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

(incorporated in Hong Kong with limited liability)

Stock Code: 1266

2011 ANNUAL REPORT

Contents

Corporate Information

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors
Mr. Wang Liang
Mr. Wang Gang
Mr. Wang Tao

Non-Executive Directors
Mr. Wang Yong *(Chairman)*
Mr. Wang Di
Mr. Sun Xinhu

Independent Non-Executive Director
Mr. Leung Shu Sun Sunny
Mr. Zhang Gongxue
Mr. Yu Kou

COMMITTEES

Audit Committee
Mr. Leung Shu Sun Sunny *(Chairman)*
Mr. Sun Xinhu
Mr. Zhang Gongxue

Remuneration Committee
Mr. Zhang Gongxue *(Chairman)*
Mr. Wang Di
Mr. Yu Kou

Nomination Committee
Mr. Zhang Gongxue *(Chairman)*
Mr. Wang Di
Mr. Yu Kou

COMPANY SECRETARY

Ms. Lam Wai Lin (FCCA, CPA)

AUTHORISED REPRESENTATIVES

Mr. Wang Di
Ms. Lam Wai Lin

REGISTERED OFFICE

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

HEADQUARTERS

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL BANKERS

Bank of China
Agriculture Bank of China
Industrial and Commercial Bank of China
China Construction Bank

AUDITORS

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

LEGAL ADVISER

Stephen Mok & Co. in association with Eversheds LLP
21/F, Gloucester Tower, The Landmark
15 Queen's Road Central
Hong Kong

COMPLIANCE ADVISER

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

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26th floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

INVESTOR RELATIONS CONTACT

Mr. Wang Chao
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WEBSITE

www.xiwangsteel.com

Chairman's Statement

Dear shareholders,

I am delighted to see the Company has moved one big step forward – being successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 23 February 2012. The listing represents our leading position, business strategies and financial strength are well recognized by the capital market. On behalf of the board of directors of the Company (the "**Board**"), I am pleased to present to you the annual results for the year ended 31 December 2011 (the "**Year**").

In 2011, we reported significant revenue growth of approximately 59% when compared with the corresponding period in 2010 to approximately RMB8,541 million. Our net profit increased by approximately 85% to approximately RMB909 million. The Group's earnings per share in 2011 were RMB56.8 cents, compared with RMB30.8 cents in 2010. The satisfactory financial performance was mainly driven by the increase in sales of high margin special steel products in the Year. The Board proposed a final dividend of RMB13.7 cents per share (equivalent to approximately 16.9 HK cents per share) which will be payable in cash. The final dividends represent a payout ratio of approximately 30%.

The commencement of electric arc furnace ("**EAF**") operation in 2010 enabled us to quickly ramp up our special steel production. This allowed us to transform from an ordinary steel manufacturer to a special steel manufacturer with higher values and higher profit margins. In the Year, special steel products accounted for about 38% of the total revenue, which significantly increased from 8% for 2010. Accordingly, the Group's gross profit margin in the Year increased to 15.1% from 11.2% in 2010.

We are a leading EAF-based special steel manufacturer located in Shandong Province in China. In contrast to the traditional steel making process of blast oxygen furnace ("**BOF**") which consumes iron ore, EAF converts recycled steel scraps with lowered amount of energy consumption. In addition, BOF uses coal whereas EAF uses electricity, so less smoke and fewer emissions are generated. EAF allows short-flow production process which enables the steel manufacturer to tailor make a variety of products that suit customer needs. Therefore, the EAF-based steel making process is more preferable in terms of both environmental protection and production flexibility.

The use of EAF enables us to manufacture special steel billets. In terms of EAF capacity, we own two EAFs with each of them having a capacity of 80 tonnes per batch which are among the six EAFs with capacity above 70 tonnes per batch, being the largest in Shandong Province. We have entered into cooperation agreement with Badische Stahl-Engineering GmbH ("**BSE**"). BSE is a German expertise for EAF operation. While BSE has been transferring to us its know-hows on EAF manufacturing process through technical consulting, staff training and technological support, we will continue to receive their support in 2012 and 2013. As such, we expect the utilization rate of our EAFs will remain high and will be further enhanced.

According to the Twelve Five-Year Plan promulgated by the State Council of the People's Republic of China (the "**PRC**" or "**China**"), special steel is one of the major focuses of the PRC government support. The "Rules and Qualifications for Production and Operation of Steel Industry" (鋼鐵行業生產經營規範條件) stated that special steel enterprises should develop towards the goal of being professional conglomerates, for instance, the output of special steel manufacturer should be above 300,000 tonnes per annum. Our smelting and rolling capacities are integrated with annual capacities of 1 million tonnes and 2.1 million tonnes respectively in 2012. Therefore we will continue to receive from the PRC government support. The "Development Policy for the Iron and Steel Industry" (鋼鐵產業發展政策) also stated that manufacturers with short flow steel making process with steel scraps as raw materials are encouraged while small blast furnaces would be eliminated. It is expected that leading steel manufacturers, with advanced technology and large capacities, will take the lead to consolidate small manufacturers in the foreseeable future.

Chairman's Statement

Our special steel products are applicable to three main industries, namely the machinery and equipment, in which they are manufacturers of machinery parts and components; chemical and petrochemical, for manufacturing marine equipment or pipelines for oil or gas transmission; and automobile, for producing bearings and gearings. While we have been relying on distributors for the sales of our products, we are gradually building up the direct sales to end-customers, which include bearings and gearing manufacturers, machinery parts manufacturers and pipe producers. Our existing customers are mostly based in Shandong, but we plan to extend our customer base to neighboring provinces such as Jiangsu, Hebei and Henan.

In 2010, the government of China issued a policy expressing the support for the development of new engineering materials, which include high quality special steel. Shandong Province is one of the largest industrial manufacturing centres in China. The rapid development in the heavy industry will support the market demand for steel. In addition, the Shandong Peninsula Blue Economic Zone, published by the National Development and Reform Commission, focuses on the development of marine equipment and components manufacturing. These will encourage the market for special steel to expand.

I would like to take this opportunity to express my sincere gratitude to our shareholders, customers, business partners and employees for their continuous support towards the Group. With our vision and goal, we are highly confident that we will maintain our leadership position and achieve solid growth.

WANG Yong
Chairman

29 March 2012

Management Discussion and Analysis

1. INTRODUCTION

The Group is a leading EAF-based special steel manufacturer located in Shandong Province, the PRC.

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

The raw materials for our rolling lines are ordinary steel billets and special steel billets. We meet our need for ordinary steel billets by purchasing from third party suppliers or by producing them in-house in our EAFs. We produce all of the special steel billets in-house in our EAFs. The raw materials used to produce steel billets are steel scraps, molten iron and pig iron. To produce special steel billets we also add alloys to get the desired chemistry composition. Since the commencement of EAF operation in 2010, our reliance upon the third parties for the supply of steel billets was significantly reduced.

As of the date of this annual report, we have an aggregate designed annual EAFs smelting capacity of approximately 1.0 million tonnes, and an aggregate designed annual rolling capacity of 2.1 million tonnes.

Production facilities and production process:

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

- two EAFs, EAF I and EAF II, with an aggregate designed annual capacity of 1.0 million tonnes. The two EAFs convert the raw materials, primarily steel scraps, molten iron and pig iron, into molten steel which will then be cast to produce ordinary steel billets and special steel billets. The ordinary steel billets are rolled into ordinary steel products of rebars and wire rods. The special steel billets are rolled into special steel products, which include quality carbon structural steel, alloy structural steel, bearing steel and steel welding wire;

- two bar rolling lines, Bar I and Bar II, with an aggregate designed annual capacity of 1 million tonnes. Bar I and Bar II manufacture small to medium-sized steel bars, including rebars, quality carbon structural steel, alloy structural steel and bearing steel;

- a wire rolling line, with a designed annual capacity of 600,000 tonnes. This wire rolling line manufactures wire rods, quality carbon structural steel, alloy structural steel, bearing steel and steel welding wire;

- a large bar rolling line, Bar III, with a designed annual capacity of 500,000 tonnes. Bar III manufactures large bar special steel products.

Segment Description:

The Group manufactures both ordinary steel and special steel.

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

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

1. Ordinary steel

Rebars

Rebars are mainly used in building bridge construction and infrastructure projects. Our rebars have cross sectional diameters ranging from 12 millimetres to 32 millimetres and conform to national standard GB1499.2–2007.

Wire rods

We produce ribbed and plain wire rods, both have cross sectional diameters ranging from 6 millimetres to 12 millimetres. Our ribbed wire rods conform to national standard GB1499.2-2007 whereas our plain wire rods conform to national standard GB1499.1-2008.

2. Special steel

Quality carbon structural steel

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

Alloy structural steel

Alloy structural steel is mostly used in machinery structures. To get desired steel properties, we add manganese, silicon, nickel, chromium and molybdenum to adjust the chemical composition of alloy structural steel. Our alloy structural steel 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

Our bearing steel are bearing steel bars and wires with cross sectional diameters ranging from 5.5 millimetres to 60 millimetres. They are used for manufacturing rollers or ball bearings. Our bearing steel products are of extremely high level of purity and are harder than ordinary steel. Our bearing steel conforms to national standard GB/T18254–2002.

Steel welding wire

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

2. REVIEW OF FINANCIAL RESULTS

A highlight of the financial results of the Group for the Year, together with the comparative figures of the corresponding period in 2010, is as follow:

For the year ended 31 December	2011 RMB'000	2010 RMB'000	Increase %
Revenue	**8,541,004**	5,387,340	58.5
Gross profit	**1,292,973**	600,996	115.1
Operating profit	**1,245,775**	622,286	100.2
Net profit	**909,319**	492,808	84.5
Gross profit margin	**15.1%**	11.2%	3.9% points
Operating profit margin	**14.6%**	11.6%	3.0% points
Net profit margin	**10.6%**	9.1%	1.5% points

We recorded satisfactory financial performance for the Year. Revenue growth was driven by the increase in sales volume of the Group's products, which was approximately 1.95 million tonnes in the Year compared with approximately 1.47 million tonnes in 2010. It was also driven by the increase in the average selling prices of all the Group's steel products as a result of the price increment of the steel product market in general. We recorded significant growth in gross profit, operating profit and net profit year-on-year. With the commencement of commercial production of our EAF II in April 2011, we were capable to produce more special steel billets, which supported the higher production volume of special steel products that have higher profit margins. As a result, the Group's gross profit margin for the Year was enhanced and increased to 15.1% (2010: 11.2%).

Revenue

Revenue by operating segments:

For the year ended 31 December	2011 RMB'000	2010 RMB'000	Increase/ (Decrease) %
Ordinary steel			
Rebars	**2,022,113**	2,143,906	(5.7)
Wire rods	**3,236,999**	2,784,550	16.2
Subtotal Ordinary Steel	**5,259,112**	4,928,456	6.7
Special steel			
Quality carbon structural steel	**2,804,435**	324,860	763.3
Alloy structural steel	**123,858**	60,387	105.1
Bearing steel	**257,052**	1,960	13,014.9
Steel welding wire	**17,270**	32,828	(47.4)
Subtotal Special Steel	**3,202,615**	420,035	662.5
By-products	**79,277**	38,849	104.1
Total	**8,541,004**	5,387,340	58.5

Management Discussion and Analysis

During the Year, revenue of ordinary steel was approximately RMB5,259 million (2010: RMB4,928 million) which accounted for approximately 62% of the total revenue (2010: 92%). Revenue of special steel was approximately RMB3,203 million (2010: RMB420 million) which accounted for 38% of the total revenue (2010: 8%).

Sales volumes:

For the year ended 31 December	2011 Tonnes	2010 Tonnes	Increase/ (Decrease) %
Ordinary steel			
Rebars	**500,603**	623,443	(19.7)
Wire rods	**737,547**	734,792	0.4
Special steel			
Quality carbon structural steel	**626,873**	90,123	595.6
Alloy structural steel	**27,020**	15,728	71.8
Bearing steel	**52,465**	438	11,878.3
Steel welding wire	**3,881**	8,452	(54.1)
Total	**1,948,389**	1,472,976	32.3

Average selling prices:

For the year ended 31 December	2011 RMB per tonne		2010 RMB per tonne		Increase
	Tax-inclusive	Tax-exclusive	Tax-inclusive	Tax-exclusive	%
Ordinary steel					
Rebars	**4,726**	**4,039**	4,024	3,439	17.4
Wire rods	**5,135**	**4,389**	4,434	3,790	15.8
Special steel					
Quality carbon structural steel	**5,235**	**4,474**	4,218	3,605	24.1
Alloy structural steel	**5,363**	**4,584**	4,492	3,839	19.4
Bearing steel	**5,733**	**4,900**	5,231	4,471	9.6
Steel welding wire	**5,207**	**4,450**	4,544	3,884	14.6

Utilization rate:

		2011	2010
		(EAF I + EAF II)	**EAF I**
Smelting	Total designed capacity[1] *(tonnes)*	**1,000,000**	500,000
	Total effective capacity[2] *(tonnes)*	**958,333**	500,000
	Total actual production *(tonnes)*	**1,088,188**	585,769
	Overall utilization rate[3]	**113.6%**	**117.2%**
		(Bar I + Bar II + wire rolling line)	
Rolling	Total designed capacity[1] *(tonnes)*	**1,600,000**	1,600,000
	Total effective capacity[2] *(tonnes)*	**1,600,000**	1,331,944
	Total actual production *(tonnes)*	**1,815,028**	1,377,588
	Overall utilization rate[3]	**113.4%**	**103.4%**

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

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

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

Revenue by geographical segments:

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

Cost of sales

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

The Group's cost of sales increased by 51.4% in the Year when compared with 2010. It was in line with the increase in the Group's revenue during the Year.

Management Discussion and Analysis

The breakdown of cost of sales was as follows:

For the year ended 31 December	2011 RMB'000	2011 % of total	2010 RMB'000	2010 % of total	Increase %
Steel billets	**3,116,358**	**43.0%**	2,729,956	57.0%	14.2
Steel scraps	**1,788,979**	**24.7%**	979,039	20.5%	82.7
Molten iron	**1,138,219**	**15.7%**	404,048	8.4%	181.7
Pig iron	**208,297**	**2.9%**	170,943	3.6%	21.9
Other raw materials	**554,790**	**7.6%**	189,638	4.0%	192.6
Raw materials subtotal	**6,806,643**	**93.9%**	4,473,624	93.5%	52.2
Electricity	**241,936**	**3.3%**	180,740	3.8%	33.9
Depreciation	**109,305**	**1.5%**	75,341	1.6%	45.1
Labour Costs	**79,266**	**1.1%**	49,675	1.0%	59.6
Others	**10,881**	**0.2%**	6,964	0.1%	56.2
Total cost of sales	**7,248,031**	**100.0%**	4,786,344	100.0%	51.4

The table below shows the average unit costs of our major raw materials:

For the year ended 31 December	2011 RMB per tonne Tax-exclusive	2010 RMB per tonne Tax-exclusive	Increase %
Steel billets	**3,535**	3,038	16.4
Steel scraps	**2,353**	2,179	8.0
Molten iron	**3,288**	3,021	8.8
Pig iron	**3,305**	3,161	4.6

To support the increase in production volume during the Year, the Group produced more steel billets in-house and purchased more steel billets from third parties. The Group purchased a larger amount of steel scraps for producing steel billets in-house.

The increase in the cost of electricity during the Year was due to the commencement of commercial production of the Group's EAF II in April 2011 which consumed more electricity.

Depreciation expense increased as EAF II commenced operations during the Year.

Labor cost increased due to additional labour required for EAF II's operation and the increase in average salaries of the labour.

Others include resources such as water, argon, nitrogen and oxygen which are needed in the steel production process. The Group purchased these resources from nearby suppliers.

Gross profit margins

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

For the year ended 31 December	2011 %	2010 %	Increase/ (Decrease) % points
Ordinary steel			
Rebars	**8.7**	5.1	3.6
Wire rod	**13.2**	15.9	(2.7)
Weighted average gross profit margin	**11.5**	11.2	0.3
Special steel			
Quality carbon structural steel	**19.5**	5.2	14.3
Alloy structural steel	**21.3**	6.7	14.6
Bearing steel	**23.9**	0.6	23.3
Steel welding wire	**20.3**	19.4	0.9
Weighted average gross profit margin	**20.0**	6.5	13.5
Overall gross profit margin	**15.1**	11.2	3.9

In general, the gross margins of special steel products are higher than that of ordinary steel products because they are higher value-added products. During the Year, the weighted average gross margin of special steel was 20.0% whereas the weighted average gross margin of ordinary steel was 11.5%.

The weighted average gross margin of special steel for the Year saw significant increment of 13.5% points from 2010. It was because during the Year, the Group's EAF I has reached full utilization and EAF II has commenced commercial operation since April 2011, which enabled the Group's rolling lines to produce more special steel products to enjoy the economies of scale. As a result, the overall gross margin of the Group was enhanced and reached 15.1% during the Year (2010: 11.2%).

Other income and gain

The Group's other income and gain for the Year amounted to approximately RMB16.5 million (2010: RMB45.1 million). Other income and gains for the Year included mainly bank interest income of RMB13.1 million (2010: RMB5.0 million) and foreign exchange gain of RMB2.2 million (2010: foreign exchange loss of RMB44,000).

Selling and distribution costs

The Group's selling and distribution costs include mainly salaries and welfares, travelling expenses, transportation, office expenses.

Selling and distribution costs for the Year was approximately RMB5.4 million (2010: RMB4.3 million). The increase was due to an increase in salaries and welfare payments due to the recruitment of additional staff for selling and marketing more of the Group's products, in particular for special steel products.

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.

The Group's administration expenses for the Year amounted to approximately RMB58.2 million (2010: RMB19.5 million). Apart from the increased staff cost and other overheads to cope with the Group's business expansion, the increase was due to expense of the Group's initial public offering ("**IPO**") of RMB15.2 million (2010: Nil).

Finance costs

The Group's finance costs for the Year increased to approximately RMB57.4 million for the Year (2010: RMB24.8 million) which arose from the Group's additional bank borrowings during the Year.

Income tax expense

The Group's income tax expenses for the Year amounted to RMB278.5 million (2010: RMB103.6 million). Pursuant to the PRC Corporate Income Tax Law (the "**New CIT Law**") effective on 1 January 2008, the CIT rate was unified as 25% for enterprises in the PRC. Accordingly, the applicable tax rates for each of Xiwang Steel, Shandong Xiwang Special Steel and Xiwang Recycling Resources was 25% for the Year.

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. Accordingly, Xiwang Metal was exempted from CIT in 2008 and 2009 and subject to the CIT rate of 12.5% for 2010 and 2011.

The Group's effective income tax rate for the Year was 23.4% (2010: 17.4%).

Liquidity, capital resources and gearing ratio:

	31 December 2011 RMB'000	31 December 2010 RMB'000
Cash and cash equivalents	**154,496**	72,528
Total borrowings	**1,644,453**	941,200
Net current liabilities	**445,769**	1,445,819
Total equity	**1,892,712**	848,508
Current ratio[4]	**0.84**	0.37
Gearing ratio[5]	**0.79**	1.02

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

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

The Group's cash and cash equivalents as at 31 December 2011 amounted to approximately RMB154 million (31 December 2010: RMB73 million). During the Year, the Group had net cash inflow from operating activities of approximately RMB1,568 million (2010: RMB111 million). The Group has an increased amount of operating profit and increased trade and bills payables amount during the Year. The Group has net cash used in investing activities of approximately RMB1,751 million (2010: RMB905 million) which was mainly used for EAF II and the construction of Bar III. The Group has a net cash inflow from financing activities of approximately RMB262 million for the Year (2010: RMB835 million), which arose from the reduction in the amount due to ultimate holding company of RMB384 million, a net addition of bank loan RMB703 million and a payment of interest of RMB57 million.

Total borrowings of the Group increased to approximately RMB1,644 million as at 31 December 2011 (31 December 2010: RMB941 million). During the Year, the Group obtained new bank loans amounted to approximately RMB1,764 million (2010: RMB941 million), and repaid bank loans amounted to approximately RMB1,061 million (2010: RMB220 million). Short-term borrowings represented approximately 28% of the total borrowings as at 31 December 2011 (31 December 2010: 100%). Total equity increased from approximately RMB849 million as at 31 December 2010 to approximately RMB1,893 million as at 31 December 2011 mainly as a result of the addition of net profit earned during the Year.

Capital Investment

The Group's capital expenditures for the Year was RMB1,277 million (2010: RMB1,183 million) which was used for EAF II and Bar III.

Contingent liabilities

The Group did not have any material contingent liabilities as at 31 December 2011 (31 December 2010: RMB300 million).

Foreign exchange risk

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

Human resources

The Group had 2,579 employees as at 31 December 2011 (31 December 2010: 2,039). The Group regularly reviewed the remuneration packages of the directors and employees, with respect to their experience and responsibilities to the Group's business. The Group has established a remuneration committee to determine and review the terms of remuneration packages, bonuses, and other compensation payable to the directors and members of its senior management.

3. OUTLOOK AND FUTURE PLANS

China is by far the largest steel producing country in the world with a 10-year compound average growth rate ("**CAGR**") of 18% from 2000 to 2009. In contrast, developed countries such as Japan and the United States experienced negative growth over the same period. China is also the largest steel consuming country in the world. From 2000 to 2009 steel consumption in China grew at a CAGR of approximately 17%, significantly higher than world steel consumption which only grew at a CAGR of 4% over the same period.

Production of special steel was 14% of the total steel production in China in 2010, compared with 23% in Japan. With a growing economy and rapid urbanization in China, there is a significant potential for China market to grow. It is expected that China's the overall industrial output will increase at a rate of approximately 12% in the next five years, while the application sectors of special steel which are automobile, chemical and petrochemical, machinery and equipment are expected to grow at 12%, 13%, 8% respectively.

We will continue to focus on special steel product development. We aim to offer a broader range of products with different grades and specifications to meet various customers' demands. Our Bar III has begun trial operation in November 2011, and is expected to begin commercial operation around the end of the first quarter of 2012. Our Bar III will produce large bar special steel (cross sectional diameters ranging from 100 to 350 millimeters) including bearing steel bars, spring steel bars and gear steel bars. According to CRU Strategies Limited ("**CRU**") (a specialized London-based market research provider and independent third party, which was commissioned by the Company to conduct an analysis of and to report on the PRC steel market and industry for the prospectus of the Company dated 13 February 2012), the main sectors consuming bearings and gears are mechanical engineering and transport requirement, which is expected to grow at 12% and 10% in 2010 to 2015. With the commercial production of Bar III, we expect the revenue contribution of our special steel will increase going forward.

Our expansion plan is the construction of high-duty alloy pipe production line. The annual production capacity of this line is expected to be 500,000 tonnes. Alloy pipes can endure corrosion and pressure, which are used to make boiler pipes, oil well drill pipes and many other chemical-resistant pipes. We expect this line will begin production by the end of 2013. The capital expenditure for this line will be approximately RMB 1.24 billion, which will be satisfied by the net proceeds from the IPO and the Group's internal cash flow.

Scrap is an important material for producing steel billets by our EAFs. According to CRU, the volume of steel scrap generation in China was 121 million tonnes in 2011 and 132 million tonnes in 2012. We have established a strategic partnership with China Recycling Development Company limited (中國再生資源開發有限公司) ("**China Recycling**") for procuring steel scraps. China Recycling is the largest state-owned steel scrap recycling companies in China. It has agreed to provide us a minimum of 800,000 tonnes of steel scraps per year from 2011 to 2015. Therefore, we anticipate there will not be any difficulty in obtaining adequate suppliers of raw materials to meet our production needs.

DIVIDENDS

Pursuant to the meeting of the Board on 29 March 2012, the Board has recommended the payment of a final dividend of RMB0.137 (equivalent to approximately HK$0.169) (2010: Nil) per ordinary share to shareholders of the Company whose names shall appear on the register of members of the Company on Friday, 25 May 2012. Subject to shareholders' approval at the forthcoming annual general meeting (the "**AGM**") of the Company to be held on Friday, 11 May 2012, the final dividend will be payable on or about 31 May 2012.

EVENTS AFTER THE REPORTING PERIOD

On 23 February 2012, the Company was listed on the Stock Exchange. 500,000,000 shares of the Company were offered for subscription and purchase (as the case may be) at an offer price of HK$2.65 per share. Out of these 500,000,000 shares, 100,000,000 shares were offered for purchase by Xiwang Investment Company Limited ("**Xiwang Investment**"), the then sole shareholder of the Company, and 400,000,000 shares were offered for subscription by the Company. Consequently, the Company received gross proceeds of HK$1,060,000,000 and the shareholding of Xiwang Investment in the share capital of the Company was reduced to 75%.

On 29 March 2012, the Board proposed a final dividend of RMB0.137 (equivalent to approximately HK$0.169) per ordinary share of the Company, totalling approximately RMB 274,000,000 (equivalent to approximately HK$338,000,000). The proposed final dividend is subject to the approval by the shareholders of the Company at the forthcoming AGM to be held on Friday, 11 May 2012.

Board of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Wang Liang (王亮), aged 41, was appointed as an executive Director and General Manager of the Company on 2 June 2011. Mr. Wang is responsible for the overall management of the Group. He started to work at the Xiwang Group Company Limited ("**Xiwang Group**") on 1 April 1988 and has been the chief executive officer of Xiwang Sugar Holdings Company Limited ("**Xiwang Sugar**") 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. Wang Gang (王剛), aged 52, was appointed as an executive Director of the Company on 2 June 2011. Mr. Wang is mainly responsible for the management of energy and utilities and environmental protection of the Group. Mr. Wang joined Xiwang Group on 1 October 1986, and has served as head of several factories of the subsidiaries of Xiwang Group. Since May 2001, Mr. Wang has been serving as the member of the Communist Party Council of Xiwang Group (西王集團共產黨委員會) and vice president of the Xiwang Group. He received a diploma from Huang Shan High School (黃山中學) in July 1977.

Mr. Wang Tao (王濤), aged 34, is our vice president of the production department and was appointed as an executive Director of the Company on 2 June 2011. He has been leading the production department of the Group since 2007. Mr. Wang joined Xiwang Group on 15 August 1998 and has served as the head of factory at a variety of production lines within Xiwang Group. Mr. Wang studied and completed 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. Wang Yong (王勇), aged 61, was appointed as the chairman and non-executive Director of the Company in June 2011. He is father of Mr. Di Wang (王棣). Mr. Wang is one of the founders of the Group. As a non-executive director, Mr. Wang regularly attends the board meetings responsible for the strategic planning of the Group, but does not engage in the day-to-day management of the Group. Mr. Wang was the legal representative of Zouping County Xiwang Social Benefits Oil and Cotton Factory (鄒平縣西王社會福利油棉廠) from 1986 to 1992 and of Zouping County Xiwang Industrial Head Company (鄒平縣西王實業總公司) from 1993 to 1996. He was the managing director of Xiwang Group from 1996 to 2001. Mr. Wang has been the chairman of the board of directors of Xiwang Group since 2001. Mr. Wang has been assessed by Professional Position Evaluation Committee of Binzhou Non-Public Ownership Organisations (濱州市非公有制經濟組織專業技術職務評審委員會) as a senior economist. 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. Mr. WANG is the chairman and executive director of Xiwang Sugar (a company publicly listed on the Stock Exchange since February 2005 and is effectively held as to 55.77% by Xiwang Investment). He is also a director of Xiwang Foodstuffs Co. Ltd ("**Xiwang Foodstuffs**") (a company publicly listed on the Main Board of the Shenzhen Stock Exchange since February 2010 and is effectively held as to 52.08% by Xiwang Group).

Mr. Wang Di (王棣), aged 28, was appointed as a non-executive Director of the Company in November 2007. He is the son of Mr. Wang Yong. Mr. Wang has been serving as the head of branding of the Group since March 2010. Mr. Wang 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 an executive director of Xiwang Sugar since November 2010. He is a director of Xiwang Foodstuffs since 2010 and the chairman of Xiwang Foodstuff since 2011.

Mr. Sun Xinhu (孫新虎), aged 37, was appointed as our non-executive Director in June 2011. He has been serving as vice general manager since he joined Xiwang Group in March 2003. Mr. Sun earned his master's degree in food science from Southern Yangtze University (江南大學) in July 2004 and bachelor's degree in food science from Shandong Polytechnic University (山東輕工業學院) in July 1997. Mr. Sun is an executive director of Xiwang Sugar since December 2008. Mr. Sun is also director and secretary of Xiwang Foodstuffs since 2010.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Leung Shu Sun Sunny (梁樹新), aged 48, was appointed as an independent non-executive Director of the Company commencing from 23 February 2012. He is the Chairman of the Audit Committee and a member of the Nomination Committee and the Remuneration Committee of the Company. He has over 20 years' working experience in, among other things, accounting, treasury management, budgeting and corporate finance. He is a fellow member of the Association of Chartered Certified Accountants, an associate member of the Hong Kong Institute of Certified Public Accountants and a member of Certified General Accountants' Association of Canada. From 2005 to 2007, he served as the financial controller, qualified accountant and company secretary of Xiwang Sugar. From 2001 to date, he was a director of a company providing accounting, tax and corporate finance services. From 1999 to 2001, he held key finance position in a listed company in Hong Kong. From 1998 to 1999, he was a finance director of a company principally engaged in the provision of network infrastructure solutions. From 1993 to 1998, he was the financial controller of a company principally engaged in property investment, trading and securities. From 1987 to 1990, he had worked in international accounting firms, handling audit, tax and accounting matters. Mr. Leung received a professional diploma in accountancy from Hong Kong Polytechnic University in November 1994 and earned a master's degree in business administration, which is a long distance course from the University of South Australia in 1997.

Mr. Gongxue Zhang (張公學), aged 47, was appointed as an independent non-executive Director of the Company commencing from 23 February 2012. Mr. Zhang is currently the director of Tian Jian Attorneys-At-Law (天健律師事務所) in Shandong Province, PRC. Mr. Zhang has been practising law since 1994, and was awarded the title of excellent attorney of Binzhou City in 2008. He is an arbitrator on the Binzhou Arbitration Committee. Mr. Zhang earned his bachelor's degree in laws from East China Institute of Political Science and Law (華東政法學院) in July 2001.

Mr. Yu Kou (于叩), aged 64, was appointed as an independent non-executive Director of the Company commencing from 23 February 2012. Mr. Yu is the deputy secretary general of China Special Steel Enterprise Association (中國特鋼企業協會) since 2008. He served as vice president of the Shougang Group (首鋼集團) from 2005 to 2008, and was with Shougang Group since 1983. Mr. Yu has worked in the steel industry since 1969. He studied in the master program at the Party School of the Central Committee of C.P.C. (中共中央黨校) in economics and management from September 2004 to July 2007. Mr. Yu received a professional diploma in industrial management from Beijing Institute of Economic Management (北京市經濟管理幹部學院) in December 1986.

SENIOR MANAGEMENT

Mr. Baoming Wang (王保民), aged 59, was appointed as the executive vice president of the Group in July 2003. Mr. Wang assists the president of Shandong Xiwang Steel Company Limited ("**Xiwang Steel**") to oversee daily operations and is in charge of new projects and product management and development, the supervision of the respective departments within the Group and the management and implementation of the Group's workplace safety rules and policies. Mr. Wang joined Xiwang Steel on 13 July 2003. He earned his bachelor's degree from Shandong Institute of Mining and Technology (山東礦業學院) in July 1977.

Mr. Qingsheng Zhang (張慶生), aged 33, was appointed as the vice president of the technical department of the Group in November 2008. Mr. Zhang is responsible for the overall management and supervision for the technical support and issues related to the steel production process and the large bar rolling line project. Mr. Zhang has served as the vice president of Shandong Xiwang Special Steel Company Limited ("**Shandong Xiwang Special Steel**") since 2008. Since joining Xiwang 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 43, was appointed as our chief financial officer in September 2011. Mr. Chung was the chief financial officer of Xiwang Sugar from May 2008 to September 2011. He is the Financial Consultant of Xiwang Sugar since September 2011. Mr. Chung has been acting as an independent non-executive director of Zhengye International Holdings Company Limited, a company listed on the Stock Exchange since March 2011.

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

Mr. Honggang Wang (王宏剛), aged 32, was appointed as the vice president of the purchasing department of the Group in December 2004. Mr. Wang is responsible for the management and supervision of all purchasing related matters within the Group. Mr. Wang joined Xiwang Steel on 1 July 2003. He earned his bachelor's degree in finance from Tianjin University of Finance and Economics (天津財經大學) in July 2000.

Mr. Ming Dong (董明), aged 34, was appointed as the vice president of the sales and marketing department of the Group in June 2004. Mr. Dong is responsible for the planning and implementation of the sales and marketing initiatives and the supervision of our sales and marketing department of the Group. Mr. Dong joined Xiwang Steel on 1 July 2004. Mr. Dong earned his master's degree in international economy and trade from Wuhan University of Technology (武漢理工大學) in June 2005 and his bachelor's degree in international finance from Wuhan University of Technology (武漢理工大學) in June 1999.

Mr. Dong Wang (王棟), aged 42, was appointed as the vice president of the quality control and maintenance department of Xiwang Group in June 2010. He is responsible for the managing and supervising quality control and operation maintenance of the Group. Mr. Wang joined Xiwang 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 the quality control and maintenance department of the Group 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 the lead engineer of the Group in August 2008. He is responsible for the research, planning and implementation of all of production related technologies, and the supervision of the technical department of the Group. He assists the vice president of the technical department of the Group to manage and oversee daily operations. Mr. Zhao has 26 years' experience in the special steel industry and owns three patents in related field in the PRC. Prior to joining the Group, he was the engineer at Xining Special Steel Co., Ltd. (西寧特殊鋼股份有限公司). Mr. Zhao earned his professional diploma in metallurgy with Shanxi Engineering Vocational College (山西冶金工業學院) in August 1985.

Corporate Governance Report

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

CORPORATE GOVERNANCE MEASURES

The Company has adopted all applicable mandatory code provisions in the Code on Corporate Governance Practices (the "**CG Code**") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. As the Company was not yet listed on the Stock Exchange during the Year, the CG Code was not applicable to the Company for the Year. The Board considers that the Company was in compliance with all applicable mandatory code provisions set out in the CG Code throughout the period from the Date of Listing to the date of publication of this annual report.

The directors of the Company (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.

A. Directors' securities transactions

The Company has adopted the Model Code for Securities Transactions by the Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own securities dealing code for the Directors. The Company has made specific enquiry with all the Directors of the Company, all the Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the Year.

B. Board of directors

(i) Board composition

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

Executive Directors	
Mr. WANG Liang *(General manager)*	(commencing from 2 June 2011)
Mr. WANG Gang	(commencing from 2 June 2011)
Mr. WANG Tao	(commencing from 2 June 2011)
Non-executive Directors	
Mr. WANG Yong *(Chairman)*	(commencing from 2 June 2011)
Mr. WANG Di	(appointed on 9 November 2007 and commencing from 2 June 2011)
Mr. SUN Xinhu	(commencing from 2 June 2011)
Independent non-executive Directors	
Mr. LEUNG Shu Sun Sunny	(commencing from 23 February 2012)
Mr. ZHANG Gongxue	(commencing from 23 February 2012)
Mr. YU Kou	(commencing from 23 February 2012)

(ii) Board meetings

Code provision A. 1.1 of the CG Code prescribes that at least four regular Board meetings should be held in each year at approximately quarterly intervals. As the shares of the Company were listed on 23 February 2012, the CG Code provision mentioned above was not applicable to the Company during the Year. After the Listing on the Stock Exchange, the Company expects to hold Board meetings regularly for at least four times a year at approximately quarterly intervals.

The Company has one board meeting held since the Date of Listing and up to the date of this annual report. All of the directors attended the meeting.

Responsibilities of the Board and Delegation of Management Function

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. The Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

The Board takes responsibility for all major matters of the Company including: the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, financial information, and other significant financial and operational matters.

The day-to-day management, administration and operation of the Company are delegated to the senior management team of the Company. The delegated functions and work tasks are periodically reviewed.

(iii) Independent non-executive Directors

In compliance with Rule 3.10(1) of the Listing Rules, the Company has appointed three independent non-executive Directors. The Board considers that all independent non-executive Directors have appropriate and sufficient industry or finance experience and qualifications to carry out their duties so as to protect the interests of shareholders of the Company as a whole. One of the independent non-executive Directors, Mr. Leung Shu Sun Sunny, has over 20 years in the accounting and finance fields and is 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, an associated corporation of the Company and is publicly listed on the Stock Exchange.

The Company has received annual confirmations from Mr. Leung Shu Sun, Sunny, Mr. Zhang Gongxue and Mr. Yu Kou in respect of their independence pursuant to Rule 3.13 of the Listing Rules. Based on such confirmations, the Board considers that all independent non-executive Directors are considered to be independent.

(iv) Relationship among members of the Board

Each of the executive Directors, except Mr. Wang Tao, and all the non-executive Directors are ultimate beneficial shareholders of the Company and Xiwang Group Company Limited ("**Xiwang Group**") which is a connected person of the Group.

Mr. Wang Yong, Mr. Wang Di and Mr. Sun Xinhu are also directors of Xiwang Sugar Holdings Company Limited, which is an associated corporation (as defined under the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong) of the Company. Each of Mr. Wang Yong, Mr. Wang Di and Mr. Sun Xinhu also held directorships and management positions in Xiwang Group and/or Xiwang Holdings Limited and their respective subsidiaries.

Each of the Mr. Wang Liang, Mr. Wang Gang, Mr. Wang Yong, Mr. Wang Di and Mr. Sun Xinhu, among others, have entered into a voting agreement in respect of their shares held in Xiwang Holdings Limited 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 the prospectus of the Company dated 13 February 2012.

Mr. Wang Di, a non-executive Director of the Company and the son of Mr. Wang Yong, is the chairman and non-executive Director of the Company. For further information of the relationship among members of the Board, please also refer to the section headed "Relationship with Controlling Shareholders" in the prospectus of the Company dated 13 February 2012. Saved as disclosed, there is no relationship (including financial, business, family or other material/relevant relationship(s)) between any of the Directors during the Year.

C. Chairman and chief executive officer

Under Code A.2.1 of the Code Provisions, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. However, the Company did not appoint chief executive officer and Mr. Wang Yong, Chairman of the of the Company, is also vested the role of chief executive officer of the Company. The Board believes that vesting the roles of the chairman and chief executive officer in the same person would allow the Company to be more effective and efficient in developing long term business strategies and execution of business plans. The Board believes that the balance of power and authority is adequately ensured by the operation of the Board, which comprises experienced and high caliber individuals with adequate number thereof being non-executive directors.

D. Non-executive directors

The non-executive directors were appointed for a fixed term of three years commencing from 2 June 2011. The appointment of each of the non-executive director may be terminated by either party by giving to the other not less than three months' prior notice in writing.

E. 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 CG Code.

(i) 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 auditors; 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 Mr. Leung Shu Sun Sunny, Mr. Sun Xinhu and Mr. Zhang Gongxue. Mr. Leung Shu Sun Sunny is the chairman of the audit committee.

The Company's annual results for the year ended 31 December 2011 have been reviewed.

As the audit committee was established on 30 January 2012, there was no meeting held by the audit committee during the Year. One meeting was held since the Date of Listing and up to the date of this report, with all the members of the committee attended.

(ii) 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 Mr. Zhang Gongxue, Mr. Wang Di and Mr. Yu Kou. Mr. Zhang Gongxue is the chairman of the remuneration committee.

As the remuneration committee was established on 30 January 2012, there was no meeting held by the remuneration committee during the Year.

(iii) 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 Mr. Zhang Gongxue, Mr. Wang Di and Mr. Yu Kou. The chairman of the nomination committee is Mr. Gongxue Zhang.

As the nomination committee was established on 30 January 2012, there was no meeting held by the nomination committee during the Year.

The nomination committee reviews the structure, size and composition (including the skills, knowledge and experience) of the Board regularly and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy.

The Board adopted a "Procedure and Criteria for Nomination of Directors", the details of which are set out below:

Where vacancies on the Board exist, the nomination committee will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations.

F. Auditors' remuneration

During the year ended 31 December 2011, the remuneration paid to the external auditors of the Company in respect of audit services for the year ended 31 December 2011 amounted to RMB1,080,000.

G. Directors' and auditors' acknowledgement

All directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2011. The reporting responsibilities of the Company's external auditors, Ernst & Young, are set out in the Auditors Report on page 29.

H. Internal control

All Directors acknowledge their responsibility for establishing and maintaining an adequate and sound internal control system. 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.

During the Year, the Group has made several improvements on financial and management reporting system. Through regular discussion with management on operational and financial performance and potential risk areas identified, reasonable but not absolute assurance against material misstatement or loss can be attained. The Group is able to manage risks of failure in operational and financial systems and to achieve the Group's objectives.

The Board will continue to review on the progress of other improvements and enhancement in order to cope with the development of the Group.

I. Directors' liability insurance

The Company has taken out liability insurance to indemnify its directors and senior management for their liabilities arising out of corporate activities. The insurance coverage is reviewed by the Company on an annual basis.

J. Compliance of Non-Competition Undertaking

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

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

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

On behalf of the Board

WANG Yong
Chairman

Hong Kong, 29 March 2012

Directors' Report

The Board is pleased to present its first annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2011 (the "**Year**").

PRINCIPAL ACTIVITIES

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

DIVIDEND

Pursuant to the meeting of the Board on 29 March 2012, the Board has recommended the payment of a final dividend of RMB0.137 (equivalent to approximately HK$0.169) (2010: Nil) per ordinary share of the Company for the Year to shareholders of the Company to whose names shall appear on the register of members of the Company on Friday, 25 May 2012. Subject to shareholders' approval at the forthcoming annual general meeting (the "**AGM**") of the Company on Friday, 11 May 2012, the final dividend will be payable on or about 31 May 2012.

USE OF PROCEEDS FROM THE IPO

With the shares of the Company listed on the Stock Exchange on 23 February 2012, the net proceeds from the IPO, after deducting the relevant costs of the IPO, were approximately HK$991 million. As at the date of this annual report, the Company does not anticipate any change to its plan on the use of proceeds as stated in the prospectus of the Company dated 13 February 2012.

PROPERTY, PLANT AND EQUIPMENT

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

BORROWINGS

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

SHARE CAPITAL

Details of movements in the Company's share capital for the year ended 31 December 2011 are set out in note 25 to the consolidated financial statements.

FOUR YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on page 85.

SHARE OPTION SCHEME

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

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

As the shares of the Company were listed on the Stock Exchange on 23 February 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Year.

RESERVES

Details of movements in the reserves of the Group during the year are set out in note 26(a) to the consolidated financial statements and in the consolidated statement of changes in equity.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's five largest suppliers accounted for approximately 59.9% (2010: 60.5%) of the Group's total cost of purchase for the year. The largest suppliers accounted for approximately 14.7% (2010: 23.2%) of the Group's total cost of purchase.

The Group's five largest customers accounted for approximately 40.7% (2010: 36.8%) of the Group's total revenue for the Year. The largest customers accounted for approximately 15.2% (2010: 13.1%) of the Group's total revenue for the Year.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive Directors
Mr. WANG Liang
Mr. WANG Gang
Mr. WANG Tao

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

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

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

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

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

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

DIRECTORS' REMUNERATION POLICY

The Company's policy concerning remuneration of the Directors is that the amount of remuneration is determined on the basis of the relevant Director's experience, responsibilities, workload and the time devoted to the Group. None of the Directors waived any emoluments during the Year.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors and the senior management of the Group are set out on pages 15 to 17 of the annual report.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Saved as disclosed in the paragraph headed "**Connected transactions**" below and in note 32 to the consolidated financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party during the Year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

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

As the Company was not listed on the Stock Exchange as at 31 December 2011, Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance ("**SFO**") and section 352 of the SFO were not applicable to the directors of the Company as at 31 December 2011.

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

Name of Company/ Associated corporations	Name of directors	Capacity	Number and class of securities held/interest (Note 1)	Approximate percentage shareholding in the same class of securities in the relevant corporation as at the date of this annual report
Company	WANG Yong	Interest of a controlled corporation (Note 2, 3)	1,500,000,000 ordinary shares (L)	75%
Xiwang Holdings Limited ("**Xiwang Holdings**")	WANG Yong	Beneficial owner (Note 2) Other (Note 2)	128,722 shares (L) 71,278 shares (L)	64.36% 35.64%
Xiwang Investment Company Limited ("**Xiwang Investment**")	WANG Yong	Interest of controlled corporations (Note 2)	3 shares (L)	100%
Xiwang Holdings	WANG Di	Beneficial owner	3,546 shares (L)	1.77%
Xiwang Holdings	WANG Liang	Beneficial owner	4,610 shares (L)	2.31%
Xiwang Holdings	WANG Gang	Beneficial owner	4,610 shares (L)	2.31%
Xiwang Holdings	SUN Xinhu	Beneficial owner	1,773 shares (L)	0.89%

Notes:

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

(2) Xiwang Investment is a wholly-owned subsidiary of Xiwang Holdings, the voting right of which is in turn controlled as to 100% by Mr. WANG Yong and the shares of which are directly and beneficially owned as to 64.36% by Mr. WANG Yong. Mr. WANG Yong is therefore deemed to be interested in the entire issued share capital in Xiwang Investment and Xiwang Holdings.

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

(3) These shares are registered in the name of Xiwang Investment. Mr. WANG Yong is deemed to be interested in all shares of the Company in which Xiwang Investment is interested.

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

(a) Substantial shareholders of the Company

As the Company was not listed on the Stock Exchange as at 31 December 2011, no disclosure of interest or short positions in any shares or underlying shares of the Company was required to be made to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO as at 31 December 2011.

As at the date of this annual report, so far as it is known to any Directors or chief executive of the Company, the following persons (other than the Directors or chief executive of the Company) had or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which were required to be entered in the register to be maintained by the Company pursuant to Section 336 of Part XV of the SFO as follows:

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

Notes:

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

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

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

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

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

CONNECTED TRANSACTIONS

As the Company was listed on the Stock Exchange on 23 February 2012, the relevant provisions under Chapter 14A of the Listing Rules regarding continuing connected transactions were not applicable to the Company for the Year. The related party transactions set out in note 32(a)(vi) to the consolidated financial statements constitute continuing connected transactions under Chapter 14A of the Listing Rules after the listing of the Company on the Stock Exchange. Such continuing connected transactions were exempt continuing connected transactions under Rule 14A.33(3) of the Listing Rules and are exempted from the reporting, annual review, announcement and independent shareholders' approval requirement under the Listing Rules.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 18 to 22 of this annual report.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference based upon the provisions and recommended practices of the Code on Corporate Governance Practices. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. At present, members of the audit committee comprise two independent non-executive Directors, Mr. Leung Shu Sun Sunny (chairman) and Mr. Zhang Gongxue and a non-executive Director Mr. Sun Xinhu.

The Group's consolidated financial statements for the year ended 31 December 2011 have been reviewed by the audit committee, which is of the opinion that such statement compiled with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

SUFFICIENCY OF PUBLIC FLOAT

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

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company will be held on Friday, 11 May 2012.

CLOSURE OF REGISTER OF MEMBERS

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

(i) from Wednesday, 9 May 2012 to Friday, 11 May 2012, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the annual general meeting. In order to be eligible to attend and vote at the annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's transfer office and share registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30p.m. on Tuesday, 8 May 2012; and

(ii) from Wednesday, 23 May 2012 to Friday, 25 May 2012, both days inclusive, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to establish entitlements to the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's transfer office and share registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30p.m. on Tuesday, 22 May 2012.

During the periods mentioned in paragraphs (i) and (ii) above, as transfers of shares of the Company will be registered.

AUDITORS

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

Independent Auditors' Report

Ernst & Young
安 永

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

We have audited the consolidated financial statements of Xiwang Special Steel Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 31 to 84, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
29 March 2012

Consolidated Income Statement

Year ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
REVENUE	5	**8,541,004**	5,387,340
Cost of sales		**(7,248,031)**	(4,786,344)
Gross profit		**1,292,973**	600,996
Other income and gain	5	**16,453**	45,066
Selling and distribution costs		**(5,415)**	(4,307)
Administrative expenses		**(58,236)**	(19,469)
Other expenses		**(522)**	(1,053)
Finance costs	7	**(57,432)**	(24,814)
PROFIT BEFORE TAX	6	**1,187,821**	596,419
Income tax expense	10	**(278,502)**	(103,611)
PROFIT FOR THE YEAR		**909,319**	492,808
Profit attributable to owners of the parent	11	**909,319**	492,808
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	13	**RMB56.8 cents**	RMB30.8 cents

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

Consolidated Statement of Comprehensive Income

Year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
PROFIT FOR THE YEAR	**909,319**	492,808
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	**374**	5,376
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**374**	5,376
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**909,693**	498,184
Total comprehensive income attributable to owners of the parent	**909,693**	498,184

Consolidated Statement of Financial Position

31 December 2011

	Note	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**3,269,488**	2,138,647
Prepaid land lease payments	15	**94,903**	155,680
Deferred tax assets	24	**1,370**	–
Total non-current assets		**3,365,761**	2,294,327
CURRENT ASSETS			
Inventories	17	**421,921**	306,790
Trade and bills receivables	18	**547,594**	57,135
Prepayments, deposits and other receivables	19	**498,228**	192,650
Due from fellow subsidiaries	32(c)	**–**	10,990
Pledged deposits	20	**744,951**	210,000
Cash and cash equivalents	20	**154,496**	72,528
Total current assets		**2,367,190**	850,093
CURRENT LIABILITIES			
Trade and bills payables	21	**1,578,883**	206,394
Receipts in advance, other payables and accruals	22	**536,458**	510,090
Interest-bearing bank and other borrowings	23	**644,453**	941,200
Due to the ultimate holding company	32(c)	**–**	384,189
Due to the immediate holding company	32(c)	**–**	132,332
Due to fellow subsidiaries	32(c)	**–**	67,895
Income tax payable		**53,165**	53,812
Total current liabilities		**2,812,959**	2,295,912
NET CURRENT LIABILITIES		**(445,769)**	(1,445,819)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,919,992**	848,508

Consolidated Statement of Financial Position

31 December 2011

	Note	2011 RMB'000	2010 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	23	**1,000,000**	–
Deferred tax liability	24	**27,280**	–
Total non-current liabilities		**1,027,280**	–
Net assets		**1,892,712**	848,508
EQUITY			
Equity attributable to owners of the parent			
Share capital	25	**133,392**	–
Reserves	26(a)	**1,485,320**	848,508
Proposed final dividend	12	**274,000**	–
Total equity		**1,892,712**	848,508

Wang Yong
Director

Wang Liang
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

	Attributable to owners of the parent								
	Share capital RMB'000 (note 25)	Share premium account RMB'000 (note 25)	Contributed surplus RMB'000	Statutory surplus reserve RMB'000 (note 26(a))	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Total equity RMB'000
At 1 January 2011	**–**	**–**	**78,938**	**135,315**	**5,920**	**628,335**	**–**	**848,508**	**848,508**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**909,319**	**–**	**909,319**	**909,319**
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**–**	**374**	**–**	**–**	**374**	**374**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**374**	**909,319**	**–**	**909,693**	**909,693**
Profit appropriated to reserve	**–**	**–**	**–**	**86,425**	**–**	**(86,425)**	**–**	**–**	**–**
Issue of shares (note 25)	**133,392**	**1,119**	**–**	**–**	**–**	**–**	**–**	**134,511**	**134,511**
Proposed final 2011 dividend (note 12)	**–**	**–**	**–**	**–**	**–**	**(274,000)**	**274,000**	**–**	**–**
At 31 December 2011	**133,392**	**1,119***	**78,938***	**221,740***	**6,294***	**1,177,229***	**274,000**	**1,892,712**	**1,892,712**
At 1 January 2010	–	–	78,938	66,162	544	204,680	–	350,324	350,324
Profit for the year	–	–	–	–	–	492,808	–	492,808	492,808
Other comprehensive income for the year:									
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 appropriated to reserve	–	–	–	69,153	–	(69,153)	–	–	–
At 31 December 2010	–	–	78,938*	135,315*	5,920*	628,335*	–	848,508	848,508

* These reserve accounts comprise the consolidated reserves of RMB1,485,320,000 (2010: RMB848,508,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,187,821**	596,419
Adjustments for:			
Finance costs	7	**57,432**	24,814
Interest income	5	**(13,096)**	(4,956)
Exchange (gain)/loss, net	5	**(2,238)**	44
Depreciation	14	**110,491**	76,681
Recognition of prepaid land lease payments	15	**1,792**	1,259
Loss on disposal of a subsidiary	6	**–**	769
		1,342,202	695,030
(Increase)/decrease in inventories		**(115,131)**	65,889
Increase in trade and bills receivables		**(490,459)**	(33,371)
(Increase)/decrease in prepayments, deposits and other receivables		**(303,717)**	106,953
Decrease/(increase) in amounts due from fellow subsidiaries		**10,990**	(3,859)
Increase/(decrease) in trade and bills payables		**1,372,489**	(343,703)
Increase in receipts in advance, other payables and accruals		**65,442**	182,006
Decrease in amounts due to fellow subsidiaries		**(67,895)**	(482,666)
Decrease in an amount due to a related party		**–**	(15,740)
Cash generated from operations		**1,813,921**	170,539
Interest received		**7,793**	5,404
PRC tax paid		**(253,239)**	(64,871)
Net cash flows from operating activities		**1,568,475**	111,072
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(1,276,527)**	(1,023,212)
Purchases of prepaid land lease payments	15	**–**	(160,172)
Proceeds from refund of a prepaid land lease payment	15	**60,274**	–
Proceeds from disposal of items of property, plant and equipment		**515**	–
Disposal of a subsidiary		**–**	(2,107)
Decrease/(increase) in pledged deposits		**(534,951)**	280,868
Net cash flows used in investing activities		**(1,750,689)**	(904,623)

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
(Decrease)/increase in an amount due to the ultimate holding company		**(384,189)**	164,634
Increase in an amount due to the immediate holding company		**–**	11,706
New bank loans		**1,764,453**	941,200
Repayment of bank loans		**(1,061,200)**	(219,776)
Repayment of other loans		**–**	(20,413)
Interest paid		**(57,432)**	(42,248)
Net cash flows from financing activities		**261,632**	835,103
NET INCREASE IN CASH AND CASH EQUIVALENTS		**79,418**	41,552
Cash and cash equivalents at beginning of year		**72,528**	25,600
Effect of foreign exchange rate changes, net		**2,550**	5,376
CASH AND CASH EQUIVALENTS AT END OF YEAR		**154,496**	72,528
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	20	**154,496**	72,528
Cash and cash equivalents as stated in the statement of cash flows		**154,496**	72,528

Statement of Financial Position

31 December 2011

	Note	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	16	**108,336**	108,336
CURRENT ASSETS			
Due from a subsidiary	16	**18,210**	34,068
Prepayments	19	**4,753**	–
Cash and cash equivalents	20	**1,386**	–
Total current assets		**24,349**	34,068
CURRENT LIABILITIES			
Other payables and accruals	22	**4,668**	296
Due to the immediate holding company		**–**	137,115
Due to a subsidiary	16	**10,878**	–
Total current liabilities		**15,546**	137,411
NET CURRENT ASSETS/(LIABILITIES)		**8,803**	(103,343)
Net assets		**117,139**	4,993
EQUITY			
Share capital	25	**133,392**	–
Reserves	26(b)	**(290,253)**	4,993
Proposed final dividend	12/26(b)	**274,000**	–
Total equity		**117,139**	4,993

Wang Yong
Director

Wang Liang
Director

Notes to Financial Statements

31 December 2011

1. CORPORATE INFORMATION

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

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 year ended 31 December 2011, 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 2011 to 8 July 2011 and Xiwang Holdings for the remaining period.

2.1 BASIS OF PREPARATION

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

As at 31 December 2011, the Group had net current liabilities of approximately RMB445,769,000. The Directors of the Company are of the opinion that the Group will have sufficient working capital to finance its operations and to maintain its operating existence in the foreseeable future and accordingly have prepared the financial statements on a going concern basis notwithstanding the net current liabilities position.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra group balances, transactions, and unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if 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.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKFRS 24 (Revised)	*Related Party Disclosures*
HKFRS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in *Improvements to HKFRSs 2010*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 32 to the consolidated financial statements.

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 3 *Business Combinations*: The amendment clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

  In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

  The amendment also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

(b) (continued)

- HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements*: The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – 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 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* [4]
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 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting financial Assets And Financial Liabilities* [5]
HKAS 19 Amendments	*Employee Benefits* [4]
HKAS 27 Revised	*Separate Financial Statements* [4]
HKAS 28 Revised	*Investments in Associates and Joint Ventures* [4]
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

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

Further information about those changes that are expected to significantly affect the Group is as follows:

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

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

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12.

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

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

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

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

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

Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. The Group expects to adopt HKAS 12 Amendments from 1 January 2012. Upon the adoption, the Group's deferred tax liability with respect to investment properties located in Hong Kong is expected to be reduced.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Business combinations and goodwill

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combination and goodwill (continued)

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

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

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

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

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

Impairment of non-financial assets

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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

Related parties

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

(a) the party is a person or a close member of that person's family and that person (i) has control or joint control over the Group; (ii) has significant influence over the Group; or (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

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

Property, plant and equipment and depreciation

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

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

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

An item of property, plant and equipment 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 sale proceeds and the carrying amount of the relevant asset.

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

Non-current assets and disposal groups held for sale

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

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

Operating leases

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

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

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

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 by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in finance costs for loans and in other expenses for receivables.

Derecognition of financial assets

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

Financial liabilities

Initial recognition and measurement

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

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, 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, and fellow subsidiaries, and interest-bearing bank and other borrowings.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement

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

Loans and borrowings

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

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

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 reporting period; 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 statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement 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 statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group’s cash management.

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

Notes to Financial Statements

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

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

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

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

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(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.

Retirement benefits

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

Borrowing costs

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

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging between 6.6% and 7.5% has been applied to the expenditure on the individual assets.

Dividends

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

Foreign currencies

These financial statements are presented in RMB, which is the Group's presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates 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 reporting period. All differences arising on settlement or translation of monetary items are taken to the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. 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.

Judgement

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

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

Estimation uncertainty

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

Estimation uncertainty (continued)

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

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

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

- **Recognition of deferred tax liability for withholding taxes**
  Deferred tax liability is recognised for 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.

4. OPERATING SEGMENT INFORMATION

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

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

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

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

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

Geographical information

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

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4. OPERATING SEGMENT INFORMATION (continued)

Information about major customers

For the year ended 31 December 2011, sales to one of the Group's customers of RMB1,300,059,000 (2010: RMB705,508,000), which represented 15.2% (2010: 13.1%) of the Group's total revenue, were derived from sales by the ordinary steel segment and the special steel segment.

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

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

	Ordinary steel RMB'000	Special steel RMB'000	Others RMB'000	Consolidated RMB'000
Year ended 31 December 2010				
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 gain				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

5. REVENUE, OTHER INCOME AND GAIN

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

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

	Group 2011 RMB'000	2010 RMB'000
Revenue		
Sale of ordinary steel	**5,259,112**	4,928,456
Sale of special steel	**3,202,615**	420,035
Sale of by-products	**79,277**	38,849
	8,541,004	5,387,340
Other income		
Bank interest income	**13,096**	4,956
Rental income from fellow subsidiaries	**25**	100
Subsidy income*	**–**	39,684
Others	**1,094**	370
	14,215	45,110
Gain		
Foreign exchange gain/(loss), net	**2,238**	(44)
	16,453	45,066

* 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.

6. PROFIT BEFORE TAX

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

	Note	Group 2011 RMB'000	Group 2010 RMB'000
Cost of inventories sold^		**7,248,031**	4,786,344
Depreciation^	14	**110,491**	76,681
Amortisation of prepaid land lease payments^	15	**1,792**	1,259
Auditors' remuneration		**1,324**	606
Employee benefit expense (including directors' remuneration)^:			
Wages and salaries		**90,860**	50,101
Pension scheme contributions*		**6,218**	4,223
Staff welfare expenses		**9,424**	4,040
		106,502	58,364
Foreign exchange differences, net	5	**(2,238)**	44
Bank interest income	5	**(13,096)**	(4,956)
Loss on disposal of a subsidiary		**–**	769

^ Included in the cost of inventories sold are direct employee benefit expense, depreciation of manufacturing facilities and amortisation of prepaid land lease payments amounting to approximately RMB188,571,000 (2010: RMB125,015,000). These amounts are also included in the amounts for the respective types of expenses disclosed above.

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

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Group 2011 RMB'000	Group 2010 RMB'000
Interest on bank borrowings wholly repayable within five years	**87,621**	32,465
Interest payable to the ultimate holding company	**17,542**	9,559
Effective interest rate amortisation for a loan from the immediate holding company	**–**	224
Total interest expense on financial liabilities not at fair value through profit or loss	**105,163**	42,248
Less: Interest capitalised	**(47,731)**	(17,434)
	57,432	24,814

8. DIRECTORS' REMUNERATION

In June 2011, Mr. Wang Liang, Mr. Wang Gang and Mr. Wang Tao were appointed as executive directors of the Company, Mr. Wang Yong, Mr. Wang Di and Mr. Sun Xinhu were appointed as non-executive directors of the Company.

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

	Group 2011 RMB'000	Group 2010 RMB'000
Fees	–	–
Other emoluments:		
Salaries, allowances and benefits in kind	622	–
Pension scheme contributions	9	–
	631	–

(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 year.

(b) Executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2011				
Executive directors:				
Mr. Wang Liang	–	480	5	485
Mr. Wang Gang	–	–	–	–
Mr. Wang Tao	–	142	4	146
	–	622	9	631

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

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2010: Nil) directors, details of whose remuneration are set out in note 8(b) above. Details of the remuneration of the remaining three (2010: five) non-director, highest paid employees for the year are as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**598**	435
Performance related bonus	**531**	675
Pension scheme contributions	**13**	11
	1,142	1,121

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

10. INCOME TAX EXPENSE

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

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

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

10. INCOME TAX EXPENSE (continued)

	Group 2011 RMB'000	2010 RMB'000
Group:		
Current – Mainland China		
Charge for the year	**252,592**	103,611
Deferred (note 24)	**25,910**	–
Total tax charge for the year	**278,502**	103,611

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

	Group			
	2011 RMB'000	**%**	2010 RMB'000	%
Profit before tax	**1,187,821**		596,419	
Tax at the statutory tax rate	**296,955**	**25**	149,105	25
Lower tax rate enacted by local authority	**(51,235)**	**(4)**	(46,384)	(8)
Expenses not deductible for tax	**1,525**	**–**	890	–
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	**27,280**	**2**	–	–
Tax losses not recognised	**3,977**	**–**	–	–
Tax charge at the Group's effective tax rate	**278,502**	**23**	103,611	17

The Group has tax losses arising in Hong Kong of approximately RMB24,371,000 as at 31 December 2011 (2010: RMB271,000), that are available for offsetting against future taxable profits of the Company in which they arose. A deferred tax asset has not been recognised as at the end of the reporting period in respect of the tax losses as the directors of the Company consider that it is uncertain of the extent that future profits will be available against which tax losses can be utilised in the foreseeable future.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2011 includes a loss of RMB24,100,000 (2010: loss of RMB106,000) which has been dealt with in the financial statements of the Company (note 26(b)).

12. DIVIDENDS

	2011 RMB'000	2010 RMB'000
Proposed final dividend (not recognised as a liability as at 31 December) – RMB0.137 (2010: Nil) per ordinary share	**274,000**	–

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of the basic earnings per share amount is based on the profit attributable to ordinary equity holders of the parent for the year, and the weighted average number of ordinary shares in issue during the year, as adjusted retrospectively to reflect the Share Split and the Debt Settlement, as detailed in note 25 to the financial statements, as if the events had occurred at the beginning of the earliest period presented.

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

	2011 RMB'000	2010 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**909,319**	492,808
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 25)	**1,600,000,000**	1,600,000,000
Basic earnings per share (RMB per share)	**0.568**	0.308

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

14. PROPERTY, PLANT AND EQUIPMENT

Group	Buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2011						
At 31 December 2010 and at 1 January 2011:						
Cost	680,796	898,485	129	7,005	685,093	2,271,508
Accumulated depreciation	(32,178)	(99,038)	(47)	(1,598)	–	(132,861)
Net carrying amount	648,618	799,447	82	5,407	685,093	2,138,647
At 1 January 2011, net of accumulated depreciation	648,618	799,447	82	5,407	685,093	2,138,647
Additions	7,416	6,528	4,726	2,113	1,220,928	1,241,711
Disposal	(379)	–	–	–	–	(379)
Depreciation provided during the year	(37,164)	(71,275)	(554)	(1,498)	–	(110,491)
Transfers	1,863	6,773	–	–	(8,636)	–
At 31 December 2011, net of accumulated depreciation	620,354	741,473	4,254	6,022	1,897,385	3,269,488
At 31 December 2011:						
Cost	689,696	911,786	4,855	9,116	1,897,385	3,512,838
Accumulated depreciation	(69,342)	(170,313)	(601)	(3,094)	–	(243,350)
Net carrying amount	620,354	741,473	4,254	6,022	1,897,385	3,269,488

As at 31 December 2011, the Group has not yet obtained the building ownership certificates in respect of the buildings with a net book value of RMB618,069,351.

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14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group	Buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 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

15. PREPAID LAND LEASE PAYMENTS

	Group 2011 RMB'000	2010 RMB'000
Carrying amount at 1 January	**158,913**	–
Additions	**–**	160,172
Refund	**(60,274)**	–
	98,639	160,172
Recognised during the year	**(1,792)**	(1,259)
Carrying amount at 31 December	**96,847**	158,913
Current portion included in prepayments, deposits and other receivables	**(1,944)**	(3,233)
Non-current portion	**94,903**	155,680

In 2010, the Group paid RMB160,172,000 to the Land and Resource Department of Zouping County (鄒平國土資源局) for the purchase of certain land use rights. The related land area was revised with a corresponding refund of an amount of RMB60,274,000 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 year ended 31 December 2010, certain land with an area of 61,461 square metres was 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 year ended 31 December 2011, the Group has recorded rental expenses of RMB266,000 payable to Xiwang Group as disclosed in note 32(a)(vi).

16. INVESTMENTS IN SUBSIDIARIES

	Company 2011 RMB'000	2010 RMB'000
Unlisted shares, at cost	**108,336**	108,336

The amount due from and to a subsidiary included in the Company's current assets and liabilities of RMB18,210,000 (31 December 2010: RMB34,068,000) and RMB10,878,000 (31 December 2010: Nil), respectively as at 31 December 2011 are unsecured, interest-free and have no fixed terms of repayment.

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16. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Company name	Place and date of registration and place of operations	Nominal value of issued ordinary/registered share capital	Percentage of equity attributable to the Company Direct %	Percentage of equity attributable to the Company Indirect %	Principal activities
Xiwang Metal*	People's Republic of China ("PRC")/ Mainland China 20 April 2004	US$21,000,000	100	–	Production and sale of steel products
Xiwang Steel*	PRC/Mainland China 31 December 2003	RMB240,000,000	–	100	Production and sale of steel products
Shandong Xiwang Special Steel*	PRC/Mainland China 29 December 2007	US$11,800,000	49	51	Production and sale of steel products
Xiwang Recycling Resources*	PRC/Mainland China 7 May 2009	RMB30,000,000	–	100	Purchase and sale of steel scrap

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

17. INVENTORIES

	Group 2011 RMB'000	Group 2010 RMB'000
Raw materials	**244,733**	133,214
Work in progress	**19,381**	1,152
Finished goods	**157,807**	172,424
	421,921	306,790

Certain of the Group's inventories with a carrying amount of RMB214,302,000 as at 31 December 2011 (2010: Nil), were pledged as security for the Group's issuance of bills payable (note 21).

Certain of the Group's inventories with a carrying amount of RMB180,382,000 as at 31 December 2011 (2010: RMB246,828,000), were pledged as security for the Group's bank loans and other borrowings (note 23).

The cost of inventories recognized as expenses and included in cost of goods sold amounted to approximately RMB7,248,031,000 for the Year (2010: RMB 4,786,344,000).

18. TRADE AND BILLS RECEIVABLES

	Group 2011 RMB'000	2010 RMB'000
Bills receivable	**516,608**	43,075
Trade receivables	**30,986**	14,060
	547,594	57,135

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

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

	Group 2011 RMB'000	2010 RMB'000
Within 3 months	**547,594**	53,975
3 to 6 months	**–**	2,908
6 months to 1 year	**–**	–
Over 1 year	**–**	252
	547,594	57,135

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

	Group 2011 RMB'000	2010 RMB'000
Neither past due nor impaired	**547,594**	53,975
Less than 1 month past due	**–**	2,908
1 to 3 months past due	**–**	–
Over 3 months past due	**–**	252
	547,594	57,135

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

18. TRADE AND BILLS RECEIVABLES (continued)

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

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**471,537**	129,036	**4,753**	–
Bank interest receivables	**5,303**	–	**–**	–
VAT recoverable	**19,130**	39,673	**–**	–
Subsidy receivables	**–**	17,572	**–**	–
Deposits and other receivables	**314**	3,136	**–**	–
Current portion of prepaid land lease payments (note 15)	**1,944**	3,233	**–**	–
	498,228	192,650	**4,753**	–

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

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

		Group		Company	
		2011	2010	**2011**	2010
	Notes	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Cash and bank balances		**154,496**	72,528	**1,386**	–
Time deposits		**744,951**	210,000	**–**	–
		899,447	282,528	**1,386**	–
Less: Pledged time deposits:					
Guarantee deposits for issuance of bills payable	21	**(673,400)**	(162,000)	**–**	–
Guarantee deposits for certain bank borrowings	23	**(71,551)**	(48,000)	**–**	–
Cash and cash equivalents		**154,496**	72,528	**1,386**	–

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (continued)

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB153,110,000 (2010: RMB72,528,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

21. TRADE AND BILLS PAYABLES

	Group	
	2011	2010
	RMB'000	RMB'000
Bills payable	**1,402,000**	100,000
Trade payables	**176,883**	106,394
	1,578,883	206,394

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

	Group	
	2011	2010
	RMB'000	RMB'000
Within 1 month	**103,750**	81,490
1 to 3 months	**1,009,134**	124,904
3 to 6 months	**465,999**	–
	1,578,883	206,394

The Group's bills payable amounting to RMB1,402,000 were secured by the pledged time deposits of RMB673,400,000 (2010: RMB162,000,000) (note 20) and inventories of RMB214,302,000 (2010: Nil) (note 17).

Additionally, an independent third party guaranteed certain of the Group's bills payable up to RMB430,000,000 as at 31 December 2011.

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

22. RECEIPTS IN ADVANCE, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Advances from customers	**191,431**	132,429	**–**	–
Salaries and welfare payables	**21,261**	13,370	**–**	–
Other tax payables	**13,769**	16,476	**–**	–
Other payables	**309,997**	347,815	**4,668**	296
	536,458	510,090	**4,668**	296

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

23. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2011			2010		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Interest-bearing bank loan – unsecured	**–**	**–**	**–**	5.56	2011	100,000
Interest-bearing bank loans – secured	**5.85 – 7.35**	**2012**	**457,753**	6.17 – 9.00	2011	841,200
Current portion of long term interest-bearing other loan – secured	**10.75**	**2012**	**186,700**	–	–	–
			644,453			941,200
Non-current						
Long term interest-bearing other loans – secured	**6.06**	**2013**	**1,000,000**	–	–	–
			1,644,453			941,200

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

	Group 2011 RMB'000	2010 RMB'000
Analysed into:		
Bank and other loans repayable:		
Within one year	**644,453**	941,200
In the second year	**1,000,000**	–
	1,644,453	941,200

Notes:

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

a. certain of the Group's inventories totalling RMB180,382,000 as at 31 December 2011 (2010: RMB246,828,000) (note 17).

b. the pledge of certain of the Group's time deposits amounting to RMB71,551,000 as at 31 December 2011 (2010: RMB48,000,000) (note 20).

In addition, an independent third party guaranteed certain of the Group's bank borrowings up to RMB306,700,000 as at 31 December 2011 (2010: RMB431,200,000).

(ii) The Group's other loan as at 31 December 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.

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

24. DEFERRED TAX

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

Deferred tax assets

	Group 2011 RMB'000	2010 RMB'000
At 1 January	**–**	–
Deferred tax credited to the income statement during the year (note 10)	**1,370**	–
Gross deferred tax assets at the end of the year	**1,370**	–

For the year ended 31 December 2011, deferred tax assets were recognised in respect of the unrealised profit arising from intra-group sales.

24. DEFERRED TAX (continued)

Deferred tax liability

Group	Withholding tax on the distributable profits RMB'000
At 1 January 2010, 31 December 2010 and 1 January 2011	–
Deferred tax charged to the income statement during the year (note 10)	27,280
At 31 December 2011	**27,280**

Pursuant to the New CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The applicable rate for the Group is 10%. The Group is therefore liable for withholding taxes on dividend distributed by those subsidiaries 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 recognized a deferred tax liability in respect of the 30% of the profit for the year ended 31 December 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 RMB123,941,000 as at 31 December 2011 (2010: RMB60,289,000).

25. SHARE CAPITAL

	Notes	Number of shares	Amounts
Authorised:			
At 31 December 2011 (HK$0.1 each)	(b)	100,000,000,000	10,000,000,000
At 31 December 2010 (HK$1 each)	(a)	10,000	10,000
Issued and fully paid:			
At 31 December 2011 (HK$0.1 each)	(c)	1,600,000,000	160,000,000
At 31 December 2010 (HK$1 each)	(a)	1	–

25. SHARE CAPITAL (continued)

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

	Notes	Number of shares in issue	Issued share capital RMB'000	Share premium account RMB'000	Total RMB'000
At 31 December 2010 and 1 January 2011	(a)	1	–	–	–
Share Split	(b)	9	–	–	–
Issue of shares	(c)	1,599,999,990	133,392	1,119	134,511
At 31 December 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 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.

26. RESERVES

(a) Group

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.

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26. RESERVES (continued)

(b) Company

	Exchange reserve RMB'000	Accumulated losses RMB'000	Share premium RMB'000	Proposed final dividend RMB'000	Total reserves RMB'000
Balance at 1 January 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	1,735	–	–	–	1,735
Loss for the year	–	(24,100)	–	–	(24,100)
Issue of shares (note 25)	–	–	1,119	–	1,119
Proposed final 2011 dividend	–	(274,000)	–	274,000	–
At 31 December 2011	**6,999**	**(298,371)**	**1,119**	**274,000**	**(16,253)**

27. NOTE TO THE CONSOLIDATED STATEMENT 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 25(c).

28. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	Group	
	2011 RMB'000	2010 RMB'000
Guarantees given to banks in connection with 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.

29. PLEDGE OF ASSETS

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

30. OPERATING LEASE ARRANGEMENTS

The Group leases certain land from Xiwang Group under operating lease arrangements (note 15). At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Within one year	**369**	–
In the second to fifth years, inclusive	**1,475**	–
After five years	**5,255**	–
	7,099	–

31. COMMITMENTS

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

	Group	
	2011	2010
	RMB'000	RMB'000
Contracted, but not provided for:		
Property, plant and equipment	**130,121**	546,872

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

	Group	
	2011	2010
	RMB'000	RMB'000
Contracted, but not provided for:		
Consulting services	**1,265**	6,062

32. RELATED PARTY TRANSACTIONS AND BALANCES

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

		Group	
	Notes	**2011 RMB'000**	2010 RMB'000
Sales of products to:	(i)		
The ultimate holding company		–	134
Fellow subsidiaries	(iii)	–	163,349
		–	163,483
Purchase of raw materials from:	(i)		
Fellow subsidiaries	(iii)	**377,547**	605,265
Purchase of machinery from:			
A fellow subsidiary	(v)	**22,269**	–
Interest expenses to:	7		
The ultimate holding company	(iv)	**17,542**	9,559
Rental income from:	5		
Fellow subsidiaries	(ii)	**25**	100
Rental expenses to:	15		
The ultimate holding company	(vi)	**116**	–
A related company	(vi)	**150**	–
		266	–

(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 suppliers of the Group.

(ii) The rental received from the fellow subsidiaries was charged by reference to the market prices.

(iii) The sales to and purchase from the fellow subsidiaries for the year ended 31 December 2010 included the sale of products to and the purchase of raw materials from Zouping Shengtang Metal Material Trading Co., Ltd. ("**Shengtang Metal**") after the disposal of Shengtang Metal by the Group in January 2010 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 year ended 31 December 2011 represented the purchase of raw materials from Shengtang Metal before it was disposed of by Xiwang Group and from Shandong Xiwang Import & Export Trading Co., Ltd. ("**Xiwang Import & Export**") (山東西王進出口貿易有限公司).

32. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(a) (continued)

(iv) Interest expenses were calculated for the amounts that the Group had borrowed from Xiwang Group. The Group had settled all the balances with Xiwang Group as at 31 December 2011.

(v) 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.

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

(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 related party transaction

(i) 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) The Group had the following balances with related parties:

	Group	
	2011	2010
	RMB'000	RMB'000
Due from fellow subsidiaries		
Shandong Xiwang Sugar Industry Limited (山東西王糖業有限公司)	–	118
Shandong Xiwang Bio-Chem Co., Ltd (山東西王生化科技有限公司)	–	3,505
Shandong Xiwang Food Co., Ltd. (山東西王食品有限公司)	–	4,367
Xiwang Import & Export	–	3,000
	–	10,990
Due to the ultimate holding company		
Xiwang Group	–	384,189
Due to the immediate holding company		
Xiwang Investment	–	132,332
Due to fellow subsidiaries		
Shengtang Metal	–	67,895

32. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

	Group 2011 RMB'000	2010 RMB'000
Employee benefit expenses	**1,525**	1,508
Pension scheme contributions	**21**	15
Total compensation paid to key management personnel	**1,546**	1,523

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

The related party transactions in respect of item 32(a)(vi) above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

33. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

	Group 2011 Loans and receivables RMB'000	2010 Loans and receivables RMB'000
Trade and bills receivables	**547,594**	57,135
Financial assets included in prepayments, deposits and other receivables	**5,617**	20,708
Due from fellow subsidiaries	**–**	10,990
Pledged deposits	**744,951**	210,000
Cash and cash equivalents	**154,496**	72,528
Total	**1,452,658**	371,361

33. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities

	Group	
	2011	2010
	Financial liabilities at amortised cost	Financial liabilities at amortised cost
	RMB'000	RMB'000
Trade and bills payables	**1,578,883**	206,394
Financial liabilities included in receipts in advance, other payables and accruals	**331,258**	364,291
Due to the ultimate holding company	**–**	384,189
Due to the immediate holding company	**–**	132,332
Due to fellow subsidiaries	**–**	67,895
Interest-bearing bank and other borrowings	**1,644,453**	941,200
Total	**3,554,594**	2,096,301

Financial assets

	Company	
	2011	2010
	Loans and receivables	Loans and receivables
	RMB'000	RMB'000
Due from a subsidiary	**18,210**	34,068
Cash and cash equivalents	**1,386**	–
Total	**19,596**	34,068

33. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities

	Company	
	2011 Financial liabilities at amortised cost RMB'000	2010 Financial liabilities at amortised cost RMB'000
Other payables	**4,668**	296
Due to the immediate holding company	**–**	137,115
Due to a subsidiary	**10,878**	–
Total	**15,546**	137,411

34. FAIR VALUE AND FAIR VALUE HIERARCHY

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

Group

	Carrying amounts		Fair values	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Financial assets				
Trade and bills receivables	**547,594**	57,135	**547,594**	57,135
Financial assets included in prepayments, deposits and other receivables	**5,617**	20,708	**5,617**	20,708
Due from fellow subsidiaries	**–**	10,990	**–**	10,990
Pledged deposits	**744,951**	210,000	**744,951**	210,000
Cash and cash equivalents	**154,496**	72,528	**154,496**	72,528
	1,452,658	371,361	**1,452,658**	371,361
Financial liabilities				
Trade and bills payables	**1,578,883**	206,394	**1,578,883**	206,394
Financial liabilities included in receipts in advance, other payables and accruals	**331,258**	364,291	**331,258**	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
Interest-bearing bank and other borrowings	**1,644,453**	941,200	**1,644,453**	941,200
	3,554,594	2,096,301	**3,554,594**	2,096,301

34. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Company

	Carrying amounts		Fair values	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Due from a subsidiary	**18,210**	34,068	**18,210**	34,068
Cash and cash equivalents	**1,386**	–	**1,386**	–
	19,596	34,068	**19,596**	34,068
Financial liabilities				
Other payables	**4,668**	296	**4,668**	296
Due to the immediate holding company	**–**	137,115	**–**	137,115
Due to a subsidiary	**10,878**	–	**10,878**	–
	15,546	137,411	**15,546**	137,411

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

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

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

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank loans, amounts due from/to fellow subsidiaries, an amount due to the ultimate holding company, an amount 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 of directors reviews and agrees policies for managing each of these risks and they are summarised below.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 rate and terms of repayment of the interest-bearing bank loan of the Group are set out in note 23 to the financial statements.

The Group has not used any interest swaps to hedge its exposure to interest rate risk. At the end of the reporting period, approximately 81% (2010: 89%) of the Group's interest-bearing borrowings bore interest at fixed rates.

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

Group

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity* RMB'000
31 December 2011			
RMB	100	(2,867)	–
RMB	(100)	2,867	–
31 December 2010			
RMB	100	(11)	–
RMB	(100)	11	–

* Excluding retained profits

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 was 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 reporting period 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.

Group

	Increase/ (decrease) in United States dollar rate %	Increase/ (decrease) in profit before tax RMB'000
31 December 2011		
If the United States dollar weakens against the RMB	**5**	**914**
If the United States dollar strengthens against the RMB	**(5)**	**(914)**
31 December 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)

Credit risk

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

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

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

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

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

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

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

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

	31 December 2010					
Group	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	–	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

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

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

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

	31 December 2010					
Company	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Other payables	–	–	296	–	–	296
Due to the immediate holding company	137,115	–	–	–	–	137,115
	137,115	–	296	–	–	137,411

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2011 and 31 December 2010.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

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

Group

	Notes	2011 RMB'000	2010 RMB'000
Interest-bearing bank and other borrowings	23	**1,644,453**	941,200
Due to the ultimate holding company	32	**–**	384,189
Total debt		**1,644,453**	1,325,389
Total assets		**5,732,951**	3,144,420
Gearing ratio		**28.7%**	42.2%

36. EVENTS AFTER THE REPORTING PERIOD

On 23 February 2012, the Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited. 500,000,000 shares of the Company were offered for subscription and purchase (as the case may be) at an offer price of HK$2.65 per share. Out of these 500,000,000 shares, 100,000,000 shares were offered for purchase by Xiwang Investment, the then sole shareholder of the Company, and 400,000,000 shares were offered for subscription by the Company. Consequently, the Company received gross proceeds of HK$1,060,000,000 and the shareholding of Xiwang Investment in the share capital of the Company was reduced to 75%.

On 29 March 2012, the Board proposed a final dividend of RMB0.137 (equivalent to approximately HK$0.169) per ordinary share of the Company, totalling approximately RMB274,000,000 (equivalent to HK$338,000,000). The proposed final dividend is subject to the approval by the shareholders of the Company at the forthcoming AGM to be held on Friday, 11 May 2012.

37. APPROVAL OF THE FINANCIAL STATEMENTS

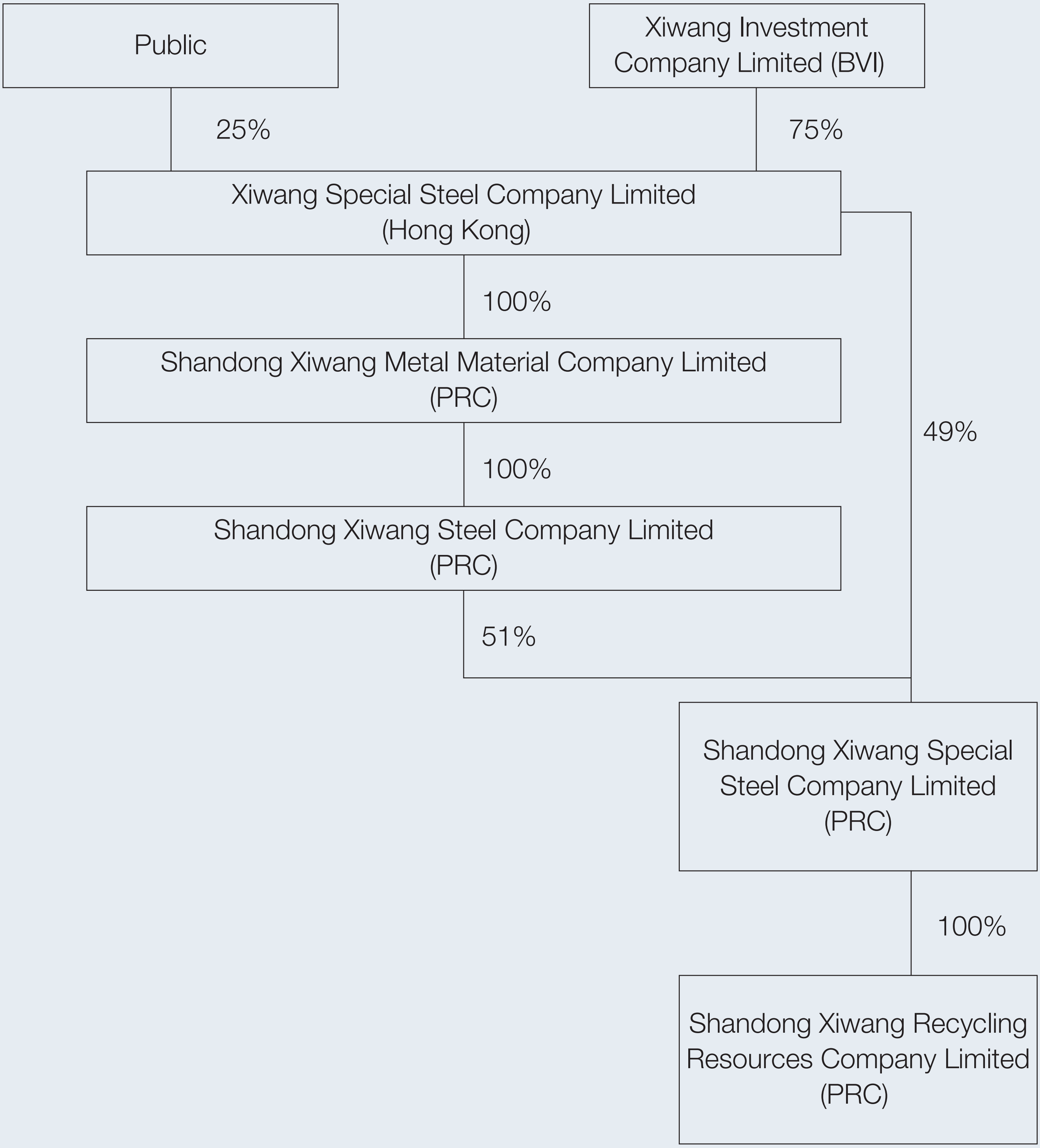
The financial statements were approved and authorised for issue by the board of directors on 29 March 2012.

Four-Year Financial Summary

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

Organization Structure

As at the date of this annual report:



Information for Shareholders

Corporate calendar	
Announcement of 2011 annual results	29 March 2012 (Thursday)
Annual general meeting	11 May 2012 (Friday)
Website	www.xiwangsteel.com
Stock code	
The Stock Exchange of Hong Kong Limited	1266
Bloomberg	1266 HK EQUITY
Board lot	1,000 shares
Financial year-end date	31 December

Annual report

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

Closure of register of members

(i) For the purpose of ascertaining shareholders' entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 9 May 2012 to Friday, 11 May 2012, both days inclusive. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's transfer office and share registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30p.m. on Tuesday, 8 May 2012;

(ii) The proposed final dividend is subject to the passing of an ordinary resolution by the shareholders of the Company at the AGM. For the purpose of ascertaining shareholders' entitlement to the proposed final dividend, the register of members of the Company will be closed from Wednesday, 23 May 2012 to Friday, 25 May 2012, both days inclusive. In order to establish entitlements to the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's transfer office and share registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30p.m. on Tuesday, 22 May 2012.

During the periods mentioned in sub-paragraphs (i) and (ii), no transfers of shares will be registered.

Information for Shareholders

Annual general meeting

The annual general meeting of the Company will be held on Friday, 11 May 2012. A notice convening the annual general meeting will be published on the respective websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.xiwangsteel.com). The proxy form together with the annual report will be dispatched to shareholders on or around Wednesday, 11 April 2012.

Hong Kong share registrar and transfer office

Tricor Investor Services Limited
26th floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Cautionary Statement Regarding Forward-Looking Statements

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

Miscellaneous

For the purpose of this annual report, the exchange rate of RMB 1=HK$1.236 has been used, where applicable, for purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be exchanged at such rates or any other rates at all on the date or any other date.

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