of the Companies Ordinance, the Directors may exercise all the powers of the Company to purchase and maintain insurance for the benefit of a person who is a director, alternate director, manager, secretary or officer of the Company or the auditors of the Company for the purpose of indemnifying such persons and keeping them indemnified against liability for negligence, default, breach of duty or breach of trust (save for fraud) or other liability which may lawfully be insured against by the Company and any liability which may be incurred by him in defending any proceedings, whether civil or criminal, taken against him for any negligence, default, breach of duty or breach of trust (including fraud) of which he may be guilty in relation to the Company or a related company.

WINDING UP

If the Company is in liquidation, the liquidator may, with the sanction of a special resolution and any other sanction required by law, divide among the members in specie the whole or any part of the assets of the Company and may, for that purpose, value any assets and determine how the division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest the whole or any part of the assets in trustees upon such trusts for the benefit of the members as he may with the like sanction determine, but no member shall be compelled to accept any assets upon which there is a liability.

A. FURTHER INFORMATION ABOUT OUR COMPANY

1. Incorporation

Our Company was incorporated in Hong Kong under the Companies Ordinance as a limited liability company on 6 August 2007.

Our Company's registered office is at Unit 2110, 21/F, Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong.

A summary of the provisions of the Articles of Association of our Company is set out in the section headed "Appendix V — Summary of the Constitution of our Company" in this prospectus.

2. Changes in share capital of our Company

The following sets out the changes in our Company's issued share capital since the date of its incorporation:

(a) As at the date of incorporation of the Company, the authorised share capital of the Company was HK$10,000.00 divided into 10,000 Shares of HK$1.00 each. One Share was acquired by Xiwang Investment.

(b) On 27 July 2011, pursuant to the resolutions in writing passed by the then sole shareholder of the Company, Xiwang Investment, (i) each of the issued and unissued shares of HK$1.00 each in the capital of the Company were sub-divided into 10 shares of HK$0.10 each; and (ii) the authorised share capital of the Company was increased to HK$10,000,000,000 divided into 100,000,000,000 shares of HK$0.10 each.

(c) On 27 July 2011, pursuant to a debt settlement deed made between Xiwang Investment and the Company, 1,599,999,990 Shares were allotted and issued to Xiwang Investment as payment in kind of a shareholder's loan.

Save as disclosed in this paragraph and in the paragraphs headed "A. Further Information about our Company — 1. Incorporation", "A. Further Information about our Company — 4. Written resolutions of our Shareholder passed on 30 January 2012" and "A. Further Information about our Company — 5. Reorganisation" in this Appendix, there has been no alteration in the share capital of our Company since its incorporation.

Our Company has no founder shares, management shares or deferred shares.

3. Changes in share capital or registered capital of our subsidiaries

Our subsidiaries are set out in the section headed "Appendix I — Accountants' Report" in this prospectus. On 25 August 2010, Xiwang Steel increased its registered capital from RMB100,000,000 to RMB240,000,000.

Save as set out above, there has been no alteration in the share capital or registered capital of any member of the Group within two years immediately preceding the date of this prospectus.

4. Written resolutions of our Shareholder passed on 30 January 2012

Written resolutions were passed by our Shareholder on 30 January 2012 pursuant to which, among other matters:

(a) our Company approved and adopted the Articles of Association;

(b) conditional on (A) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (including any Shares that may be issued pursuant to the exercise of the Over-allotment Option), (B) the Offer Price having been fixed on or around the Price Determination Date, (C) the execution and delivery of the Hong Kong Underwriting Agreement in relation to the Hong Kong Public Offering, (D) the execution and delivery of the International Underwriting Agreement on or about the Price Determination Date, and (E) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the respective Underwriting Agreements or otherwise, in each case on or before the day falling 30 days after the date of this prospectus:

(i) the Global Offering was approved and our Directors were authorised to allot and issue the Offer Shares pursuant to the Global Offering and such number of Shares as may be allotted and issued upon the exercise of the Over-allotment Option pursuant to the terms and conditions set out in this prospectus and the Application Forms;

(ii) a general unconditional mandate was given to our Directors to exercise all powers of our Company to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements in accordance with the Articles, or under the Global Offering or upon the exercise of the Over-allotment Option, Shares with an aggregate nominal amount of not exceeding the sum of (A) 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option, and (B) the nominal amount of the share capital of our Company which may be purchased by our Company pursuant to the authority granted to the Directors as referred to in sub-paragraph (iii) below, until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of the Company is required by the Articles or any applicable law to be held, or the passing of an ordinary resolution by Shareholders revoking or varying the authority given to our Directors, whichever occurs first;

(iii) a general unconditional mandate was given to our Directors to exercise all powers of our Company to purchase Shares on the Hong Kong Stock Exchange or any other stock exchange on which the securities of our Company may be listed and recognised by the SFC and the Hong Kong Stock Exchange for this purpose, with an aggregate nominal amount not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option; until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or any applicable law to be held, or the passing of an ordinary resolution by Shareholders revoking or varying the authority given to our Directors, whichever occurs first; and

(iv) the extension of the mandate to allot, issue and deal with Shares pursuant to sub-paragraph (ii) above to include the nominal amount of Shares which may be purchased or repurchased pursuant to sub-paragraph (iii) above; and

(c) the form and substance of each of the service agreements made between our executive Directors and our Company and between our non-executive Directors and our Company, and the form and substance of each of the appointment letters made between our independent non-executive Directors and our Company were approved.

By adopting the Articles of Association pursuant to our written resolutions of our Shareholder on 30 January 2012, our Company ceased to be a private company as defined under section 29 of the Companies Ordinance.

5. Reorganisation

On 8 July 2011, in preparation for Listing, Xiwang Hong Kong transferred its 95% equity interest in Xiwang Holdings to Mr. Yong Wang and the Individual Investors. Upon completion of such transfer, the equity interest in Xiwang Holdings was held by Mr. Yong Wang as to 64.4% and by the Individual Investors as to 35.6%.

6. Repurchase by our Company of our Shares

This section includes information relating to the repurchase by us of our own Shares, including information required by the Hong Kong Stock Exchange to be included in this prospectus concerning such repurchase.

The Listing Rules permit companies with a primary listing on the Hong Kong Stock Exchange to repurchase their shares on the Hong Kong Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(a) Shareholders' approval

All proposed repurchases of shares on the Hong Kong Stock Exchange by a company with a primary listing on the Hong Kong Stock Exchange must be approved in advance by an ordinary resolution of shareholders, either by way of a general mandate or by specific approval of a particular transaction.

Pursuant to a written resolution passed by our Shareholder on 30 January 2012, a general unconditional mandate ("Repurchase Mandate") was granted to our Directors to exercise all the powers of our Company to purchase Shares on the Hong Kong Stock Exchange, or any other stock exchange on which the securities of our Company may be listed and recognised by the SFC and the Hong Kong Stock Exchange for this purpose, with an aggregate nominal amount not exceeding 10% of the aggregate nominal amount of our share capital in issue immediately following the completion of the Global Offering (excluding any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option), until the conclusion of our next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or any applicable law to be held, or the passing of an ordinary resolution by Shareholders revoking or varying the authority given to our Directors, whichever occurs first.

Under the Listing Rules, the shares which are proposed to be repurchased by a company must be fully paid up.

(b) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and our Shareholders as a whole to have a general authority from our Shareholders to enable us to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of our Company and/or our earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders as a whole.

(c) Funding of repurchases

In repurchasing Shares, we may only apply funds legally available for such purpose in accordance with our Memorandum of Association and the Articles of Association, the Listing Rules and the applicable laws of the Hong Kong. We shall not repurchase our own securities on the Hong Kong Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Hong Kong Stock Exchange from time to time.

On the basis of our current financial position as disclosed in this prospectus and taking into account our current working capital position, our Directors consider that, if the Repurchase Mandate was to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Company as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or our gearing position.

(d) Directors' undertaking

Our Directors have made an undertaking to the Hong Kong Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules, the applicable laws of Hong Kong, and the Articles of Association.

(e) Disclosure of interests

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their respective associates has any present intention, if the Repurchase Mandate is exercised, to sell any Shares to our Company or our subsidiaries.

No connected person of our Company has notified us that he or she has a present intention to sell Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

(f) Takeovers Code consequences

If, as a result of a securities repurchase, a shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder, or a group of Shareholders acting in concert, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code and the provision may apply as a result of any such increase. Our Directors are not aware of any consequences which may arise under the Takeovers Code as a result of any repurchase under the Repurchase Mandate.

(g) Share capital

Exercising in full of the Repurchase Mandate, on the basis of 2,000,000,000 Shares in issue immediately after completion of the Global Offering, but taking no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option, could accordingly result in up to 200,000,000 Shares being repurchased by us during the course of the period prior to the date on which such Repurchase Mandate expires or terminates as mentioned in the paragraph headed "A. Further Information about Our Company — 4. Written resolutions of our Shareholder passed on 30 January 2012" in this Appendix.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

(h) Share repurchase made by our Company

No repurchase of Shares has been made by our Company since its incorporation.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of our material contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of our Group within the two years preceding the date of this prospectus which are or may be material:

(a) a deed of debt assignment dated 27 July 2011 entered into between Xiwang Holdings, Xiwang Investment and the Company, pursuant to which a loan of HK$68,432,500 owed by the Company to Xiwang Holdings was assigned to Xiwang Investment;

(b) a debt settlement deed dated 27 July 2011 entered into between the Company and Xiwang Investment pursuant to which the Company allotted and issued 1,599,999,990 Shares to Xiwang Investment as payment in kind of a shareholder's loan amounting to RMB134,510,641;

(c) a non-competition deed dated 30 January 2012 given by our Controlling Shareholders in favour of our Company (for itself and as trustee for each of its subsidiaries) as more particularly referred to in the section headed "Relationship with Controlling Shareholders" in this prospectus;

(d) a deed of indemnity dated 30 January 2012 given by our Controlling Shareholders in favour of our Company (for itself and as trustee for each of its subsidiaries) as more particularly referred to in the paragraph headed "D. Other Information — 1. Tax and other indemnity" in this Appendix; and

(e) the Hong Kong Underwriting Agreement.

2. Particulars of our subsidiaries

As at the Latest Practicable Date, our Company had the following subsidiaries:

Name of subsidiary	Place and date of incorporation/ establishment	Registered capital	Attributable equity interest	Principal activities
Xiwang Steel	Shandong Province of the PRC, 31 December 2003	RMB240 million	100%	production and distribution of various section steel, stainless steel, steel-made products, steel plate and steel bar
Xiwang Metal	Shandong Province of the PRC, 20 April 2004	USD21 million	100%	the production of various steel billet, steel and precision castings; design, manufacture and installation of steel structure and truss structure; pipe installation, anti-corrosion and heat-preservation; design, manufacture and installation of various non-standard equipments and doors and windows
Shandong Xiwang Special Steel	Shandong Province of the PRC, 29 December 2007	USD11.8 million	100% *(Note)*	the production and sales of quality steel, bearing steel, alloy steel and stainless steel

Name of subsidiary	Place and date of incorporation/ establishment	Registered capital	Attributable equity interest	Principal activities
Xiwang Recycling Resources	Shandong Province of the PRC, 7 May 2009	RMB30 million	100%	non-productive purchase and sales of scrap steel, scrap iron, waste machinery, pig iron, molten iron, metal materials and non-ferrous metal

Note: Shandong Xiwang Special Steel is owned as to 49% by the Company directly and as to 51% by Xiwang Steel.

3. Our intellectual property rights

(a) Trademarks

(i) As at the Latest Practicable Date, we have obtained registration of the following trademark:

Trademark	Registered owner	Place of registration	Class	Expiry date	Registration number
	Shandong Xiwang Special Steel	Hong Kong	6	31 May 2021	301933849

(ii) As at the Latest Practicable Date, we had an exclusive licence to use the following registered trademark pending completion of the transfer of such trademark to Xiwang Steel:

Trademark	Registered owner	Place of application	Class	Expiry date	Registration number
西王集团 XIWANG GROUP	Xiwang Properties *(Note)*	The PRC	6	13 April 2017	4289255
西王	Xiwang Steel	The PRC	11	6 September 2021	8599421

Note: This trademark was registered with the PRC Trademark Office under the name of Xiwang Properties on 14 April 2007. On 6 May 2011, Xiwang Properties entered into an assignment agreement to transfer such trademark to Xiwang Steel and to licence such trademark to Xiwang Steel for a period up to the date of completion of the assignment. The assignment agreement is entered into at zero consideration and there is no licence fee. According to the notification issued by Trademark Office under the State Administration for Industry and Commerce of PRC (國家工商行政管理總局商標局) ("Trademark Office") dated 8 June 2011, this authority have accepted the assignment application and the assignment of the trademark is still subject to be reviewed by the Trademark Office. The Company has been advised by its PRC legal advisers that there should be no legal impediment presenting assignment of the trademark.

(b) Domain name

As at the Latest Practicable Date, we have registered the following domain name:

Doman Name	Registrant	Expiration date
www.xiwangsteel.com	Xiwang Steel	29 December 2012

(c) Patents owned by the Group

As at the Latest Practicable Date, we have obtained registration of the following material patents:

Patent	Registered owner	Place of application	Application date	Expiration date	Registration number	Type
"一種軋鋼出入爐傳輸輥道輥子"	Shandong Xiwang Special Steel	The PRC	19 January 2010	18 January 2020	ZL 2010 2 0015525.X	utility model
"一種冷床用輸出輥"	Shandong Xiwang Special Steel	The PRC	8 January 2010	7 January 2020	ZL 2010 2 001 4435.9	utility model
"一種冷床用輸入輥"	Shandong Xiwang Special Steel	The PRC	8 January 2010	7 January 2020	ZL 2010 2 001 4434.4	utility model
"一種打捆機用抱緊裝置" .	Shandong Xiwang Special Steel	The PRC	8 January 2010	7 January 2020	ZL 2010 2 001 4436.3	utility model
"一種煤氣站風機控制裝置"	Shandong Xiwang Special Steel	The PRC	11 January 2010	10 January 2020	ZL 2010 2 001 3284.5	utility model
"一種軋機軸承潤滑裝置" .	Shandong Xiwang Special Steel	The PRC	11 January 2010	10 January 2020	ZL 2010 2 001 3286.4	utility model
"加熱爐"	Shandong Xiwang Special Steel	The PRC	11 January 2010	10 January 2020	ZL 2010 2 001 3288.3	utility model
"一種螺紋鋼防止彎鋼的裝置"	Shandong Xiwang Special Steel	The PRC	8 January 2010	7 January 2020	ZL 2010 2 000 4136.7	utility model
"一種精軋機托架平衡連接機構"	Shandong Xiwang Special Steel	The PRC	8 January 2010	7 January 2020	ZL 2010 2 000 4128.2	utility model
"一種打捆機電控系統" . .	Shandong Xiwang Special Steel	The PRC	8 January 2010	7 January 2020	ZL 2010 2 000 2749.7	utility model
"一種冷床用移鋼機構" . .	Shandong Xiwang Special Steel	The PRC	29 January 2010	28 January 2020	ZL 2010 2 030 1912.X	utility model
"一種軋鋼機用平衡裝置" .	Shandong Xiwang Special Steel	The PRC	29 January 2010	28 January 2020	ZL 2010 2030 1988.2	utility model
"一種穿水電機控制電路" .	Xiwang Steel	The PRC	6 January 2009	5 January 2019	ZL200920017406.5	utility model
"二級螺紋鋼軋製線改造裝置所用的夾送輥"	Xiwang Steel	The PRC	20 January 2009	19 January 2019	ZL200920018189.1	utility model

Patent	Registered owner	Place of application	Application date	Expiration date	Registration number	Type
"二級螺紋鋼軋製機改造裝置"	Xiwang Steel	The PRC	6 October 2008	5 October 2018	ZL200820172379.4	utility model
"煤氣站沖碴用水回收分離裝置"	Xiwang Steel	The PRC	25 September 2008	24 September 2018	ZL200820172275.3	utility model
"液壓移動式精整收集裝置"	Xiwang Steel	The PRC	25 September 2008	24 September 2018	ZL200820172274.9	utility model

(d) Pending patent applications

Patent	Registered owner	Place of application	Application date	Registration number	Type
"一種螺紋鋼防止彎鋼的裝置"	Shandong Xiwang Special Steel	The PRC	8 January 2010	ZL 2010 1 000 3747.4	Invention application

Save as aforesaid, as at the Latest Practicable Date, there were no other trade or service marks, patents, intellectual or industrial property rights which were material in relation to our Group's business.

C. FURTHER INFORMATION ABOUT THE DIRECTORS

1. Particulars of our Directors' service contracts and letters of appointment

(a) Executive Directors, non-executive Directors and independent non-executive Directors

Each of our executive Directors and non-executive Directors has entered into a service agreement with us for an initial term of three years commencing on 1 June 2011 and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. The aggregate annual salary of our executive Directors is approximately RMB700,000. Each of our non-executive Directors' annual salary is nil.

Each of our independent non-executive Directors has entered into a letter of appointment with our Company. Each letter of appointment is for an initial term of three years commencing on the Listing Date. The aggregate annual salary of Mr. Gongxue Zhang and Mr. Kou Yu is RMB100,000. The annual salary of Mr. Shu Sun Sunny Leung is HK$150,000.

Save as disclosed above, none of our Directors has or is proposed to enter into any service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without the payment of compensation other than statutory compensation).

(b) Directors' remuneration during the Track Record Period

For each of the three years ended 31 December 2008, 2009 and 2010, no remuneration (including any fees, salaries, housing allowances, other allowances, benefits in kind and discretionary bonuses) was paid by our Company to any of our Directors. For the nine months ended 30 September 2011, the aggregate of the remuneration paid and benefits in kind granted to our Director by our Company was RMB0.1 million.

No remuneration was paid by our Company to the Directors (a) as an inducement to join or upon joining any member of our Group or (b) as a compensation for loss of office as director of any member of our Group or of any other office in connection with the management affairs of any member of our Group in respect of each of the three years ended 31 December 2008, 2009 and 2010 and the nine months ended 30 September 2011. Further, none of our Directors waived any remuneration during the same period.

Further information regarding our Directors' remuneration during the Track Record Period can be found in the section headed "Appendix I — Accountants' Report" in this prospectus.

2. Disclosure of interests

(a) Interests and short positions of our Directors and chief executives in the share capital of our Company and its associated corporations following the Global Offering

Immediately following completion of the Global Offering and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option, the interests or short positions of our Directors and our chief executives in the shares, underlying shares and debentures of our Company and its associated corporations, within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or which will be required to be notified to our Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules once the Shares are listed, will be as follows:

Long position in the shares, underlying shares and debentures of our Company or its associated corporations

Name	Name of the company	Nature of interest	Number of shares held/interested	Approximate percentage of shareholding in the relevant corporation
Yong Wang(1) (2)	the Company	Interest in a controlled corporation	1,500,000,000	75%
	Xiwang Sugar(3)	Interest in a controlled corporation	1,031,265,624(4)	102.25%(4)
Gang Wang (王剛)(2)	the Company	Interest in a controlled corporation	1,500,000,000	75%
	Xiwang Sugar(3)	Interest in a controlled corporation	1,031,265,624(4)	102.25%(4)
Liang Wang (王亮)(2)	the Company	Interest in a controlled corporation	1,500,000,000	75%
	Xiwang Sugar(3)	Interest in a controlled corporation	1,031,265,624(4)	102.25%(4)

Name	Name of the company	Nature of interest	Number of shares held/interested	Approximate percentage of shareholding in the relevant corporation
Di Wang (王棣)(2)	the Company	Interest in a controlled corporation	1,500,000,000	75%
	Xiwang Sugar(3)	Interest in a controlled corporation	1,031,265,624(4)	102.25%(4)
Xinhu Sun (孫新虎)(2) . . .	the Company	Interest in a controlled corporation	1,500,000,000	75%
	Xiwang Sugar(3)	Interest in a controlled corporation	1,031,265,624(4)	102.25%(4)

Notes:

(1) Mr. Yong Wang, our chairman, is the beneficial owner of 64.4% of the issued share capital of Xiwang Holdings, which in turn holds the entire issued share capital of Xiwang Investment. Mr. Yong Wang is deemed to be interested in the number of Shares held by Xiwang Investment.

(2) Mr. Gang Wang (王剛), Mr. Liang Wang (王亮), Mr. Di Wang (王棣) and Mr. Xinhu Sun (孫新虎), all being our Directors, together with the other Individual Investors hold as to 35.6% of the issued share capital of Xiwang Holdings, which in turn holds the entire issued share capital of Xiwang Investment. Mr. Gang Wang (王剛), Mr. Liang Wang (王亮), Mr. Di Wang (王棣) and Mr. Xinhu Sun (孫新虎) together with Mr. Yong Wang and the other Individual Investors are deemed to be acting in concert in respect of their shareholding interests in Xiwang Holdings pursuant to a voting agreement dated 27 September 2011 and as supplemented by a supplemental voting agreement dated 7 February 2012, and Mr. Gang Wang (王剛), Mr. Liang Wang (王亮), Mr. Di Wang (王棣), Mr. Tao Wang (王濤) and Mr. Xinhu Sun (孫新虎) are deemed to be interested in any shares held by Xiwang Investment. For further information regarding the said voting agreement, please refer to the section headed "History, Reorganisation and Group Structure" in this prospectus.

(3) As of the Latest Practicable Date, Xiwang Investment was interested in 562,494,077 shares of Xiwang Sugar, representing approximately 55.7% of the total number of shares of Xiwang Sugar in issue. Xiwang Investment is wholly owned by Xiwang Holdings and is therefore an associated corporation of our Company within the meaning of Part XV of the SFO.

(4) Pursuant to an underwriting agreement entered into between Xiwang Investment and Xiwang Sugar on 27 January 2012, Xiwang Investment as an underwriter has irrevocably undertaken to Xiwang Sugar that it will subscribe in full its entitlement, being not less than 468,771,547 convertible preference shares of Xiwang Sugar, under the proposed open offer by Xiwang Sugar, as announced by Xiwang Sugar on 27 January 2012.

(b) Interests and short positions of the substantial Shareholders in the shares which are discloseable under Divisions 2 and 3 of Part XV of the SFO following the Global Offering

Immediately following completion of the Global Offering and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option (and assuming that the obligations of the Underwriters to subscribe and/or purchase, and/or procure the subscription and/or purchase of, Shares under the Underwriting Agreements will terminate on the Listing Date) and none of the Underwriters is required to subscribe and/or purchase, and/or procure the subscription and/or purchase of Shares thereunder on or prior to the Listing Date, in addition to the interests disclosed under paragraph (a) above, so far as our Directors were aware, as at the Latest Practicable Date, the persons expected to have interests and/or short positions in the Shares and underlying Shares of our Company which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or are expected to be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any of our other member, is set out in section headed "Substantial Shareholders" in this prospectus.

3. Disclaimers

Save as disclosed in this prospectus, as at the Latest Practicable Date:

(a) our Directors were not aware of any person (not being a Director or chief executive of our Company) who would, immediately after completion of the Global Offering (taking no account of Shares which may be allotted and issued upon the exercise of the Over-allotment Option), have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who would, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any of our other member;

(b) none of our Directors had any interest or short position in any of the Shares, underlying Shares or debentures or any shares, underlying shares or debentures of any associated corporation within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is deemed to have under such provisions of the SFO), or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required to be notified to us and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, in each case once the Shares are listed;

(c) none of our Directors nor any of the parties listed in the paragraph headed "D. Other Information — 12. Consents of experts" in this Appendix was interested, directly or indirectly, in the promotion of, or in any assets which had been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to our Company or any of our subsidiaries, or were proposed to be acquired or disposed of by or leased to our Company or any of our other member;

(d) none of our Directors nor any of the parties listed in the paragraph headed "D. Other Information — 12. Consents of experts" in this Appendix was materially interested in any contract or arrangement subsisting at the date of this prospectus which was significant in relation to our business;

(e) save in connection with the Underwriting Agreements, none of the parties listed in the paragraph headed "D. Other Information — 12. Consents of experts" in this Appendix:

  (i) were interested legally or beneficially in any securities of any of our member; or

  (ii) had any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any of our member;

(f) none of our Directors or their associates nor, to the knowledge of the Directors, any Shareholder who held more than 5% of the total issued Shares as at the Latest Practicable Date, had any interest in any of our five largest customers; and

(g) none of our Directors or their associates nor, to the knowledge of the Directors, any Shareholder who held more than 5% of the total issued Shares as at the Latest Practicable Date, had any interest in any of our five largest suppliers.

D. OTHER INFORMATION

1. Tax and other indemnity

Our Controlling Shareholders have entered into a deed of indemnity in favour of our Group to provide the following indemnities.

Under the deed of indemnity, among others, our Controlling Shareholders have agreed to jointly and severally indemnify and keep indemnified our Company for itself and as trustee for each of the members of the Group on demand against (a) taxation falling on any member of the Group resulting from or by reference to any income, profits or gains earned, accrued or received (or deemed to be so earned, accrued or received) on or before the date when the Global Offering becomes unconditional; (b) any damages, losses and liabilities in respect of any property claims or third party claims arising out of any breach or non-compliance of any applicable PRC laws, rules and/or regulations or of relevant agreements affecting properties of the Group (including without limitation, those properties set out in the property valuation report in Appendix IV to this prospectus), or any eviction of any member of the Group of any property of the Group or any lack of building ownership certificate or other relevant title certificates in relation to owned properties or in relation to leased or sub-leased or licensed properties to the extent that the events leading to such damages, losses and liabilities occurred on or prior to the date when the Global Offering becomes unconditional; (c) all or any damages, losses and liabilities arising from or in connection with any claim and/or any other liability claim including but not limited to any breach or non-compliance with any applicable PRC laws and regulations including without limitation any inter-enterprise lending or borrowing that violates the General Regulation of Loans (《貸款通則》) promulgated by the People's Bank of China to the extent that the events leading to such damages, losses and liabilities occurred on or prior to the date when the Global Offering becomes unconditional; and (d) any costs, expenses and operating and business losses arising from third-party infringement of our intellectual property rights of any of the Group member due to the non-registration of the relevant intellectual property rights which existed on or prior to the date when the Global Offering becomes unconditional. Our Controlling Shareholders have also agreed to jointly and severally indemnify each of the members of the Group on demand against any losses, damages, costs or expenses in connection with the above.

Our Directors have been advised that no material liability for estate duty is likely to fall on us or any of our subsidiaries.

2. Waivers and exemption

The SFC has granted a certificate of exemption under section 38A of the Companies Ordinance from strict compliance with paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance in relation to the inclusion of the accountants' report for the full financial year ended 31 December 2011 in this prospectus on 8 February 2012. The Hong Kong Stock Exchange has also granted to the Company a waiver from strict compliance with Rule 4.04(1) of the Listing Rules in relation to the disclosure of financial information of the Group for each of the three financial years immediately preceding the issue of this prospectus on condition that (i) the Listing shall commence on or before 31 March 2012, which is prior to the expiry of three months after our latest financial year end; (ii) the grant of a certificate of exemption from the SFC from similar requirements under paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance; and (iii) the inclusion in the prospectus of (a) a profit estimate for the year ended 31 December 2011 which complies with Rules 11.17 to 11.19 of the Listing Rules; and (b) a Directors' statement that there is no material adverse change to our Group's financial and trading positions or prospect with specific reference to the trading results from 30 September 2011 to 31 December 2011. The Hong Kong Stock Exchange has also granted to our Company a waiver from strict compliance with Rule 8.12 of the Listing Rules in respect of management presence in Hong Kong.

Details of such waivers given by the Hong Kong Stock Exchange and the exemption given by the SFC are set out in the section headed "Waivers and Exemption from Strict Compliance with the Listing Rules and the Companies Ordinance" in this prospectus.

3. Litigation

As at the Latest Practicable Date, no member of our Group was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance was known to our Directors to be pending or threatened by or against any member of our Group that would have a material adverse effect on our Group's results of operations or financial condition.

4. Preliminary expenses

The preliminary expenses incurred by our Company in relation to our incorporation were approximately HK$63,362.00 and were paid by our Company.

5. Promoter

Our Company does not have any promoter.

6. The Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee of the Hong Kong Stock Exchange for listing of, and permission to deal in, the Shares in issue and any Shares falling to be issued pursuant to the Global Offering and the exercise of the Over-allotment Option. All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

7. No material adverse change

Our Directors confirm that there has been no material adverse change in our financial or trading position since 30 September 2011 (being the date on which our latest audited combined financial statements was made up) up to the Latest Practicable Date.

8. Compliance adviser

Our Company has appointed Guangdong Securities Limited as our compliance adviser upon Listing in compliance with Rule 3A.19 of the Listing Rules.

9. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

10. Registration procedures

Our register of members will be maintained in Hong Kong by the Hong Kong Share Registrar.

11. Qualifications of experts

The following are the qualifications of the experts (as defined under the Listing Rules and the Companies Ordinance) who have given opinion or advice which are contained in this prospectus:

Name	Qualification
J.P. Morgan Securities (Asia Pacific) Limited	Licensed under the SFO for type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 7 (providing automated trading services) activities as defined under the SFO
Ernst & Young	Certified Public Accountants
Jingtian & Gongcheng	Legal advisers to our Company on PRC law
CBRE HK Limited	Property valuer

12. Consents of experts

Each of the experts whose names are set out in the paragraph headed "D. Other Information — 11. Qualifications of experts" in this Appendix has given and has not withdrawn their respective consents to the issue of this prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and references to its name included in the form and context in which it appears.

As at the Latest Practicable Date and save as disclosed in this prospectus, none of the experts named in the paragraph headed "D. Other Information — 11. Qualifications of experts" in this Appendix had any shareholding interests in any of our member or the right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any of our member.

13. Particulars of the Selling Shareholder

The particulars of the Selling Shareholder are set out as below:

Name	Place of incorporation	Registered office	Description	Number of Sale Shares
Xiwang Investment Company Limited [(1)]. . .	BVI	Commonwealth Trust Limited, Drake Chamber, P. O. Box 3321, Road Town, Tortola, British Virgin Islands	Investment holding	100,000,000

Note:

1. Xiwang Investment is directly held by Xiwang Holdings as to 100%, which is in turn held by Mr. Yong Wang, our Director and chairman, as to 64.4%, and Mr. Gang Wang, Mr. Liang Wang, Mr. Di Wang and Mr. Xinhu Sun, all being Directors and each an Individual Investor, together with other Individual Investors, as to 35.6%, respectively. Mr. Yong Wang and the Individual Investors are deemed to be acting in concert in respect of their shareholding interests in Xiwang Holdings pursuant to a voting agreement dated 27 September 2011 and as supplemented by a supplemental voting agreement dated 7 February 2012. For further information regarding the said voting agreement, please refer to the section headed "History, Reorganisation and Group Structure" in this prospectus. Please also refer to the section headed "C. Further Information about the Directors — 2. Disclosure of interests" in this Appendix for particulars of beneficial interests possessed by the Directors.

14. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided in section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, Chapter 32L of the Laws of Hong Kong.

15. Miscellaneous

(a) Save as disclosed in this prospectus:

(i) within the two years immediately preceding the date of this prospectus, no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

(ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(iii) neither our Company nor any of our subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;

(iv) within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries;

(v) within the two years preceding the date of this prospectus, no commission has been paid or payable (except commissions to underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in our Company;

(vi) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought;

(vii) there is no arrangement under which future dividends are waived or agreed to be waived; and

(viii) our Company has no outstanding convertible debt securities or debentures.

A. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

(a) copies of the **WHITE**, **YELLOW** and **GREEN** Application Forms;

(b) the written consents referred to in the paragraph headed "D. Other Information — 12. Consents of experts" in Appendix VI to this prospectus; and

(c) copies of the material contracts referred to in the paragraph headed "B. Further Information about Our Business — 1. Summary of our material contracts" in Appendix VI to this prospectus.

B. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Stephen Mok & Co. in association with Eversheds LLP at 21/F, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(a) the Memorandum and the Articles;

(b) the accountants' report prepared by Ernst & Young, the text of which is set out in Appendix I to this prospectus;

(c) the audited financial statements of companies comprising our Group for each of the three financial years ended 31 December 2010 and the nine months ended 30 September 2011;

(d) the letter prepared by Ernst & Young on unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;

(e) the letters relating to the profit estimate prepared by Ernst & Young and J.P. Morgan Securities (Asia Pacific) Limited, the text of which are set out in Appendix III to this prospectus;

(f) the valuation report (including a letter, a summary of valuation and the valuation certificate) prepared by CBRE HK Limited relating to the property interests of our Group, the text of which are set out in Appendix IV to this prospectus;

(g) the legal opinions prepared by the PRC legal advisers in respect of certain aspects of our Group and the property interests of our Group in the PRC;

(h) copies of the material contracts referred to in the paragraph headed "B. Further Information about Our Business — 1. Summary of our material contracts" in Appendix VI to this prospectus;

(i) the service contracts and letters of appointment referred to in the paragraph headed "C. Further Information about the Directors — 1. Particulars of our Directors' service contracts and letters of appointment" in Appendix VI to this prospectus; and

(j) the written consents referred to in the paragraph headed "D. Other Information — 12. Consents of experts" in Appendix VI to this prospectus.

The following discussion is a summary of certain anticipated tax consequences of our operations and of an investment in the Shares under tax laws of the PRC and Hong Kong. This discussion does not purport to address all possible tax consequences relating to our operations or to an investment in the Shares. In particular, the discussion does not address the tax consequences under non-Hong Kong and non-PRC tax laws. Accordingly, you should consult your tax adviser regarding the tax consequences of your investment in the Shares. The following discussion is based upon laws and relevant interpretations thereof in effect as of the date of this prospectus, all of which are subject to change.

PRC TAXATION

As our Company is not incorporated in the PRC, your investment in the Shares is largely exempt from PRC tax laws, except as disclosed in the section headed "Risk Factors — Risks Relating to Conducting Operations in China — We may be treated as a resident enterprise for PRC tax purposes following the effectiveness of the New Enterprise Income Tax Law on 1 January 2008, which may subject us to PRC income tax for any dividends we receive from our subsidiaries and withholding tax for any dividends payable by us to our foreign investors and gain on the sale of our Shares" in this prospectus. However, as our business operations are in the PRC and we carry out these business operations through operating subsidiaries organized under PRC law, our PRC operations and our operating subsidiaries in the PRC are subject to PRC tax laws and regulations, which indirectly affect your investment in the Shares.

Corporate Income Tax

The Tenth National People's Congress enacted the PRC Enterprise Income Tax Law (the "**PRC EIT Law**") on 16 March 2007, which provides for a uniform enterprise income tax rate of 25% for both domestic enterprises and foreign-invested enterprises. The PRC EIT Law took effect on 1 January 2008. As a result, the tax rate for domestic enterprises has been reduced to 25%, while the tax rate for foreign-invested enterprises that have enjoyed preferential tax treatment, has been increased to 25% upon the expiration of a transition period of five years. The PRC EIT Law also provides a transition period for enterprises that were entitled to certain preferential tax treatment prior to the promulgation of the PRC EIT Law. As a result, Xiwang Metal was subject to transitional tax rates of 0% in 2008, 0% in 2009 and 12.5% in 2010. Upon expiration of the tax privileges enjoyed under the current income tax laws, we will not be subject to any preferential tax rates previously available and will instead be subject to the uniform tax rate of 25%. Under the PRC EIT Law, enterprises established outside of the PRC whose "de facto management bodies" are located in the PRC are considered "resident enterprises" and will generally be subject to the uniform 25% enterprise income tax rate on their global income.

Under the Implementation Regulations of the PRC Enterprise Income Tax Law (the "**Implementation Regulations**"), the term "de facto management body" is defined as a body which substantially manages, or has control over the business, personnel, finance and assets of an enterprise. According to a recent circular promulgated by the State Administration of Taxation, enterprises which are incorporated offshore while controlled by PRC domestic enterprise will be regarded as "resident enterprise" for PRC enterprise income tax purposes if their "de facto management body" is based in the PRC, with reference to certain specified criteria. These criteria include (a) the enterprise's day-to-day operational management is primarily exercised in the PRC, (b) decisions relating to the enterprise's financial and human resource matters are made or subject to approval by organisations or personnel in the PRC, (c) the enterprise's primary assets, accounting books and records, company seals, and board and shareholders' meeting minutes are located or maintained in the PRC and (d) 50% or more of voting board members or senior executives of the enterprise habitually reside in the PRC. We are currently not treated as a PRC resident enterprise by the relevant tax authorities. Since substantially all of our management is currently based in the PRC and is expected to remain in the PRC in the future, we cannot assure that we will not be considered as a "resident enterprise" under the PRC EIT Law and not be subject to the enterprise income tax rate of 25% on our global income in the future.

Dividends from Our PRC Subsidiaries

The PRC EIT Law and its Implementation Regulations provide that dividends sourced from PRC payable to "non-resident enterprises" shall be subject to PRC enterprise income tax at a rate of 10%. Such dividend tax rate may be further reduced by applicable tax treaties or arrangements. According to the Arrangement between the Mainland and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Evasion with respect to Taxes on Income, the withholding tax rate on dividends paid by a PRC resident enterprise to a Hong Kong resident enterprise is further reduced to 5% if the Hong Kong resident enterprise holds at least 25% equity interests in the PRC resident enterprise, and remains at 10% otherwise.

According to the PRC EIT Law and the Implementation Regulations, dividend payments between qualified PRC resident enterprises are exempted from enterprise income tax. As the PRC EIT Law and the Implementation Regulations have only recently taken effect, it remains unclear as to whether dividend payments from our PRC subsidiaries to us will be exempted from enterprise income tax if we are considered as a PRC resident enterprise for tax purposes.

Dividends We Pay to Our Shareholders

If we are not considered as a PRC resident enterprise for tax purposes under the PRC EIT Law and the Implementation Regulations, the distribution of dividends by us to our overseas Shareholders will not be subject to PRC tax. Under the PRC EIT Law and the Implementation Regulations, PRC withholding tax at a rate of 10% will normally be applicable to PRC-sourced income of non-resident enterprises, subject to adjustment by the applicable treaties. The Implementation Regulations further set forth that dividend income is viewed as PRC-sourced income if the enterprise that distributes dividends is domiciled in the PRC. If we are considered as a PRC resident enterprise for tax purposes, dividends paid by us to our overseas Shareholders may be regarded as PRC-sourced and therefore be subject to PRC withholding tax at the rate of up to 10%. As the PRC EIT Law and the Implementation Rules have only recently taken effect, it is currently unclear as to how the relevant PRC tax authorities would implement the law and the rules.

Transfer or Disposition of Shares by Our Shareholders

Under the PRC EIT Law and the Implementation Regulations, a withholding tax at a rate of 10% will normally be applicable to PRC-sourced income of non-resident enterprises, subject to adjustment by the applicable treaties. The Implementation Regulations further set forth that if capital gains are realized by non-resident enterprises from transferring equity interests of enterprises domiciled in the PRC, then such capital gains are regarded as PRC-sourced income. If we are considered as a PRC resident enterprise for tax purposes, transfer of Shares by our overseas Shareholders may be regarded as PRC-sourced income and subject to PRC withholding tax at the rate of up to 10%. As the PRC EIT Law and the Implementation Regulations have only recently taken effect, it is currently unclear as to how the relevant PRC tax authorities would implement the law and the rules.

HONG KONG TAXATION

Dividends

No tax is imposed in Hong Kong in respect of dividends our Company pays to our Shareholders. Dividends paid to our Shareholders are free of withholding taxes in Hong Kong.

Capital Gains and Profits Tax

No tax is imposed in Hong Kong in respect of capital gains from the sale of the Shares. Trading gains from the sale of the Shares by persons carrying on a business in Hong Kong, where such gains are sourced in Hong Kong and arise from such business, will be chargeable to Hong Kong profits tax. Currently, profits tax is imposed on corporations at the rate of 16.5% and on individuals at the maximum rate of 15.0%. Gains from sale of the Shares effected on the Hong Kong Stock Exchange will be considered to be sourced in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sale of the Shares effected on the Hong Kong Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp Duty

Hong Kong stamp duty will be payable by the purchaser on every purchase, and by the seller on every sale, of the Shares. The duty is charged at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, the Shares transferred on each sale and purchase. In other words, a total of 0.2% of stamp duty is currently payable on a typical sale and purchase transaction of the Shares. In addition, any instrument of transfer (if required) will be subject to a flat rate of stamp duty of HK$5. Where a sale or purchase of the Shares is effected by a non Hong Kong resident and any stamp duty payable on the contract notes is not paid, the relevant instrument of transfer (if any) will be chargeable with such duty, together with the duty otherwise chargeable thereon, and the transferee will be liable to pay such duty.

Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on 11 February 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of Shares whose deaths occur on or after 11 February 2006.

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