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

*(incorporated in Hong Kong with limited liability)*

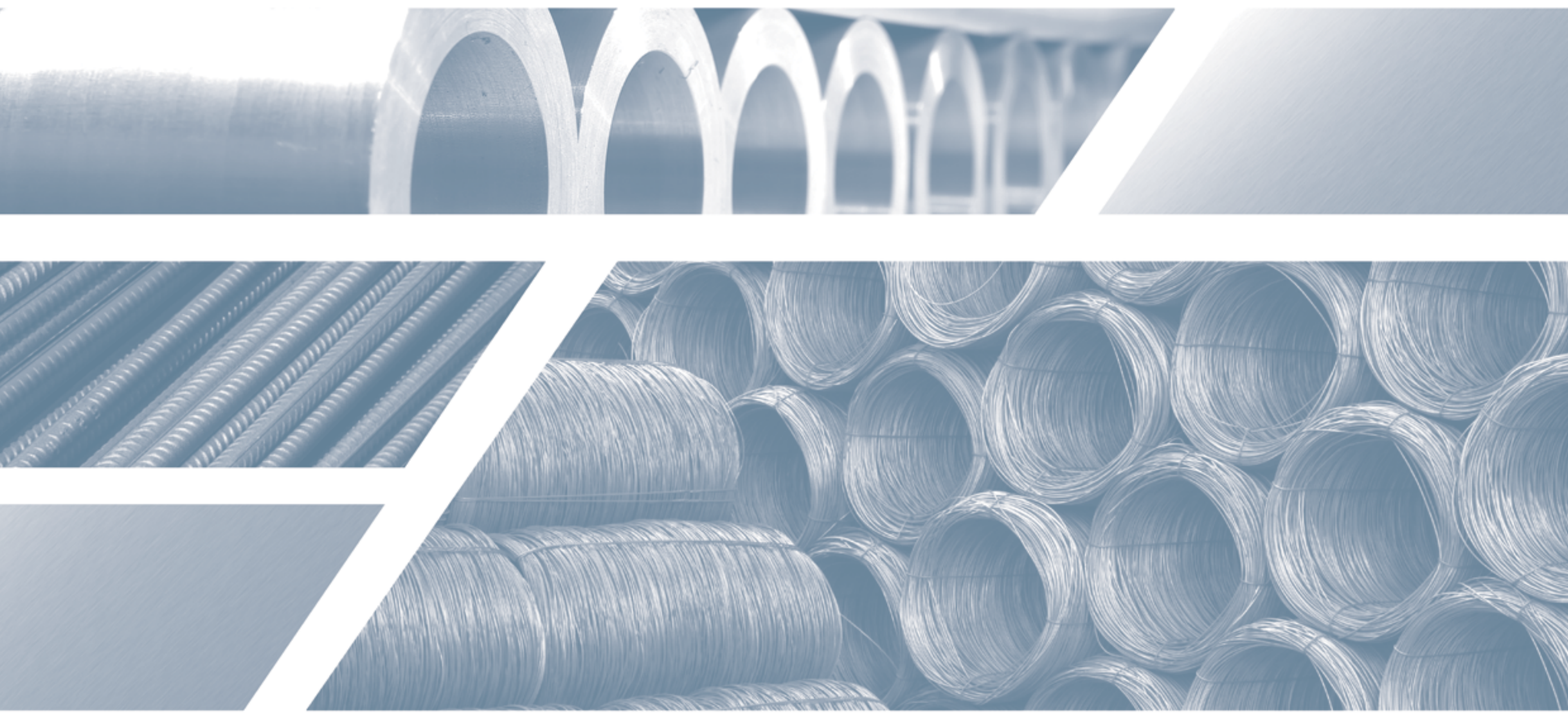
Stock Code: 1266


# 2013
## Annual Report



# Contents





# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors
Mr. WANG Hui *(Chief Executive Officer)*
(appointed on 15 July 2013)
Mr. JIANG Chang Lin (appointed on 15 July 2013)
Mr. HE Qing Wen (appointed on 15 July 2013)
Mr. WANG Liang *(General Manager)*
(resigned on 15 July 2013)
Mr. WANG Gang (resigned on 15 July 2013)
Mr. WANG Tao (resigned on 15 July 2013)

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

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

## COMMITTEES

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

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

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

## COMPANY SECRETARY

Ms. LAM Wai Lin (FCCA, CPA)

## AUTHORISED REPRESENTATIVES

Mr. WANG Di
Ms. LAM Wai Lin

## REGISTERED OFFICE

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

## HEADQUARTERS

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

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

## PRINCIPAL BANKERS

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

## AUDITORS

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

## LEGAL ADVISER

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

## COMPLIANCE ADVISER

Somerley Capital Limited
20/F, China Building,
29 Queen's Road Central
Hong Kong

## HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

## INVESTOR RELATIONS CONTACT

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

## WEBSITE

www.xiwangsteel.com

# Chairman's Statement

Dear Shareholders,

The call for urbanization by the Central Government of China in 2013 revitalized various related industries and simulated the demand for steel. According to the National Bureau of Statistics of the People's Republic of China (the "**PRC**" or "**China**") in 2013, production volume of automobiles increased by 18.4% while investment in railway transportation also grew by 6.3% from 2012. Investment in property development jumped 19.4% year-on-year to RMB8,601.3 billion. The steel industry operated in a relatively favourable market environment when compared to 2012 as demand for steel products increased in 2013. China National Development and Reform Commission announced that in 2013, profit of the iron and steel sector of China grew by 28.9% from 2012.

The turnover of Xiwang Special Steel Company Limited (the "**Company**") and its subsidiaries, (collectively the "**Group**") witnessed slight improvement when compared to that of 2012, amid the improving operating environment in 2013. For the year ended 31 December 2013 (the "**Year**"), the revenue of the Group increased about 2.0% to approximately RMB7,029.8 million. Having implemented effective cost control, gross profit and the net profit of the Group for the Year rose about 22% and 11%, respectively, as compared with the results in 2012, to approximately RMB649.8 million and RMB383.8 million, respectively. Revenue of our ordinary steel products was approximately RMB4,359.4 million (2012: RMB4,794.8 million) and accounted for about 62% of the Group's total revenue (2012: 70%). Revenue of our special steel products, which have higher prices and higher profit margins, was approximately RMB2,322.8 million (2012: RMB2,031.6 million) and accounted for 33% of the Group's total revenue (2012: 29%). The Group started bulk commodity trading business, mainly iron ore trading, in late 2013 and recorded revenue of approximately RMB121.0 million, representing about 2% of the total revenue.

The board (the "**Board**") of directors (the "**Directors**") of the Company proposed a final dividend of RMB1.5 cents (2012: RMB1.5 cents) per ordinary share for the Year. The final dividend represents a payout ratio of approximately 8% (2012: 9%).

The problem of over-capacity is still unsolved in China and has led to market imbalance in demand and supply, thus the selling prices of steel products were still remained at a relatively low and unhealthy level. Figures from the Shanghai Futures Exchange showed that price of steel rebar dropped by approximately 8% from RMB3,794 per tonne in January 2013 to RMB3,492 per tonne in December 2013.

In view of the over-capacity and market imbalance, the State Council of China published the "Guiding Opinion on Solving the Serious Problem of Over-capacity"* (「關於化解產能嚴重過剩矛盾的指導意見」) in October 2013. The article pointed out that structural adjustment will be pushed forward for iron and steel sector in provinces such as Shandong, Hebei, Liaoning, Jiangsu, Shanxi and Jiangxi where regional governments will take initiative to consolidate segmented production capacity of the sector with a target to squeeze the total production volume by over 80 million tonne.

In 2013, the Ministry of Industry and Information Technology of the PRC (the "**Ministry of Industry and Information Technology**") has taken initiatives to reinforce industry specification and management. A notice named "Notice for Iron and Steel Enterprises (the first batch) Fulfilling the Iron and Steel Industry Specification (2012 Amendment)* (「關於符合鋼鐵行業規範條件(2012年修訂)鋼鐵企業(第一批)的公示」) was issued in April 2013 and 45 enterprises were included in the list. In December 2013, the Ministry of Industry and Information Technology published a second notice named "Notice for Enterprises (the second batch) Fulfilling the Iron and Steel Industry Specification* (「關於符合鋼鐵行業規範條件企業(第二批)的公示」) announcing the second batch of 115 enterprises that fulfilled the iron and steel industry specification (the "**Second Batch**"). Shandong Xiwang Special Steel Company Limited* (「山東西王特鋼有限公司」) ("**Shandong Xiwang Special Steel**"), a wholly-owned subsidiary of the Company is one of the enterprises on the list of the Second Batch.

In January 2014, the Ministry of Industry and Information Technology finalised the list of enterprises of the Second Batch, and Shandong Xiwang Special Steel remains on this list as the enterprise that fulfils the iron and steel industry specification.

## Chairman's Statement

The implementation of the above-mentioned measure would not only consolidate the iron and steel industry, but also improve the overall quality of iron and steel production. As a leading steel manufacturer in Shandong Province, the Company will benefit as the move will consolidate the sector and create a better and healthier operating environment for the long-term development of the industry.

In November 2013, Luoyang Bearing Research Institute* (「洛陽軸承研究所」), an authoritative and the only national-level research institute specializing in basic and applied research of rolling bearing products, recognised our steel ball bearing has reached the high-end G10-class National Standard of the PRC. The recognition implies that the Group becomes a qualified manufacturer for producing the type of bearing steel used for making high-end ball bearing products for machinery manufacturing industry. As bearing steel and the related industry is one of the key sectors encouraged under the Twelfth Five-Year Plan of China, the recognition has not only enhanced the competiveness of the Group, but also marked the milestones of the Group in successfully becoming a high-end special steel manufacturer in China.

We will closely monitor the market and make suitable adjustment to our product mix for flexibility and diversity in production. By satisfying market needs, we will be able to stay competitive for maximizing our profit. In view of the continuous development of the China economy and the urbanization move, we are optimistic about the prospects of the iron and steel industry in the medium to long run.

I hereby extend my most sincere gratitude to the shareholders, business partners and customers for their full support to the Company and the Board and staff member for their devotion in the past year. We promise to strive our best in the years to come and continue to achieve fruitful results.

**WANG Yong**
*Chairman*

27 March 2014

* *For identification purpose only*

# Management Discussion & Analysis

## 1. INTRODUCTION

The Group is a leading high-end special steel manufacturer located in Shandong Province of China.

Founded in 2003, the Group was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 23 February 2012. As a high-end special 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 is primarily used in buildings and infrastructures, as well as special steel that is used in automobile, shipbuilding, chemical and petrochemical, machinery and equipment sectors.

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

Our production activities are conducted in our production facilities located in Xiwang Industrial Area, Zouping County, Shandong Province of China. We possesses two production flows, which are (1) steel scraps as raw materials for steel production through EAFs; (2) sintering furnace turning iron ores into sinter for blast furnaces to produce molten iron which was then converted into steel by converters. This provides us with more flexibility in production flow, as we could control our cost and product mix through the utilization of different raw materials.

Our steel production facilities, as of the date of this annual report, consisted of:

- a sintering furnace, with a designed annual capacity of 3.7 million tonnes, supplies sinter for the two blast furnaces;
- two blast furnaces, with a designed annual capacity of 1.05 million tonnes each, use iron ore to convert sinter into molten iron and pig iron for production purposes of the EAFs and converters;
- two converters, i.e. Converter I and Converter II, with a designed annual capacity of 1.15 million tonnes each, convert raw materials including steel scraps, molten iron and pig iron into molten steel and then cast into ordinary steel billets and special steel billets;
- two EAFs, i.e. EAF I and EAF II, with a designed annual capacity of 500,000 tonnes each. The two EAFs convert raw materials, 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 and bearing steel;
- two bar rolling lines, Bar I and Bar II, with a designed annual capacity of 500,000 tonnes each. Bar I and Bar II manufacture small to medium-sized steel bars, including rebars, quality carbon structural steel and alloy structural steel;
- a wire rolling line with a designed annual capacity of 600,000 tonnes. This wire rolling line manufactures steel products in the form of wire rod, which include wire rod, quality carbon structural steel, bearing steel and stainless steel;
- a large bar rolling line, Bar III, with a designed annual capacity of 500,000 tonnes. Bar III manufactures large bar of special steel products including quality carbon structural steel, alloy structural steel, bearing steel and stainless steel.

Segment Description:

The Group's products are mainly divided into two major types:

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

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

## 1. Ordinary steel

**Rebar**

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

**Wire rod**

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

## 2. Special steel

**Quality carbon structural steel**

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

**Alloy structural steel**

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

**Bearing steel**

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

**Stainless steel**

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

## 2. REVIEW OF FINANCIAL RESULTS

Financial results of the Group for 2013, together with the comparative figures of 2012, are summarized as follow:

| For the year ended 31 December | 2013<br>RMB'000 | 2012<br>RMB'000 | Increase<br>% |
|---|---|---|---|
| Revenue | **7,029,766** | 6,891,056 | 2.0 |
| Gross profit | **649,806** | 533,501 | 21.8 |
| Operating profit | **635,487** | 492,419 | 29.1 |
| Net profit | **383,804** | 344,937 | 11.3 |
| Gross profit margin (%) | **9.2** | 7.7 | 1.5% points |
| Operating profit margin (%) | **9.0** | 7.1 | 1.9% points |
| Net profit margin (%) | **5.5** | 5.0 | 0.5% points |

Financial performance of the Group in 2013 improved as compared with that of 2012. The operating environment for the iron and steel sector witnessed improvement after the first half of the Year. Prices of steel products became stable from the second half of the Year, with the production costs maintained at a competitive low level.

During the Year, the Group achieved a revenue of approximately RMB7.0 billion, grew by approximately 2.0% as compared with 2012. In 2013, average selling prices of our ordinary steel products and special steel products dropped by approximately 10.2% and 11.8% respectively from 2012, while the average unit costs of major raw materials decreased in a range from approximately 10.5% to 23.0% as compared with 2012. Overall gross profit margin of the Group in 2013 increased to approximately 9.2% (2012: 7.7%).

## Revenue

Revenue by operating segments:

| For the year ended 31 December | 2013<br>RMB'000 | 2012<br>RMB'000 | Increase/<br>(Decrease)<br>% |
|---|---|---|---|
| **Ordinary Steel** | | | |
| Rebars | **2,654,308** | 2,507,132 | 5.9 |
| Wire rods | **1,705,067** | 2,287,679 | (25.5) |
| **Subtotal Ordinary Steel** | **4,359,375** | 4,794,811 | (9.1) |
| **Special Steel** | | | |
| Quality carbon structural steel | **1,939,573** | 1,601,375 | 21.1 |
| Alloy structural steel | **133,952** | 134,783 | (0.6) |
| Bearing steel | **218,958** | 136,702 | 60.2 |
| Stainless steel | **30,316** | 158,758 | (80.9) |
| **Subtotal Special Steel** | **2,322,799** | 2,031,618 | 14.3 |
| By-products | **226,601** | 64,627 | 250.6 |
| Trading | **120,991** | – | N/A |
| **Total** | **7,029,766** | 6,891,056 | 2.0 |

In 2013, revenue of ordinary steel was approximately RMB4,359 million (2012: RMB4,795 million), represented approximately 62.0% of the total revenue (2012: 69.6%). Revenue of special steel was approximately RMB2,323 million (2012: RMB2,032 million) which accounted for 33.0% of the total revenue (2012: 29.5%). In late 2013, we started the business of bulk commodity trading which mainly involves iron ores, and recorded revenue of approximately RMB121 million (2012: Nil), represented approximately 1.7% of the total revenue (2012: Nil).

Sales Volumes:

| For the year ended 31 December | 2013 Tonnes | 2012 Tonnes | Increase/ (Decrease) % |
|---|---|---|---|
| **Ordinary Steel** | | | |
| Rebars | **879,539** | 760,035 | 15.7 |
| Wire rods | **526,012** | 627,704 | (16.2) |
| **Subtotal Ordinary Steel** | **1,405,551** | 1,387,739 | 1.3 |
| **Special Steel** | | | |
| Quality carbon structural steel | **544,183** | 414,561 | 31.3 |
| Alloy structural steel | **38,471** | 37,616 | 2.3 |
| Bearing steel | **55,450** | 27,509 | 101.6 |
| Stainless steel | **3,465** | 15,565 | (77.7) |
| **Subtotal Special Steel** | **641,569** | 495,251 | 29.5 |
| **Total** | **2,047,120** | 1,882,990 | 8.7 |

Average Selling Prices:

| For the year ended 31 December | 2013 RMB per tonne | | 2012 RMB per tonne | | Decrease |
|---|---|---|---|---|---|
| | Tax-inclusive | Tax-exclusive | Tax-inclusive | Tax-exclusive | % |
| **Ordinary Steel** | | | | | |
| Rebars | **3,531** | **3,018** | 3,860 | 3,299 | (8.5) |
| Wire rods | **3,792** | **3,241** | 4,265 | 3,645 | (11.1) |
| **Special Steel** | | | | | |
| Quality carbon structural steel | **4,170** | **3,564** | 4,520 | 3,863 | (7.7) |
| Alloy structural steel | **4,074** | **3,482** | 4,192 | 3,583 | (2.8) |
| Bearing steel | **4,620** | **3,949** | 5,814 | 4,969 | (20.5) |
| Stainless steel | **10,236** | **8,749** | 11,934 | 10,200 | (14.2) |

## Management Discussion & Analysis

Utilization Rate:

| | | 2013 | 2012 |
|---|---|---|---|
| | | EAF I + EAF II + Converter I | EAF I + EAF II |
| **Steel Smelting** | Total designed capacity[1] *(tonnes)* | **2,150,000** | 1,000,000 |
| | Total effective capacity[2,4] *(tonnes)* | **1,479,167** | 750,000 |
| | Total actual production[4] *(tonnes)* | **760,839** | 461,268 |
| | **Overall utilization rate[3]** | **51.4%** | 61.5% |
| | | Bar I + Bar II + Bar III + Wire Rolling Line | |
| **Steel Rolling** | Total designed capacity[1] *(tonnes)* | **2,100,000** | 2,100,000 |
| | Total effective capacity[2] *(tonnes)* | **2,100,000** | 1,850,000 |
| | Total actual production *(tonnes)* | **2,122,379** | 1,984,675 |
| | **Overall utilization rate[3]** | **101.1%** | 107.3% |
| | | Blast Furnace I | |
| **Iron Smelting** | Total designed capacity[1] *(tonnes)* | **1,050,000** | – |
| | Total effective capacity[2,4] *(tonnes)* | **437,500** | – |
| | Total actual production[4] *(tonnes)* | **375,473** | – |
| | **Overall utilization rate[3]** | **85.9%** | – |
| | | Sintering Furnace | |
| **Sintering** | Total designed capacity[1] *(tonnes)* | **3,700,000** | – |
| | Total effective capacity[2,4] *(tonnes)* | **1,541,667** | – |
| | Total actual production[4] *(tonnes)* | **565,092** | – |
| | **Overall utilization rate[3]** | **36.7%** | – |

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%.

4 We have additions of two blast furnaces, two converters and one sintering furnace during the Year. Each of the blast furnaces and converters has designed capacity of 1,050,000 tonnes and 1,150,000 tonnes respectively. One of the blast furnaces, one of the converters and the sintering furnace started normal operation in late 2013, while the remaining blast furnace and converter started trial production also in late 2013.

Revenue by geographical segments:

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

## Cost of sales

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

In 2013, the cost of sales slightly increased by 0.4% as compared with 2012. Production volume increased under the improved operating environment. Consumption of raw materials increased while their purchase prices decreased significantly as the operating environment was still weak during the Year. Cost of sales, therefore, could be maintained at a competitive low level during the Year.

The breakdown of cost of sales was as follows:

| **For the year ended 31 December** | **2013** | | 2012 | | Increase/ (Decrease) |
|---|---|---|---|---|---|
| | **RMB'000** | **% of total** | RMB'000 | % of total | % |
| Steel billets | **3,661,522** | **57.4%** | 4,386,945 | 69.0% | (16.5) |
| Steel scraps | **843,896** | **13.2%** | 711,017 | 11.2% | 18.7 |
| Molten iron | **849,532** | **13.3%** | 274,169 | 4.3% | 209.9 |
| Pig iron | **58,599** | **0.9%** | 21,980 | 0.3% | 166.6 |
| Ferroalloys | **19,313** | **0.3%** | 77,823 | 1.2% | (75.2) |
| Other raw materials | **354,680** | **5.6%** | 501,267 | 7.9% | (29.2) |
| **Raw materials subtotal** | **5,787,542** | **90.7%** | 5,973,201 | 93.9% | (3.1) |
| Electricity | **179,116** | **2.8%** | 143,937 | 2.3% | 24.4 |
| Depreciation | **220,130** | **3.4%** | 157,357 | 2.5% | 39.9 |
| Labour Costs | **73,943** | **1.2%** | 76,471 | 1.2% | (3.3) |
| Others | **1,723** | **–** | 6,589 | 0.1% | (73.9) |
| Production overheads subtotal | **474,912** | **7.4%** | 384,354 | 6.1% | 23.6 |
| Purchase cost of trading | **117,506** | **1.9%** | – | – | N/A |
| **Total cost of sales** | **6,379,960** | **100%** | 6,357,555 | 100% | 0.4 |

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

| For the year ended 31 December | 2013<br>RMB per tonne<br>Tax-exclusive | 2012<br>RMB per tonne<br>Tax-exclusive | Decrease<br>% |
|---|---|---|---|
| Steel billets | **2,630** | 2,937 | (10.5) |
| Steel scraps | **1,739** | 1,946 | (10.6) |
| Molten iron | **2,202** | 2,737 | (19.5) |
| Pig iron | **2,178** | 2,829 | (23.0) |

## Gross profit margins

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

| For the year ended 31 December | 2013<br>% | 2012<br>% | Increase/<br>(Decrease)<br>% points |
|---|---|---|---|
| **Ordinary Steel** | | | |
| Rebars | **4.9** | 4.4 | 0.5 |
| Wire rods | **7.5** | 9.3 | (1.8) |
| **Weighted average gross profit margin** | **5.9** | 6.7 | (0.8) |
| **Special Steel** | | | |
| Quality carbon structural steel | **14.7** | 14.0 | 0.7 |
| Alloy structural steel | **(0.6)** | (2.4) | 1.8 |
| Bearing steel | **13.5** | 6.8 | 6.7 |
| Stainless steel | **(0.7)** | (27.2) | 26.5 |
| **Weighted average gross profit margin** | **15.7** | 9.2 | 6.5 |
| **Gross profit margin of trading** | **2.9** | – | N/A |
| **Overall gross profit margin** | **9.2** | 7.7 | 1.5 |

During the Year, the weighted average gross profit margin of ordinary steel products decreased by 0.8 percentage points to 5.9% (2012: 6.7%) as compared with 2012. The weighted average gross profit margin of special steel products increased by 6.5 percentage points to 15.7% (2012: 9.2%). The Group's overall gross profit margin witnessed an increase of 1.5 percentage points to 9.2% (2012: 7.7%).

The Group recorded a growth of gross profit margin for the Year, as the average unit costs of major raw materials decreased much significantly than the drop of the average unit selling prices of the products during the Year.

### Other income and gain

In 2013, the Group's other income and gain was approximately RMB40.9 million (2012: RMB27.5 million), mainly including bank interest income of approximately RMB36.4 million (2012: RMB26.6 million) and foreign exchange gain of RMB4.5 million (2012: RMB0.9 million).

### Selling and distribution expenses

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

Selling and distribution expenses for 2013 were approximately RMB8.6 million (2012: RMB6.0 million). The increase was mainly due to more commission was paid to sales staff during the Year.

### Administrative expenses

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

In 2013, the Group's administration expenses amounted to approximately RMB46.6 million (2012: RMB62.6 million). The Group incurred listing and relevant expenses of the Group's initial public offering activities in 2012 and this was the main reason for the decrease in administrative expenses for the Year as compared with 2012.

### Finance costs

In 2013, finance costs of the Group increased to approximately RMB132.3 million (2012: RMB70.9 million), this is mainly due to the increase in weighted average balance of bank and other borrowings during the Year.

### Income tax

The Group's income tax for the Year amounted to approximately RMB119.4 million (2012: RMB76.6 million).

Pursuant to the PRC Corporate Income Tax Law (the "**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 the Company's wholly-owned subsidiaries including Shandong Xiwang Steel Co., Ltd*. (山東西王鋼鐵有限公司), Shandong Xiwang Special Steel, Shandong Xiwang Metal Material Company Limited. (山東西王金屬材料有限公司) and Shandong Xiwang Recycling Resources Co., Ltd*. (山東西王再生資源有限公司) was 25% in 2013.

Pursuant to the CIT Law, and the Announcement 2012 No. 30 released by China State Administration of Taxation on 29 June 2012, withholding tax rate levied on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008 to the Company is 5%.

The Group's effective income tax rate for the Year was 23.7% (2012: 18.2%).

Pursuant to the CIT Law, Xiwang Metal enjoyed its last year of 50% tax reduction in 2012. This caused the rise of effective income tax rate of the Group in 2013 as compared with 2012.

### Liquidity, capital resources and gearing ratio:

| | 31 December 2013<br>RMB'000 | 31 December 2012<br>RMB'000 |
|---|---|---|
| Cash and cash equivalents | **93,316** | 370,172 |
| Total borrowings | **1,942,186** | 1,808,020 |
| Net current liabilities | **4,264,573** | 878,645 |
| Total equity | **3,133,570** | 2,784,599 |
| Current ratio[5] | **0.37** | 0.76 |
| Gearing ratio[6] | **0.59** | 0.52 |

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

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

As at 31 December 2013, the Group's cash and cash equivalents amounted to approximately RMB93.3 million (31 December 2012: RMB370.2 million).

During the Year, the Group had net cash inflow from operating activities of approximately RMB1.6 million (2012: RMB1,750.6 million). The decrease of net cash inflow from that of 2012 to 2013 mainly came from the decrease in trade and bills payables due as at 31 December 2013. In 2013, the Group had net cash used in investing activities of approximately RMB1,958.5 million (2012: RMB2,189.8 million). The Group paid amounts of approximately RMB2,215.6 million for capital expenditure and there was a net decrease of pledged deposits of approximately RMB257.1 million. The Group's net cash inflow from financing activities was approximately RMB1,679.7 million for the Year (2012: RMB654.0 million).

During the Year, the Group had new bank and other borrowings amounted to approximately RMB1,607.2 million (2012: RMB2,340 million) and repaid bank and other borrowings of approximately RMB1,443.6 million (2012: RMB2,158.8 million), so the total borrowings increased to approximately RMB1,942.2 million as at 31 December 2013 (31 December 2012: RMB1,808.0 million). The Group also paid out 2012 final dividends amounted to approximately RMB30.0 million during the Year.

As at 31 December 2013, the Group's total borrowings amounted to approximately RMB1,942.2 million, of which approximately RMB1,257.2 million (2012: RMB590.0 million) were short term bank borrowings and approximately RMB335.0 million (2012: RMB518.0 million) was a finance lease with remaining lease term of two years. Approximately RMB1,281.8 million (2012: RMB1,758 million) of the total borrowings were of fixed rate structures.

Further information of the Group's bank and other borrowings, including maturity profile are disclosed in note 23 to the consolidated financial statements.

Certain parcels of the Group's leasehold land and pledged time deposits with carrying amounts of approximately RMB31.4 million (2012: RMB32.1 million) and RMB193.4 million (2012: Nil), respectively, as at 31 December 2013 were pledged as security for the Group's bank loans and other borrowings. The net carrying amounts of the Group's fixed assets held under finance lease at 31 December 2013 amounted to approximately RMB514.1 million (2012: RMB552.8 million).

The Group's total bills payable amounting to RMB1,677.2 million (2012: RMB2,211.0 million) were secured by the Group's time deposits of approximately RMB925.4 million (2012: RMB1,376.0 million) and inventories of approximately RMB886.0 million (2012: RMB419.0 million) as at 31 December 2013.

The Group's net current liabilities as at 31 December 2013 significantly increased to approximately RMB4,264.6 million (2012: RMB878.6 million), mainly for the construction of blast furnaces, sintering furnace and converters. These new production facilities can increase the flexibility of production flow as discussed in the section "Introduction" in page 5. The Group will take appropriate measures, including increase in financing by long term borrowings to improve the net current liabilities position of the Group. As at the date of this report, the Group was granted borrowing facilities amounted to approximately RMB661.3 million, to repay short term bank loans as at 31 December 2013.

### Use of proceeds from the Company's initial public offering

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

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

| | | Planned allocation percentage of net proceeds | Planned allocation amount of net proceeds<br>RMB million | Amount of net proceeds utilized<br>RMB million | Amount of net proceeds remained as at 31 December 2013<br>RMB million |
|---|---|---|---|---|---|
| 1 | Construction of high-duty alloy pipe production line | 75% | 605 | 605 | – |
| 2 | The paid construction costs incurred in connection with installing EAF II and the remaining construction costs for installing Bar III | 20% | 161 | 161 | – |
| 3 | General working capital | 5% | 40 | 40 | – |
| | | 100% | 806 | 806 | – |

### Capital Investment

In 2013, the Group's capital expenditures was RMB3,443.8 million (2012: RMB1,495.4 million) which was mainly incurred for technological renovation of EAFs, mainly for the improvements of the supply and the efficiency of the inputs of raw materials, the foundation work of high-duty alloy pipe production line and the construction of blast furnaces, sintering furnace and converters.

As at the date of this report, the Group has no plan for material investments or capital assets.

### Contingent liabilities

The Group did not have any material contingent liabilities as at 31 December 2013 (31 December 2012: nil).

### Foreign exchange risk

As all of the operating income of the Group was denominated in RMB and all of the assets held and committed borrowings of the Group were denominated in RMB, the Directors 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.

### Major acquisition or disposal

No major acquisition or disposal was undertaken by the Group during the Year.

### Human resources

The Group had 4,110 employees as at 31 December 2013 (31 December 2012: 2,772). Total staff costs incurred during the Year was approximately RMB177 million (2012: RMB124 million). The Group regularly reviewed the remuneration packages of the directors and employees with respect to their experience and responsibilities to the Group's business. A remuneration committee was set up to determine and review the terms of remuneration packages, bonuses, and other compensation payable to the directors and members of the senior management of the Group.

## 3. OUTLOOK AND FUTURE PLANS

According to the figures from the National Bureau of Statistics of China, the gross domestic product ("**GDP**") of China in 2013 grew by 7.7% year-on-year to RMB56,884.5 billion, which fulfilled the target of 7.5% set at the beginning of 2013. The International Monetary Fund predicts that growth of China will slightly fall from 7.8% in 2013 to 7.7% in 2014. The Ministry of Industry and Information Technology published on 30 December 2013 the "Report on the Operation of China Industries and Telecommunication Industry in 2013*" (「2013年中國工業通信業運行報告」) revealed that steel price continued to drop in 2013 as a results of market imbalance. The report predicts that investment in infrastructure and property sectors may decline and demand for steel from downstream industries including automobile and ship-building sectors may remain static in 2014. The growth in steel production will slow down and steel manufacturers are expected to continue to operate in a challenging operating environment in 2014.

In view of the problem of over-capacity that led to a relatively difficult market situation for the steel sector, on 9 January 2014, the executive meeting of the People's Government of Shandong Province has principally passed the "Comments regarding Solutions to the Serious Problem of Over-capacity*" (「化解產能嚴重過剩矛盾的實施意見」). According to the document, different production capacity targets are set for various industries including iron and steel, cement and electrolytic aluminum sectors. For the iron and steel sector in Shandong Province, the target is to limit the production capacity to 50 million tonnes and to raise the production utilization rate to above 80% within five years. The policy will restore the market balance and create a healthier operating environment for the sector in the near future.

In the coming decades, there are still opportunities ahead in China as a central urbanization work conference was held in Beijing from 12 to 13 December 2013 to map out more detailed measures to push forward the country's urbanization. Being the highest level meeting the Chinese leadership has ever convened on urbanization, the meeting pledged proactive yet steady moves in pushing forward human-centered urbanization, that include helping migrant workers better integrate into cities and encouraging cities to develop their own industries based on their unique resource advantages, with an aim to improve the quality of urbanization. These initiatives will definitely revitalize various related industries and fuel domestic demand for steel products in the years to come.

Looking forward, despite current challenges and difficulties, the future of the steel industry is still optimistic as population growth and urbanization will stimulate industry and economy growth in China in the coming decades. The problem of over-capacity of steel and the surplus capacity, though takes time to be resolved, will eventually be absorbed in the long term with the determination of the Central Government and provincial governments to implement various measures to resolve the problem.

We will actively face the challenges and grasp any opportunities by closely monitoring the operating environment and policy alteration in China. We will continue to upgrade our technology level to enhance production efficiency and product quality, to expand product mix and increase the proportion of high-end products, to strengthen our cost management in raw materials purchase, while at the same time leverage on our professional management to sharpen our competitive edges with an aim to becoming a leading industry player producing high-end and high-quality products in the special steel sector in China.

## DIVIDEND

Pursuant to the meeting of the Board on 27 March 2014, the Board has recommended the payment of a final dividend of RMB0.015 (2012: RMB0.015) per ordinary share to shareholders of the Company whose names shall appear on the register of members of the Company on Tuesday, 27 May 2014. Subject to shareholders' approval at the forthcoming annual general meeting (the "**AGM**") of the Company to be held on Thursday, 22 May 2014, the final dividend will be payable on or about Friday, 6 June 2014.

## EVENTS AFTER THE REPORTING PERIOD

As at 31 December 2013, the Group had an amount of RMB1,687.1 million due to an independent third party, which is unsecured, bears interest at 7.0% per annum and has no fixed terms of repayment. Pursuant to an agreement entered into between the Group and the independent third party as above-mentioned on 13 March 2014, the Group will repay the amount of RMB1,687.1 million on 31 March 2015.

* *For identification purpose only*

# Board of Directors and Senior Management

## EXECUTIVE DIRECTORS

**Mr. WANG Hui (王輝)**

Aged 36, was appointed as executive Director and chief executive officer of the Company on 15 July 2013. Mr. WANG is experienced in management. He joined the corporate governance and human resources department of Xiwang Group Company Limited ("**Xiwang Group**") as department head from 1998 to 2000. From 2001 to 2009, he had held several management positions including deputy general manager of production, deputy general manager of sales and general manager within Xiwang Group and subsidiaries of Xiwang Group. From 2010 to June 2012, he was the deputy general manager of Xiwang Group and the general manager of Xiwang Pharmaceutical Company Limited, a wholly-owned subsidiary of Xiwang Group. He has been appointed as the general manager of Shandong Xiwang Special Steel, a wholly-owned subsidiary of the Company, since June 2012. Mr. WANG obtained his master of business administration from the Shandong University of the PRC (山東大學).

**Mr. JIANG Chang Lin (姜長林)**

Aged 57, was appointed as executive Director on 15 July 2013. He had more than 30 years of experience in steel industry. From 1982 to 2008, Mr. JIANG worked as the management of Jigang Group Company Limited (濟鋼集團有限公司), a state-owned iron and steel company, and its subsidiaries in Shandong Province, the PRC, including Jinan Iron and Steel Company Ltd (now known as Shandong Iron and Steel Company Limited, a company listed on the Shanghai Stock Exchange under stock code 600022), Shandong Qiumo Cast Pipe Company Limited (山東球墨鑄鐵管有限公司), Shandong Baode Wing Plate Company Limited (山東飽德翼板有限公司) and Jigang Yanggu Cold-rolled Steel Plate Company Limited (濟鋼陽谷冷軋板有限公司) etc. From 2008 to 2012, he was the department head of the construction management department of the headquarters of Jigang Group Company Limited. He has been appointed as deputy managing general manager of Shandong Xiwang Special Steel since October 2012. Mr. JIANG graduated from Anshan Iron and Steel College (鞍山鋼鐵學院) in the PRC with a bachelor degree in metallurgical technology.

**Mr. HE Qing Wen (何慶文)**

Aged 46, was appointed as executive Director on 15 July 2013. From 1992 to 2013, he worked in different positions including engineer and head of production department for different companies under Laiwu Iron and Steel Company Limited (萊蕪鋼鐵股份有限公司) in Shandong Province of the PRC, which was merged with Shandong Iron and Steel Company Limited in 2012. He joined Shandong Xiwang Special Steel as deputy general manager of production in January 2013 and was re-designated as production safety director on 7 October 2013. Mr. HE obtained a doctorate degree in iron and steel and metallurgy from the University of Science and Technology of Beijing (北京科技大學) in the PRC.

**Mr. WANG Liang (王亮)**
(resigned on 15 July 2013)

Aged 43, Mr. WANG Liang was executive Director and the previous general manager of the Company. Mr. WANG was responsible for the overall management of the Group. He started to work at Xiwang Group on 1 April 1988 and has been the chief executive officer of Xiwang Property Holdings Company Limited ("**Xiwang Property**") (previously named Xiwang Sugar Holdings Company Limited, a company publicly listed on the Stock Exchange under stock code 2088 since February 2005 and is effectively held as to 65.62% of ordinary shares and 99.67% of convertible preference shares by Xiwang Investment Company Limited ("**Xiwang Investment**"), from 2001 to 2008). He was also a director of Xiwang Property from 2005 to 2010 and resigned as a director of Xiwang Property in November 2010. Mr. WANG was also 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 resigned as general manager and executive Director of the Company on 15 July 2013. He pursues other senior management positions within Xiwang Group after his resignation.

**Mr. WANG Gang (王剛)**
(resigned on 15 July 2013)

Aged 54, Mr. WANG Gang was appointed as an executive Director on 2 June 2011. Mr. WANG was 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 Xiwang Group. He received a diploma from Huang Shan High School (黃山中學) in July 1977. Mr. WANG resigned as executive Director of the Company on 15 July 2013. He pursues other senior management positions within Xiwang Group after his resignation.

**Mr. WANG Tao (王濤)**
(resigned on 15 July 2013)

Aged 36, Mr. WANG was our vice president of the production department and was appointed as an executive Director on 2 June 2011. He had been leading the production department of the Group since 2007 until his resignation on 15 July 2013. Mr. WANG joined Xiwang Group on 15 August 1998 and has served as the head of factory at a variety of production lines within Xiwang Group. Mr. WANG studied and completed the graduate program in business administration at Shandong University (山東大學) of the PRC 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. Mr. WANG resigned as executive Director of the Company on 15 July 2013. He pursues other senior management positions within Xiwang Group after his resignation.

## NON-EXECUTIVE DIRECTORS

**Mr. WANG Yong (王勇)**

Aged 63, Mr. WANG was appointed as the chairman and non-executive Director in June 2011. Mr. WANG is father of Mr. WANG Di (王棣), who is a non-executive Director of the Company. Mr. WANG is one of the founders of the Group. As a non-executive Director, Mr. WANG regularly attends the board meetings and is responsible for the strategic planning of the Group, but does not engage in the day-to-day management of the Group. Mr. WANG was the legal representative of Zouping County Xiwang Social Benefits Oil and Cotton Factory (鄒平縣西王社會福利油棉廠) from 1986 to 1992 and of Zouping County Xiwang Industrial Head Company (鄒平縣西王實業總公司) from 1993 to 1996. He was the managing director of Xiwang Group from 1996 to 2001. Mr. WANG has been the chairman of the board of directors of Xiwang Group since 2001. Mr. WANG has been assessed by Professional Position Evaluation Committee of Binzhou Non-Public Ownership Organisations (濱州市非公有制經濟組織專業技術職務評審委員會) as a senior economist and was appointed as the vice president of the third council of China Fermentation Industry Association (中國發酵工業協會) in December 2004. Mr. WANG received secondary education in the PRC.

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

Mr. WANG has several positions in listed companies. He was appointed as the chairman and the executive director of Xiwang Property and was re-designated as the deputy chairman and non-executive director from 15 July 2013. He is also a director of Xiwang Foodstuffs Company Limited ("**Xiwang Foodstuffs**", a company publicly listed on the Main Board of the Shenzhen Stock Exchange (stock code: 000639) since February 2010 and is effectively held as to 52.08% by Xiwang Group).

**Mr. WANG Di (王棣)**

Aged 30, Mr. WANG was appointed as a non-executive Director in November 2007. He is the son of Mr. WANG Yong. He has been serving as the head of branding of the Group since March 2010. Mr. WANG attended the bachelor's degree course of information conflict from the Electronic Engineering Institute of the Chinese People's Liberation Army (中國人民解放軍電子工程學院) from 2001 to 2005. Mr. WANG joined Xiwang Group in August 2005 and has been in charge of the international trading business of Xiwang Group for more than eight years. Mr. WANG has been granted various awards and honours, including outstanding worker for enterprise education and training of Shandong Province of the PRC in 2006, labour model of Binzhou City of Shandong Province of the PRC, labour model of Shandong Province, the PRC and outstanding entrepreneur in food industry of Shandong Province of the PRC. Mr. WANG is director and the chairman of Xiwang Foodstuffs. He was appointed as the executive director of Xiwang Property in November 2010 and the deputy chairman in July 2012, and was re-designated as the chairman and non-executive director on 15 July 2013.

**Mr. SUN Xinhu (孫新虎)**

Aged 39, Mr. SUN was appointed as our non-executive Director in June 2011. He has been serving as vice general manager since he joined Xiwang Group in March 2003. Mr. SUN earned his master's degree in food science from Southern Yangtze University (江南大學) in July 2004 and bachelor's degree in food science from Shandong Polytechnic University (山東輕工業學院) in July 1997. Mr. SUN was an executive director of Xiwang Property since December 2008 and re-designated as a non-executive director on July 2012. Mr. SUN is also director of Xiwang Foodstuffs since 2010 and was the secretary of the board of Xiwang Foodstuffs from 2010 to October 2013.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. LEUNG Shu Sun Sunny (梁樹新)**

Aged 50, Mr. LEUNG was appointed as an independent non-executive Director commencing from 23 February 2012. He is the chairman of the audit committee of the Company ("**Audit Committee**"). He has over 20 years' working experience in, among other things, accounting, treasury management, budgeting and corporate finance. He is a fellow member of the Association of Chartered Certified Accountants, an associate member of the Hong Kong Institute of Certified Public Accountants and a member of Certified General Accountants' Association of Canada. Mr. LEUNG is an independent non-executive director of Pan Asia Environmental Protection Group Limited, a company listed on the Main Board of the Stock Exchange under stock code 556, since December 2007. From 2005 to 2007, he served as the financial controller, qualified accountant and company secretary of Xiwang Property. From 2001 to date, he was a director of a company providing accounting, tax and corporate finance services. From 1999 to 2001, he held key finance position in a listed company in Hong Kong. From 1998 to 1999, he was a finance director of a company principally engaged in the provision of network infrastructure solutions. From 1993 to 1998, he was the financial controller of a company principally engaged in property investment, trading and securities. From 1987 to 1990, he had worked in international accounting firms, handling audit, tax and accounting matters. Mr. LEUNG received a professional diploma in accountancy from Hong Kong Polytechnic University in November 1994 and earned a master's degree in business administration, which is a long distance course from the University of South Australia in 1997.

**Mr. ZHANG Gongxue (張公學)**

Aged 49, Mr. ZHANG was appointed as an independent non-executive Director 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 66, Mr. YU was appointed as an independent non-executive Director commencing from 23 February 2012. Mr. YU is the deputy secretary general of China Special Steel Enterprise Association (中國特鋼企業協會) since 2008. He served as vice president of the Shougang Group (首鋼集團) from 2005 to 2008, and was with Shougang Group since 1983. Mr. YU has worked in the steel industry since 1969. He studied in the master program at the Party School of the Central Committee of C.P.C. (中共中央黨校) in economics and management from September 2004 to July 2007. Mr. YU received a professional diploma in industrial management from Beijing Institute of Economic Management (北京市經濟管理幹部學院) in December 1986.

## SENIOR MANAGEMENT

**Mr. ZHANG Qingsheng (張慶生)**

Aged 35, Mr. ZHANG was appointed as the vice president of the technical department of the Group in November 2008 and was re-designated as the deputy general manager of production department on 7 October 2013. Mr. ZHANG is responsible for the overall management and supervision for the technical support and issues related to the steel production process and the large bar rolling line project. Mr. ZHANG has served as the vice president of Shandong Xiwang Special Steel since 2008. Mr. ZHANG worked for Xiwang Property overseeing technical issues for its factories and was its vice president from 2005 to 2008. Mr. ZHANG earned his bachelor's degree from Liaoning Shihua University (遼寧石油化工大學) in July 2002.

**Mr. HU Zhe (胡哲)**

Aged 33, Mr. HU was appointed as the deputy general manager of sales department of the Group in July 2013 and is responsible for the overall management of the sales department. Mr. HU joined the planning department of Xiwang Group in September 2010 and was responsible for the editing of the Group's newspaper. He served as the head of planning department from July 2011 to July 2013. Mr. HU obtained his master degree in law from Communist Party's School of Hubei Province (中共湖北省委黨校) in July 2010 and his bachelor degree in English in July 2007 from China University of Petroleum (中國石油大學).

**Mr. LUO Kaifa (羅開發)**

Aged 30, Mr. LUO was appointed as the deputy general manager of purchasing department of the Group in June 2013. Mr. LUO joined Xiwang Group and served as head of training and head of remuneration and party affairs in November 2007 and was promoted to head of human resources deparment in August 2011. From October 2012 to June 2013, Mr. LUO was the head of General Administration Office. He obtained his bachelor degree in laws from Northeast Forestry University (東北林業大學) in July 2007.

**Mr. LIU Laijun (劉來君)**

Aged 62, Mr. LIU was appointed as the chief engineer of the Group in January 2013 and is responsible for technical research, product design and planning. Mr. LIU has more than 40 years' experience in iron and steel industry. He was the deputy general manager cum chief engineer of Qingdao Iron and Steel Group Co., Ltd. (青島鋼鐵控股集團有限責任公司) from April 2000 to February 2011. He joined Xining Special Steel Company Limited (西寧特殊鋼股份有限公司) in 1982 as technician and was promoted to chief engineer in 1996. Mr. LIU obtained his bachelor degree in metallurgy from Beijing Iron and Steel College (北京鋼鐵學院) in January 1982.

**Ms. LAM Wai Lin (林惠蓮)**

Aged 45, Ms. Lam was appointed as company secretary of the company (the "**Company Secretary**") in June 2011. Ms. Lam is responsible for company secretarial functions and also involves in financial management of the Group. Ms. Lam has over 17 years of experience in auditing, accounting and financial management. Ms. Lam is also financial controller and company secretary of Xiwang Property since June 2007. Prior to joining Xiwang Property, Ms. Lam was the finance manager of a media company listed on the Main Board of the Stock Exchange. From 2000 to 2004, she was an auditor of an international accounting firm in Hong Kong. Ms. Lam graduated from the University of London with a bachelor degree in Economics. She is a fellow member of the Assoication of Chartered Certified Accountants and an associate member of Hong Kong Institute of Certified Public Accountants.

**Mr. WANG Chao (王超)**

Aged 30, Mr. WANG worked for the investment department of Xiwang Group from July 2010 to February 2012. He was appointed as investor relations director of the Group in February 2012. Mr. WANG obtained his master degree in 2010 from Shandong University (山東大學).

**Mr. FANG Chongxi (房崇喜)**

Aged 39, Mr. FANG joined the Group in 2000 and is the head of financial management of the PRC operations of the Group. Mr. FANG received his bachelor's degree in accounting from the Shandong University of China (山東大學) in January 2011.

**Mr. WANG Baoming (王保民)**

Aged 61, Mr. WANG was the executive vice president of the Group from July 2003 to January 2013. Mr. WANG assisted the president of Xiwang Steel to oversee daily operations and was 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. He earned his bachelor's degree from Shandong Institue of Mining and Technology (山東礦業學院) in July 1977. He ceased to be the executive vice president of the Group since January 2013 to pursue other senior management positions within Xiwang Group.

**Mr. WANG Honggang (王宏剛)**

Aged 34, Mr. WANG was the vice president of the purchasing department of the Group from December 2004 to January 2013. Mr. WANG was responsible for the management and supervision of all purchasing related matters within the Group. 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. WANG ceased to be the vice president of the purchasing department of the Group since January 2013 to pursue other senior management positions within Xiwang Group.

**Mr. DONG Ming (董明)**

Aged 36, Mr. DONG was the vice president of the sales and marketing department of the Group from June 2004 to January 2013. Mr. DONG was 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 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 ceased to be the vice president of the sales and marketing department of the Group since January 2013 to pursue other senior management positions within Xiwang Group.

**Mr. ZHAO Fusheng (趙福生)**

Aged 49, Mr. ZHAO was the lead engineer of the Group from August 2008 to January 2013. He was responsible for the research, planning ad implementation of all of production related technologies, and the supervision of the technical department of the Group. He assisted the vice president of the technical department of the Group to manage and oversee daily operations. Mr. ZHAO has over 27 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.

**Mr. CHUNG Kwok Mo John (鍾國武)**

Aged 45, Mr. CHUNG was an executive vice president of the Company. He was the chief financial officer of the Company from September 2011 to 15 July 2013 and was re-designated as Executive Vice President of the Company since 15 July 2013. He was also the chief financial officer of Xiwang Property from May 2008 to September 2011, the financial consultant from September 2011 to 15 July 2013, and has been re-designated as executive vice president since 15 July 2013. In addition, he is an independent non-executive director of Zhengye International Holdings Company Limited, a company listed on the Main Board of the Stock Exchange under stock code 3363, since March 2011, and an independent non-executive director of BYD Electronic (International) Company Limited, a company listed on the Main Board of the Stock Exchange under stock code 285, since June 2013. Mr. CHUNG has over 20 years of experience in auditing, financial management and corporate finance. Mr. CHUNG was an auditor in an international accounting firm from 1992 to 1999. Since 2000 and prior to joining Xiwang Property, Mr. CHUNG had held several senior management positions, including chief financial officer, executive director and independent non-executive director in several listed companies in Hong Kong. Mr. CHUNG has a bachelor degree of Economics from Macquarie University, Australia. He is also a member of the Hong Kong Institute of Certified Public Accountants and CPA Australia. Mr. CHUNG resigned as an executive vice president of the Company on 31 December 2013 and is an external consultant of the Company with effect from 1 January 2014.

# Corporate Governance Report

## CORPORATE GOVERNANCE MEASURES

The Company is committed to maintaining good corporate governance practices and procedures. The Company has adopted the code provisions in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**") as its own code of corporate governance. The Board considers that the Company was in compliance with all applicable code provisions set out in the CG Code throughout the Year.

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

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

During the Year, the Board has reviewed the Company's corporate governance practices and the duties performed by the committees of the Board, including the review of terms of reference for the Nomination Committee of the Company (the "**Nomination Committee**").

The Company has adopted a board diversity policy being the guidelines to achieve diversity on the Board (the "**Board Diversity Policy**"). The Nomination Committee is responsible for monitoring the implementation of the Board Diversity Policy and review the same as appropriate. In designing the Board's composition, the Board should have a balance of skills, experience and knowledge in the industry and diversity of perspectives appropriate to the Company's business. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. The full set of the Board Diversity Policy of the Company is published on the Company's website for public information.

The Board has set objectives (including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) to implement the Board Diversity Policy and review such objects from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

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

## A. Directors' securities transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") as set out in Appendix 10 to the Listing Rules as its model code for securities transactions by Directors. Having made specific enquiries, all the Directors confirmed that they have complied with the Model Code during the Year and up to the date of this report.

## B. Board of Directors

### (i) Board composition

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

*Executive Directors*
Mr. WANG Hui *(Chief Executive Officer)* (appointed on 15 July 2013)
Mr. JIANG Chang Lin (appointed on 15 July 2013)
Mr. HE Qing Wen (appointed on 15 July 2013)
Mr. WANG Liang *(General Manager)* (resigned on 15 July 2013)
Mr. WANG Gang (resigned on 15 July 2013)
Mr. WANG Tao (resigned on 15 July 2013)

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

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

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

Mr. WANG Liang, Mr. WANG Gang and Mr. WANG Tao have resigned as executive Directors, and Mr. WANG Liang has also resigned as general manager of the Company, effective from 15 July 2013. Mr. WANG Hui, Mr. JIANG Chang Lin and Mr. HE Qing Wen have been appointed as executive Directors effective from 15 July 2013. Mr. WANG Hui has also been appointed as the chief executive officer of the Company.

**(ii) Appointment and re-elections of Directors**

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

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

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

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

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

**(iii) Responsibilities and contributions of the Board**

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

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

**(iv) Financial reporting**

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2013, which give a true and fair view of the state of affairs of the Group, and ensure that they are prepared in accordance with statutory requirements and applicable accounting standards. The financial statements of the Company and the Group for the year ended 31 December 2013 were prepared on a going concern basis. The Audit Committee has reviewed and recommended the Board to adopt the audited accounts for the year ended 31 December 2013. The Board is not aware of any material uncertainties relating to the events or condition that may undermine the Company's ability to continue as a going concern.

The statements of the external auditors of the Company with regard to their reporting responsibilities on the financial statements of the Company are set out in the Independent Auditors' Report on pages 41 to 42 of this annual report.

**(v) Relationship among members of the Board**

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

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

**(vi) Continuous professional development of Directors**

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

During the Year, the Company provided the Directors with written materials for the updates of corporate governance practices, especially the sections related to the Board, discussion and case study of market misconduct affairs. All Directors have confirmed they have studied the materials provided by the Company.

## C. Chairman and chief executive officer

Mr. WANG Yong is the chairman of the Company who is principally responsible for formulation of plans and policies of the Group. The chairman also chairs the Board meetings and briefs the Board members on the issues discussed at the Board meetings. The chief executive officer of the Company is responsible for the supervision for the execution of the plans and policies determined by the Board.

## D. Board committees

We have established the following board committees in compliance with the CG Code. Independent non-executive Directors are majority of members of these committees appointed by the Board. Written terms of reference of these committees based on the CG Code have been approved and adopted by the Board.

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

### (i) Audit Committee

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

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

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

Two meetings were held by the Audit Committee during the Year. During the Year, the Audit Committee reviewed the Company's financial reporting system and internal control procedures. The Audit Committee reviewed and recommended the Board to adopt the audited accounts and final result announcement for the year ended 31 December 2012 and the unaudited accounts and interim result announcement for the six months ended 30 June 2013. It has also reviewed and recommended the Board for the re-appointment of external auditor.

The Audit Committee has reviewed the Company's annual results for the year ended 31 December 2013 at the meeting held on 27 March 2014.

**(ii) Remuneration Committee**

In accordance with the written terms of reference of the remuneration committee of the Company (the "**Remuneration Committee**"), majority of members of the Remuneration Committee should be independent non-executive Directors, with the chairman must be an independent non-executive Director. The terms of reference of the Remuneration Committee are available on the Company's website and the website of the Stock Exchange.

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

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

One meeting was held by the Remuneration Committee during the Year, to review and recommend to the Board the remuneration packages of the newly appointed Directors during the Year.

**(iii) Nomination Committee**

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

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

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

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

Two meetings were held by the Nomination Committee during the Year. During the Year, the Nomination Committee performed annual review of the structure of the Board, and re-assess the independence of the Independent Non-executive Directors of the Company. The Nomination Committee also reviewed the terms of the service contracts of the three executive Directors appointed in July 2013 and recommended to the Board on their appointment by reference to their experience and qualification.

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

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

| | No. of meetings attended/no. of meetings held | | | | |
|---|---|---|---|---|---|
| | Board Meeting | Audit Committee Meeting | Remuneration Committee Meeting | Nomination Committee Meeting | General Meeting |
| **Executive Directors:** | | | | | |
| WANG Liang *(General Manager)* (resigned on 15 July 2013) | 2/3 | N/A | N/A | N/A | 0/1 |
| WANG Gang (resigned on 15 July 2013) | 2/3 | N/A | N/A | N/A | 0/1 |
| WANG Tao (resigned on 15 July 2013) | 1/3 | N/A | N/A | N/A | 0/1 |
| WANG Hui *(Chief Executive Officer)* (appointed on 15 July 2013) | 2/2 | N/A | N/A | N/A | N/A |
| JIANG Chang Lin (appointed on 15 July 2013) | 2/2 | N/A | N/A | N/A | N/A |
| HE Qing Wen (appointed on 15 July 2013) | 2/2 | N/A | N/A | N/A | N/A |
| **Non-executive Directors:** | | | | | |
| WANG Yong *(Chairman)* | 4/4 | N/A | N/A | N/A | 0/1 |
| WANG Di | 4/4 | N/A | 1/1 | 2/2 | 0/1 |
| SUN Xinhu | 4/4 | 2/2 | N/A | N/A | 1/1 |
| **Independent Non-executive Directors:** | | | | | |
| LEUNG Shu Sun Sunny | 4/4 | 2/2 | N/A | N/A | 1/1 |
| ZHANG Gongxue | 4/4 | 2/2 | 1/1 | 2/2 | 0/1 |
| YU Kou | 4/4 | N/A | 1/1 | 2/2 | 0/1 |

Note: Mr. WANG Yong, the Chairman of the Board, had a meeting with the non-executive Directors (without the presence of the executive Directors of the Company) of the Company during the Year. Non-executive Directors recommended to strengthen communication with the market.

## E. Remuneration of senior management

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

| | Number of senior management |
|---|---|
| Nil to RMB500,000 | 10 |
| RMB500,001 to RMB1,000,000 | 2 |
| | 12 |

## F. Auditors' remuneration

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

| | For the year ended 31 December 2013 (RMB'000) |
|---|---|
| Service rendered | |
| Ernst & Young | |
| Annual audit services | 1,700 |
| Non-audit services | – |

## G. Internal control

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

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

## H. Company Secretary

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

The biographical details of the Company Secretary are set out on page 22 of this Annual Report.

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

## I. Directors' and Officers' liability insurance

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

## J. Shareholders' Rights and Investor Relations

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

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

During the year, pursuant to article 50 of the Articles and section 113 of the then in force Companies Ordinance (Cap. 32 of the Laws of Hong Kong), shareholders holding not less than one-twentieth of the paid-up capital of the Company carrying the right of voting at general meeting of the Company may by written requisition to the Board for convene and putting forward proposals at an extraordinary general meeting. The procedures for shareholders to convene extraordinary general meetings and put forward proposal are as follows:

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

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

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

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

The investor relations and corporate communication department of the Company maintains regular communication and dialogue with shareholders, investors and analysts. It can be accessed during normal business hour by phone (Telephone: 86 543 489 1888/852 3188 4518).

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

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

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

## K. Compliance of Non-Competition Undertaking

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

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

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

On behalf of the Board

**WANG Yong**
*Chairman*

Hong Kong, 27 March 2014

# Directors' Report

The Board is pleased to present its annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2013.

## PRINCIPAL ACTIVITIES

The Group is a leading high-end special steel manufacturer located in Shandong Province of China. Our products consist of ordinary steel products that are used primarily buildings and infrastructures, as well as special steel products that is used in automobile, shipbuilding, chemical and petrochemical, machinery and equipment sectors. The Group has started bulk commodity trading business, mainly iron ore trading, from the second half of the Year.

## DIVIDEND

Pursuant to the meeting of the Board on 27 March 2014, the Board has recommended the payment of a final dividend of RMB0.015 (approximately HK$0.019) (2012: RMB0.015) per ordinary share to shareholders of the Company whose names shall appear on the register of members of the Company on Tuesday, 27 May 2014. Subject to shareholders' approval at the forthcoming AGM of the Company to be held on Thursday, 22 May 2014, the final dividend will be payable on or about Friday, 6 June 2014.

## USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds from the Company's issue of new shares at its listing on the Stock Exchange amounted to approximately HK$991 million (approximately RMB806 million) (the "**Net Proceeds**"), which were intended to be or had been applied in accordance with the proposed applications set out in the section headed "Future plans and use of proceeds" in the prospectus of the Company dated 13 February 2012 (the "**Future plans and use of proceeds**"). As at 31 December 2013, all the Net Proceeds was utilized in accordance with the "Future plans and use of proceeds", approximately RMB605 million for the construction of high-duty alloy pipe production line; approximately RMB161 million for the settlements of the unpaid construction costs incurred in connection with installing EAF II and the Bar III and approximately RMB40 million for the general working capital.

## 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 of this annual report.

## SHARE CAPITAL

Details of movements in the Company's share capital for the year ended 31 December 2013 are set out in note 26 to the consolidated financial statements of this annual report.

## FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 101 of this annual report.

## 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 THE COMPANY'S SECURITIES

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

## RESERVES

Details of movements in the reserves of the Company during the Year are set out in note 27 to the consolidated financial statements. As at 31 December 2013, the reserves of the Company available for distribution, calculated in accordance with the provision of Section 79B of the Hong Kong Companies Ordinance, amounted to RMB30,111,000 of which RMB30,000,000 has been proposed as final dividend for the Year.

## MAJOR CUSTOMERS AND SUPPLIERS

The Group's five largest suppliers accounted for approximately 45.9% (2012: 52.9%) of the Group's total cost of purchase for the Year. The largest supplier accounted for approximately 16.3% (2012: 20.3%) of the Group's total cost of purchase.

The Group's five largest customers accounted for approximately 33.3% (2012: 41.6%) of the Group's total revenue for the Year. The largest customer accounted for approximately 12.6% (2012: 16.1%) of the Group's total revenue for the Year.

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

## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

### Executive Directors

Mr. WANG Hui *(Chief Executive Officer)* (appointed on 15 July 2013)
Mr. JIANG Chang Lin (appointed on 15 July 2013)
Mr. HE Qing Wen (appointed on 15 July 2013)
Mr. WANG Liang *(General Manager)* (resigned on 15 July 2013)
Mr. WANG Gang (resigned on15 July 2013)
Mr. WANG Tao (resigned on15 July 2013)

### 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 previous executive Directors, Mr. WANG Liang, Mr. WANG Gang and Mr. WANG Tao, 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 the executive Directors, Mr. WANG Hui, Mr. JIANG Chang Lin and Mr.HE Qing Wen has entered into a service agreement with the Company for a term of three years commencing from 15 July 2013. 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. Mr. WANG Liang, Mr. WANG Gang, Mr. WANG Tao resigned on 15 July 2013.

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

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

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

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 18 to 23 of this annual report.

## DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

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

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

### DIRECTORS' INTEREST IN COMPETING BUSINESS

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

## MANAGEMENT CONTRACTS

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

## REMUNERATION POLICY

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

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

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

As at 31 December 2013, the Directors or chief executive of the Company and their respective associates had the following interests in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("**SFO**")) which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO; or notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

| Name of company/ associated corporations | Name of Director | Capacity | Number and class of securities held/interest and interests in debentures (Note 1) | Approximate percentage shareholding in the same class of securities in the relevant corporation as at 31 December 2013 |
|---|---|---|---|---|
| Company | WANG Yong | Interest of controlled corporations (Note 2) | 1,500,000,000 ordinary shares (L) (Note 4, 6) | 75.00% |
| Xiwang Holdings | WANG Yong | Beneficial owner (Note 2)<br>Other (Note 2) | 130,495 shares (L)<br>69,505 shares (L) | 65.25%<br>34.75% |
| Xiwang Investment | WANG Yong | Interest of controlled corporations (Notes 2 and 3) | 3 shares (L)<br><br>promissory note in the principal amount of RMB441,223,765 (Note 5) | 100.00% |
| Xiwang Property | WANG Yong | Interest of controlled corporations (Note 3) | 810,903,622 ordinary shares (L) (Note 3) | 65.62% |
| | | | 678,340,635 Convertible preference Shares (L) (Note 3) | 99.67% |
| Xiwang Holdings | WANG Di | Beneficial owner (Note 2) | 3,546 shares (L) | 1.77% |
| Xiwang Holdings | SUN Xinhu | Beneficial owner (Note 2) | 1,773 shares (L) | 0.89% |

Notes:

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

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

Xiwang Holdings is directly and beneficially owned as to 65.25% by Mr. WANG Yong,1.77% by Mr. WANG Di, and 0.89% by Mr. SUN Xinhu as at 31 December 2013.

(3) As at 31 December 2013, Xiwang Investment, which is deemed to be wholly owned by Mr. WANG Yong, held 65.62% of ordinary shares of Xiwang Property and 99.67% of convertible preference shares of Xiwang Property.

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

(5) Promissory note (the "**Promissory Note**") with principal amount of RMB441,223,765 was issued by Xiwang Investment in favour of Xiwang Property to satisfy part of the consideration of the disposal of the entire issued share capital of Master Team International Limited by Xiwang Property to Xiwang Investment in 2013 (the "**Disposal**"). Details of the Disposal and the Promissory Note can be found in the circular of Xiwang Property dated 13 June 2013.

(6) Xiwang Investment has charged all its shares in the Company in favour of Xiwang Property as security for its indebtedness owned to Xiwang Property under the Promissory Note. Mr. WANG Yong is deemed to have interest in the security interest over the shares of Xiwang Investment in the Company through his interest in Xiwang Property and Xiwang Holdings.

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

### (a) Substantial shareholders of the Company

As at 31 December 2013, so far as it is known to the Directors of the Company, the following persons (other than the Directors and chief executive of the Company) had or were deemed or taken to have interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

| Name of substantial shareholder | Capacity | Number of shares of the Company held/interest (Note 1) | Approximate percentage of interest in the Company as at 31 December 2013 |
|---|---|---|---|
| Xiwang Investment | Beneficial owner | 1,500,000,000 ordinary shares (L) | 75% |
| Xiwang Holdings | Interest of a controlled corporation (Note 2) | 1,500,000,000 ordinary shares (L) | 75% |
| ZHANG Shufang | Interest of spouse (Note 3) | 1,500,000,000 ordinary shares (L) | 75% |

Notes:

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

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

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

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

Save as disclosed in the paragraph headed "Directors' interests in shares, underlying shares and debentures of the Company and its associated corporations" and paragraph (a) above, as at 31 December 2013, no other person had interests or short positions in the shares or underlying shares of the Company which are recorded in the register required to be kept by the Company under section 336 of the SFO.

## CONNECTED TRANSACTIONS

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

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

## CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 24 to 33 of this annual report.

## AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") is comprised of three Directors, namely, Mr. LEUNG Shu Sun Sunny and Mr. ZHANG Gongxue who are independent non-executive Directors, and Mr. SUN Xinhu who is a non-executive Director. Mr. LEUNG Shu Sun Sunny serves as the chairman of the Audit Committee. The major duties of the Audit Committee under its written terms of reference include monitoring the integrity of the financial statements and reports, overseeing the independence and performance of the external auditors of the Company, reviewing the Group's financial reporting system and internal control procedures.

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

## SUFFICIENCY OF PUBLIC FLOAT

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

## ANNUAL GENERAL MEETING

The forthcoming AGM will be held on Thursday, 22 May 2014.

### CLOSURE OF REGISTER OF MEMBERS

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

(i) from Tuesday, 20 May 2014 to Thursday, 22 May 2014, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the AGM. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's transfer office and share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 19 May 2014; and

(ii) from Wednesday, 28 May 2014 to Thursday, 29 May 2014, both days inclusive, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to establish entitlements to the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's transfer office and share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30p.m. on Tuesday, 27 May 2014.

## AUDITORS

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

On behalf of the Board

**WANG Yong**
*Chairman*

Hong Kong, 27 March 2014

# Independent Auditors' Report

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

**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 43 to 100, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 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 2013, 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
27 March 2014

# Consolidated Statement of Profit or Loss

Year ended 31 December

| | Note | **2013 RMB'000** | 2012 RMB'000 |
|---|---|---|---|
| **REVENUE** | 4 | **7,029,766** | 6,891,056 |
| Cost of sales | 4 | **(6,379,960)** | (6,357,555) |
| **Gross profit** | 4 | **649,806** | 533,501 |
| Other income and gain | 5 | **40,902** | 27,482 |
| Selling and distribution expenses | | **(8,584)** | (5,986) |
| Administrative expenses | | **(46,637)** | (62,578) |
| Finance costs | 7 | **(132,300)** | (70,913) |
| **PROFIT BEFORE TAX** | 6 | **503,187** | 421,506 |
| Income tax | 10 | **(119,383)** | (76,569) |
| **PROFIT FOR THE YEAR** | | **383,804** | 344,937 |
| Profit attributable to owners of the parent | 11 | **383,804** | 344,937 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT** | | | |
| Basic and diluted | 13 | **RMB19.2 cents** | RMB17.8 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

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| **PROFIT FOR THE YEAR** | **383,804** | 344,937 |
| **OTHER COMPREHENSIVE INCOME** | | |
| Other comprehensive income to be classified to profit or loss in subsequent periods: | | |
| Exchange differences on translation of foreign operations | **(4,833)** | 175 |
| Net other comprehensive income to be classified to profit or loss in subsequent periods | **(4,833)** | 175 |
| **OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX** | **(4,833)** | 175 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | **378,971** | 345,112 |
| Total comprehensive income attributable to owners of the parent | **378,971** | 345,112 |

# Consolidated Statement of Financial Position

As at 31 December

| | Note | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 14 | **7,817,528** | 4,599,585 |
| Prepaid land lease payments | 15 | **90,919** | 92,895 |
| Deferred asset | 24 | **1,057** | 1,760 |
| Deferred tax assets | 25 | **4,764** | 2,969 |
| Total non-current assets | | **7,914,268** | 4,697,209 |
| **CURRENT ASSETS** | | | |
| Inventories | 17 | **914,745** | 572,834 |
| Trade and bills receivables | 18 | **106,503** | 49,198 |
| Prepayments, deposits and other receivables | 19 | **260,650** | 475,998 |
| Pledged deposits | 20 | **1,118,888** | 1,376,000 |
| Cash and cash equivalents | 20 | **93,316** | 370,172 |
| Total current assets | | **2,494,102** | 2,844,202 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | 21 | **1,776,705** | 2,429,739 |
| Receipts in advance, other payables and accruals | 22 | **3,435,299** | 452,604 |
| Interest-bearing bank and other borrowings | 23 | **1,443,121** | 789,195 |
| Due to a related party | 31(c) | **69,434** | 22,099 |
| Income tax payable | | **34,116** | 29,210 |
| Total current liabilities | | **6,758,675** | 3,722,847 |
| **NET CURRENT LIABILITIES** | | **(4,264,573)** | (878,645) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **3,649,695** | 3,818,564 |

## Consolidated Statement of Financial Position
As at 31 December

| | Note | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing bank and other borrowings | 23 | **499,065** | 1,018,825 |
| Deferred tax liability | 25 | **17,060** | 15,140 |
| Total non-current liabilities | | **516,125** | 1,033,965 |
| **Net assets** | | **3,133,570** | 2,784,599 |
| **EQUITY** | | | |
| **Equity attributable to owners of the parent** | | | |
| Share capital | 26 | **165,903** | 165,903 |
| Reserves | 27 | **2,937,667** | 2,588,696 |
| Proposed final dividend | 12 | **30,000** | 30,000 |
| **Total equity** | | **3,133,570** | 2,784,599 |

**WANG Yong**
*Director*

**WANG Hui**
*Director*

# Consolidated Statement of Changes in Equity

Year ended 31 December

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

| | **Attributable to owners of the parent** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Share capital RMB'000 (note 26)** | **Share premium account RMB'000 (note 26)** | **Contributed surplus RMB'000** | **Statutory surplus reserve RMB'000 (note 27(a))** | **Special reserve RMB'000 (note 27(b))** | **Exchange fluctuation reserve RMB'000** | **Retained profits RMB'000** | **Proposed final dividend RMB'000** | **Total RMB'000** | **Total equity RMB'000** |
| **At 1 January 2013** | **165,903** | **789,930** | **78,938** | **264,701** | **37,220** | **6,469** | **1,411,438** | **30,000** | **2,784,599** | **2,784,599** |
| Profit for the year | **-** | **-** | **-** | **-** | **-** | **-** | **383,804** | **-** | **383,804** | **383,804** |
| **Other comprehensive income for the year:** | | | | | | | | | | |
| Exchange differences on translation of foreign operations | **-** | **-** | **-** | **-** | **-** | **(4,833)** | **-** | **-** | **(4,833)** | **(4,833)** |
| **Total comprehensive income for the year** | **-** | **-** | **-** | **-** | **-** | **(4,833)** | **383,804** | **-** | **378,971** | **378,971** |
| Profit appropriated to reserve | **-** | **-** | **-** | **136,198** | **41,305** | **-** | **(177,503)** | **-** | **-** | **-** |
| Final 2012 dividend declared | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(30,000)** | **(30,000)** | **(30,000)** |
| Proposed final 2013 dividend (note 12) | **-** | **-** | **-** | **-** | **-** | **-** | **(30,000)** | **30,000** | **-** | **-** |
| **At 31 December 2013** | **165,903** | **789,930*** | **78,938*** | **400,899*** | **78,525*** | **1,636*** | **1,587,739*** | **30,000** | **3,133,570** | **3,133,570** |

* These reserve accounts comprise the consolidated reserves of RMB2,937,667,000 (2012: RMB2,588,696,000) in the consolidated statement of financial position.

# Consolidated Statement of Cash Flows

Year ended 31 December

| | Note | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | **503,187** | 421,506 |
| Adjustments for: | | | |
| Finance costs | 7 | **132,300** | 70,913 |
| Interest income | 5 | **(36,429)** | (26,628) |
| Exchange gain, net | 5 | **(4,473)** | (854) |
| Depreciation | 14 | **225,852** | 165,273 |
| Recognition of prepaid land lease payments | 15 | **1,976** | 1,976 |
| | | **822,413** | 632,186 |
| Increase in inventories | | **(341,911)** | (150,913) |
| (Increase)/decrease in trade and bills receivables | | **(57,305)** | 498,396 |
| Decrease in prepayments, deposits and other receivables | | **215,348** | 11,064 |
| (Decrease)/increase in trade and bills payables | | **(653,034)** | 850,856 |
| Increase/(decrease) in receipts in advance, other payables and accruals | | **80,067** | (4,784) |
| Increase in an amount due to a related party | | **47,335** | 22,099 |
| **Cash generated from operations** | | **112,913** | 1,858,904 |
| Interest received | | **32,399** | 23,524 |
| Interest element of finance lease rental payments | | **(29,373)** | (17,612) |
| PRC tax paid | | **(114,352)** | (114,264) |
| **Net cash flows from operating activities** | | **1,587** | 1,750,552 |

## Consolidated Statement of Cash Flows

Year ended 31 December

| | Note | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases of items of property, plant and equipment | | **(2,215,581)** | (1,558,722) |
| Decrease/(increase) in pledged deposits | | **257,112** | (631,049) |
| **Net cash flows used in investing activities** | | **(1,958,469)** | (2,189,771) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| New bank and other loans | | **1,607,183** | 1,770,000 |
| Increase in an amount due to an independent third party | | **1,687,134** | – |
| Proceeds from a sale and leaseback arrangement | | **–** | 570,000 |
| Capital element of finance lease rental payments | | **(153,644)** | (34,368) |
| Repayment of bank loans | | **(1,290,000)** | (1,124,453) |
| Repayment of other loans | | **–** | (1,000,000) |
| Proceeds from issue of shares | | **–** | 861,547 |
| Share issue expenses | | **–** | (53,552) |
| Dividends paid | | **(30,000)** | (274,000) |
| Interest paid | | **(140,990)** | (61,143) |
| **Net cash flows from financing activities** | | **1,679,683** | 654,031 |
| **NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS** | | **(277,199)** | 214,812 |
| Cash and cash equivalents at beginning of year | | **370,172** | 154,496 |
| Effect of foreign exchange rate changes, net | | **343** | 864 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | **93,316** | 370,172 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and bank balances | 20 | **93,316** | 370,172 |
| **Cash and cash equivalents as stated in the statement of cash flows** | | **93,316** | 370,172 |

# Statement of Financial Position

As at 31 December

| | Note | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Investments in subsidiaries | 16 | **887,227** | 683,958 |
| **CURRENT ASSETS** | | | |
| Due from subsidiaries | 16 | **395,804** | 27,073 |
| Prepayments | 19 | **221** | 212 |
| Cash and cash equivalents | 20 | **5,790** | 8,278 |
| Total current assets | | **401,815** | 35,563 |
| **CURRENT LIABILITIES** | | | |
| Other payables and accruals | 22 | **3,359** | 1,700 |
| Interest-bearing bank loans | 23 | **176,933** | – |
| Due to subsidiaries | 16 | **115,662** | 75,327 |
| Total current liabilities | | **295,954** | 77,027 |
| **NET CURRENT ASSETS/(LIABILITIES)** | | **105,861** | (41,464) |
| **Net assets** | | **993,088** | 642,494 |
| **EQUITY** | | | |
| Share capital | 26 | **165,903** | 165,903 |
| Reserves | 27 | **797,185** | 446,591 |
| Proposed final dividend | 12 | **30,000** | 30,000 |
| **Total equity** | | **993,088** | 642,494 |

**WANG Yong**
*Director*

**WANG Hui**
*Director*

# Notes to Financial Statements

31 December 2013

## 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 the People's Republic of China ("**PRC**").

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

## 2.1 BASIS OF PREPARATION

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

### Going concern

As at 31 December 2013, the Group's current liabilities exceeded its current assets by approximately RMB4,264.6 million (31 December 2012: RMB878.6 million). The directors of the Company have considered the following factors:

- The Group's expected net cash inflows from operating activities in 2014;
- The extension of the repayment date of an amount of RMB1,687.1 million due to an independent third party to 31 March 2015 as detailed in note 35 to the financial statements;
- Undrawn borrowing facilities of approximately RMB661.3 million from a financial institution as at 31 December 2013;
- The directors of the Company are also confident that those bank loans, which will be expired during the next 12 months, could be renewed upon expiration based on the Group's past experience and credit standing; and
- Other available sources of financing from banks and the ultimate shareholder given the Group's credit history.

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

### Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2013. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

## 2.1 BASIS OF PREPARATION (continued)

### Basis of consolidation (continued)

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Other than as further explained below regarding the impact of HKFRS 10, HKFRS 11, HKFRS 12, HKFRS 13, HKAS 19 (2011), amendments to HKFRS 10, HKFRS 11, HKFRS 12 and HKAS 1, and certain amendments included in Annual Improvements 2009-2011 Cycle, 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) HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements and addresses the issues in HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. It establishes a single control model used for determining which entities are consolidated. To meet the definition of control in HKFRS 10, an investor must have (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled.

As a result of the application of HKFRS 10, the Group has changed the accounting policy with respect to determining which investees are controlled by the Group.

The application of HKFRS 10 does not change any of the consolidation conclusions of the Group in respect of its involvement with investees as at 1 January 2013.

(b) 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. The classification of joint arrangements under HKFRS 11 depends on the parties' rights and obligations arising from the arrangements. A joint operation is a joint arrangement whereby the joint operators have rights to the assets and obligations for the liabilities of the arrangement and is accounted for on a line-by-line basis to the extent of the joint operators' rights and obligations in the joint operation. A joint venture is a joint arrangement whereby the joint ventures have rights to the net assets of the arrangement and is required to be accounted for using the equity method in accordance with HKAS 28 (2011).

The adoption of HKFRS 11 does not have any impact on the Group as the Group has no joint arrangements with joint control.

(c) HKFRS 12 sets out the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities. Details of the disclosures for subsidiaries are included in note 16 to the financial statements.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(d) The HKFRS 10, HKFRS 11 and HKFRS 12 Amendments clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time.

(e) 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 rather provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. HKFRS 13 is applied prospectively and the adoption has had no material impact on the Group's fair value measurements. As a result of the guidance in HKFRS 13, the policies for measuring fair value have been amended. Additional disclosures required by HKFRS 13 for the fair value measurements of financial instruments are included in note 33 to the financial statements.

(f) The HKAS 1 Amendments change the grouping of items presented in other comprehensive income ("**OCI**"). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) are presented separately from items which will never be reclassified (for example, the revaluation of land and buildings). The amendments have affected the presentation only and have had no impact on the financial position or performance of the Group. The consolidated statement of comprehensive income has been restated to reflect the changes. In addition, the Group has chosen to use the new title "statement of profit or loss" as introduced by the amendments in these financial statements.

(g) HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. As the Group does not have any defined benefit plan or employee termination plan and the Group does not have any significant employee benefits that are expected to be settled for more than twelve months after the reporting period, the adoption of the revised standard has had no effect on the financial position or performance of the Group.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(h) *Annual Improvements 2009-2011 Cycle* issued in June 2012 sets out amendments to a number of standards. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments have had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

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

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

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

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

| | |
|---|---|
| HKFRS 9 | *Financial Instruments*[3] |
| HKFRS 9, HKFRS 7 and HKAS 39 Amendments | *Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39*[3] |
| HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments | Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[1] |
| HKFRS 14 | *Regulatory Deferral Accounts*[4] |
| HKAS 19 Amendments | Amendments to HKAS 19 *Employee Benefits – – Defined Benefit Plans: Employee Contributions*[2] |
| HKAS 32 Amendments | Amendments to HKAS 32 *Financial Instruments: Presentation – – Offsetting Financial Assets and Financial Liabilities*[1] |
| HKAS 36 Amendments | Amendments to HKAS 36 *Impairment of Assets – – Recoverable Amount Disclosures for Non-Financial Assets*[1] |
| HKAS 39 Amendments | Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – – Novation of Derivatives and Continuation of Hedge Accounting*[1] |
| HK(IFRIC)-Int 21 | *Levies*[1] |
| Annual Improvements 2010–2012 Cycle | Amendments to a number of HKFRSs issued in December 2013[2] |
| Annual Improvements 2011–2013 Cycle | Amendments to a number of HKFRSs issued in December 2013[2] |

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 No mandatory effective date yet determined but is available for adoption
4 Effective for annual periods beginning on or after 1 January 2016

Further information about those HKFRSs that are expected to be applicable to 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 as at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in 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.

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

In December 2013, the HKICPA added to HKFRS 9 the requirements related to hedge accounting and made some related changes to HKAS 39 and HKFRS 7 which include the corresponding disclosures about risk management activity for applying hedge accounting. The amendments to HKFRS 9 relax the requirements for assessing hedge effectiveness which result in more risk management strategies being eligible for hedge accounting. The amendments also allow greater flexibility on the hedged items and relax the rules on using purchased options and non-derivative financial instruments as hedging instruments. In addition, the amendments to HKFRS 9 allow an entity to apply only the improved accounting for own credit risk-related fair value gains and losses arising on FVO liabilities as introduced in 2010 without applying the other HKFRS 9 requirements at the same time.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on impairment of financial assets continues to apply. The previous mandatory effective date of HKFRS 9 was removed by the HKICPA in December 2013 and a mandatory effective date will be determined after the entire replacement of HKAS 39 is completed. However, the standard is available for application now. The Group expects to adopt HKFRS 9 from 1 January 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

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

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

The HKAS 36 Amendments remove the unintended disclosure requirement made by HKFRS 13 on the recoverable amount of a cash-generating unit which is not impaired. In addition, the amendments require the disclosure of the recoverable amounts for the assets or cash-generating units for which an impairment loss has been recognised or reversed during the reporting period, and expand the disclosure requirements regarding the fair value measurement for these assets or units if their recoverable amounts are based on fair value less costs of disposal. The amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided HKFRS 13 is also applied. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

The results of subsidiaries are included in the Company's statement of profit or loss 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 to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Business combinations and goodwill (continued)

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

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

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

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

### Fair value measurement

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Fair value measurement (continued)

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

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

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

### Impairment of non-financial assets

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Related parties

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

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); 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 statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

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

### Non-current assets and disposal groups held for sale

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

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

### Leases

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leases (continued)

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

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

### Investments and other financial assets

**Initial recognition and measurement**

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

**Subsequent measurement**

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

**Loans and receivables**

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

### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Derecognition of financial assets (continued)

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

### Impairment of financial assets

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

**Financial assets carried at amortised cost**

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

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount 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 statement of profit or loss.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial liabilities

**Initial recognition and measurement**

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

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

**Subsequent measurement**

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

**Loans and borrowings**

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

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

### Derecognition of financial liabilities

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

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

### Offsetting of financial instruments

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

### Inventories

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Cash and cash equivalents

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

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

### Income tax

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

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

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

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

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

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

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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Income tax (continued)

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

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

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

### Government grants

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

### Revenue recognition

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

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

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

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

### 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 statement of profit or loss of the Group as they become payable in accordance with the rules of the schemes.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Borrowing costs

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

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging between 7.0% and 10.5% has been applied to the expenditure on the individual assets.

### Dividends

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

### Foreign currencies

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

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

### Judgement

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

**Withholding taxes arising from the distributions of dividends**

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

### Estimation uncertainty

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

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

### Estimation uncertainty (continued)

**Deferred tax assets**

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

**Write-down of inventories to net realisable value**

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

**Recognition of deferred tax liability for withholding taxes**

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

## 4. OPERATING SEGMENT INFORMATION

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

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

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

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

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

### Geographical information

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

## 4. OPERATING SEGMENT INFORMATION (continued)

### Information about major customers

For the year ended 31 December 2013, sales to one of the Group's customers of RMB605,161,000 (2012: RMB1,108,460,000), which represented 8.6% (2012: 16.1%) 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 2013** | | | | |
| **Segment revenue:** | | | | |
| Sales to external customers | **4,359,375** | **2,322,799** | **347,592** | **7,029,766** |
| Cost of sales | **(4,102,044)** | **(2,008,302)** | **(269,614)** | **(6,379,960)** |
| **Gross profit** | **257,331** | **314,497** | **77,978** | **649,806** |
| **Reconciliation:** | | | | |
| Other income and gain | | | | **40,902** |
| Selling and distribution expenses | | | | **(8,584)** |
| Administrative expenses | | | | **(46,637)** |
| Finance costs | | | | **(132,300)** |
| **Profit before tax** | | | | **503,187** |

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

## 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 | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| **Revenue** | | |
| Sale of ordinary steel | **4,359,375** | 4,794,811 |
| Sale of special steel | **2,322,799** | 2,031,618 |
| Trading of bulk commodities | **120,991** | – |
| Sale of by-products | **226,601** | 64,627 |
| | **7,029,766** | 6,891,056 |
| **Other income** | | |
| Bank interest income | **36,429** | 26,628 |
| **Gain** | | |
| Foreign exchange gain, net | **4,473** | 854 |
| | **40,902** | 27,482 |

## 6. PROFIT BEFORE TAX

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

| | Note | Group 2013 RMB'000 | Group 2012 RMB'000 |
|---|---|---|---|
| Cost of inventories sold^ | | **6,379,960** | 6,357,555 |
| Depreciation^ | 14 | **225,852** | 165,273 |
| Amortisation of prepaid land lease payments^ | 15 | **1,976** | 1,976 |
| Research expenses^ | | **119,467** | 91,748 |
| Auditors' remuneration | | **1,700** | 1,700 |
| Employee benefit expense (including directors' remuneration)^: | | | |
| Wages and salaries | | **167,390** | 115,922 |
| Pension scheme contributions* | | **6,979** | 4,710 |
| Staff welfare expenses | | **2,594** | 3,523 |
| | | **176,963** | 124,155 |
| Foreign exchange differences, net | 5 | **(4,473)** | (854) |
| Bank interest income | 5 | **(36,429)** | (26,628) |
| (Reversal of impairment loss)/impairment loss of inventories^ | | **(3,173)** | 5,329 |

^ Included in the cost of inventories sold are direct employee benefit expense, depreciation of manufacturing facilities, amortisation of prepaid land lease payments, research expenses and impairment loss/(reversal of impairment loss) of inventories amounting to approximately RMB432,749,000 (2012: RMB330,905,000). 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 2013 RMB'000 | Group 2012 RMB'000 |
|---|---|---|
| Interest on bank borrowings wholly repayable within five years | **131,618** | 74,445 |
| Interest on a finance lease | **28,512** | 17,612 |
| Interest on an amount due to an independent third party (note 22) | **60,364** | – |
| Total interest expense on financial liabilities not at fair value through profit or loss | **220,494** | 92,057 |
| Less: Interest capitalised | **(88,194)** | (21,144) |
| | **132,300** | 70,913 |

## 8. DIRECTORS' REMUNERATION

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

| | Group | |
|---|---|---|
| | 2013 RMB'000 | 2012 RMB'000 |
| Fees | 220 | 162 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | 2,877 | 217 |
| Pension scheme contributions | 19 | 16 |
| | 3,116 | 395 |

### (a) Independent non-executive directors

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

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Mr. Leung Shu Sun Sunny | 120 | 128 |
| Mr. Zhang Gongxue | 50 | 17 |
| Mr. Yu Kou | 50 | 17 |
| | 220 | 162 |

There were no other emoluments payable to the independent non-executive directors during the year (2012: Nil).

## 8. DIRECTORS' REMUNERATION (continued)

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

| | Fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Pension scheme contributions RMB'000 | Total remuneration RMB'000 |
|---|---|---|---|---|
| 2013 | | | | |
| Executive directors: | | | | |
| Mr. Wang Liang* | – | – | – | – |
| Mr. Wang Gang* | – | – | – | – |
| Mr. Wang Tao* | – | 180 | 8 | 188 |
| Mr. Wang Hui** | – | 400 | 11 | 411 |
| Mr. Jiang Chang Lin** | – | 1,366 | – | 1,366 |
| Mr. He Qing Wen** | – | 931 | – | 931 |
| | – | 2,877 | 19 | 2,896 |
| Non-executive directors: | | | | |
| Mr. Wang Yong | – | – | – | – |
| Mr. Wang Di | – | – | – | – |
| Mr. Sun Xinhu | – | – | – | – |
| | – | – | – | – |
| | – | 2,877 | 19 | 2,896 |

* Mr. Wang Liang, Mr. Wang Gang and Mr. Wang Tao resigned as executive directors on 15 July 2013.

** Mr. Wang Hui, Mr. Jiang Chang Lin and Mr. He Qing Wen were appointed as executive directors on 15 July 2013.

## 8. DIRECTORS' REMUNERATION (continued)

### (b) Executive directors and non-executive directors (continued)

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

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

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2012: one director), details of whose remuneration are set out in note 8(b) above. Details of the remuneration for the year of the remaining three (2012: four) non-director, highest paid employees for the year are as follows:

| | Group 2013 RMB'000 | Group 2012 RMB'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **4,172** | 2,018 |
| Performance-related bonus | **1,150** | 206 |
| Pension scheme contributions | **12** | 40 |
| | **5,334** | 2,264 |

## 9. FIVE HIGHEST PAID EMPLOYEES (continued)

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

| | Number of employees | |
|---|---|---|
| | **2013** | 2012 |
| Nil to RMB1,000,000 | **2** | 4 |
| RMB1,000,001 to RMB2,000,000 | **1** | – |
| | **3** | 4 |

## 10. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits in Hong Kong for the 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 effective on 1 January 2008, the PRC subsidiaries are subject to corporate income tax ("CIT") at a statutory rate of 25% on their respective taxable income for the year ended 31 December 2013.

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Current – Mainland China | | |
| Charge for the year | **119,508** | 90,308 |
| Deferred (note 25) | **(125)** | (13,739) |
| Total tax charge for the year | **119,383** | 76,569 |

## 10. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit before tax at the applicable tax rate for the location in which the Company and 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 | | | |
|---|---|---|---|---|
| | 2013 RMB'000 | % | 2012 RMB'000 | % |
| Profit before tax | **503,187** | | 421,506 | |
| Tax at the statutory tax rate | **125,797** | **25** | 105,377 | 25 |
| Lower tax rate enacted by local authority | **230** | **–** | (28,739) | (7) |
| Expenses not deductible for tax | **1,897** | **–** | 226 | – |
| Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries | **1,920** | **1** | (12,140) | (3) |
| Effect of gain on intra-group disposal of interest in a subsidiary | **–** | **–** | 8,287 | 2 |
| Effect of super deduction of research expenses | **(11,277)** | **(2)** | – | – |
| Tax losses not recognised | **816** | **–** | 3,558 | 1 |
| Tax charge at the Group's effective tax rate | **119,383** | **24** | 76,569 | 18 |

The Group has tax losses arising in Hong Kong of approximately RMB48,647,000 as at 31 December 2013 (2012: RMB45,936,000), 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 2013 includes a loss of RMB1,406,000 (2012: loss of RMB21,565,000) which has been dealt with in the financial statements of the Company.

## 12. DIVIDEND

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Proposed final dividend (not recognised as a liability as at 31 December) – RMB0.015 (2012: RMB0.015) per ordinary share | **30,000** | 30,000 |

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 for the year ended 31 December 2013 attributable to ordinary equity holders of the parent of RMB383,804,000 (2012: RMB344,937,000) and the 2,000,000,000 ordinary shares in issue (2012: the weighted average number of 1,935,519,126 ordinary shares deemed to have been in issue).

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 2013 | | | | | | |
| At 31 December 2012 and at 1 January 2013: | | | | | | |
| Cost | 1,803,558 | 1,964,291 | 4,855 | 23,475 | 1,212,029 | 5,008,208 |
| Accumulated depreciation | (116,954) | (284,077) | (1,318) | (6,274) | – | (408,623) |
| Net carrying amount | 1,686,604 | 1,680,214 | 3,537 | 17,201 | 1,212,029 | 4,599,585 |
| At 1 January 2013, net of accumulated depreciation | 1,686,604 | 1,680,214 | 3,537 | 17,201 | 1,212,029 | 4,599,585 |
| Additions | – | 10,516 | 6,190 | 26,897 | 3,400,192 | 3,443,795 |
| Depreciation provided during the year | (68,047) | (151,311) | (1,055) | (5,439) | – | (225,852) |
| Transfers | 1,232,510 | 1,318,599 | – | – | (2,551,109) | – |
| At 31 December 2013, net of accumulated depreciation | 2,851,067 | 2,858,018 | 8,672 | 38,659 | 2,061,112 | 7,817,528 |
| At 31 December 2013: | | | | | | |
| Cost | 3,036,068 | 3,293,406 | 11,045 | 50,372 | 2,061,112 | 8,452,003 |
| Accumulated depreciation | (185,001) | (435,388) | (2,373) | (11,713) | – | (634,475) |
| Net carrying amount | 2,851,067 | 2,858,018 | 8,672 | 38,659 | 2,061,112 | 7,817,528 |

As at 31 December 2013, the Group has not yet obtained the building ownership certificates in respect of certain buildings with a net book value of RMB1,990,527,000.

The net carrying amounts of the Group's fixed assets held under finance lease included in the amount of machinery and equipment at 31 December 2013 amounted to RMB514,119,000 (note 24).

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

## 15. PREPAID LAND LEASE PAYMENTS

| | Group 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Carrying amount at 1 January | **94,871** | 96,847 |
| Recognised during the year | **(1,976)** | (1,976) |
| Carrying amount at 31 December | **92,895** | 94,871 |
| Current portion included in prepayments, deposits and other receivables (note 19) | **(1,976)** | (1,976) |
| Non-current portion | **90,919** | 92,895 |

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

Certain of the Group's leasehold land with a carrying amount of RMB31,407,000 as at 31 December 2013 (2012: RMB32,076,000) were pledged as security for the Group's bank loans and other borrowings (note 23).

## 16. INVESTMENTS IN SUBSIDIARIES

| | Company 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Unlisted shares, at cost | **887,227** | 683,958 |

The amounts due from subsidiaries and the amount due to subsidiaries included in the Company's current assets and current liabilities of RMB395,804,000 (31 December 2012: RMB27,073,000) and RMB115,662,000 (31 December 2012: RMB75,327,000), respectively, are unsecured, interest-free and have no fixed terms of repayment.

## 16. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

| Company name | Place and date of registration and business | Nominal value of issued and fully paid-up capital/ registered capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct % | Indirect % | |
| Win Goal Trading Limited ("Win Goal") | Hong Kong 9 November 2012 | HK$128,040,001 | 100 | – | Trading of bulk commodities |
| Xiwang International Trade (Qingdao) Co., Ltd. ("International Trade (Qingdao)") (西王國際貿易(青島)有限公司) * | PRC/Mainland China 24 June 2013 | US$16,380,000 | 100 | – | Trading of bulk commodities |
| Shandong Xiwang Metal Material Company Limited ("Xiwang Metal") (山東西王金屬材料有限公司) * | PRC/Mainland China 20 April 2004 | US$61,000,000 | 100 | – | Production and sale of steel products |
| Shandong Xiwang Steel Co., Ltd. ("Xiwang Steel") (山東西王鋼鐵有限公司) * | PRC/Mainland China 31 December 2003 | RMB240,000,000 | – | 100 | Production and sale of steel products |
| Shandong Xiwang Special Steel Co., Ltd. ("Xiwang Special Steel") (山東西王特鋼有限公司) * | PRC/Mainland China 29 December 2007 | US$50,800,000 | 100 | – | Production and sale of steel products |
| Shandong Xiwang Recycling Resources Co., Ltd. ("Xiwang Recycling Resources") (山東西王再生資源有限公司) * | PRC/Mainland China 7 May 2009 | RMB30,000,000 | – | 100 | Purchase and sale of steel scrap |

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

## 17. INVENTORIES

| | Group 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Raw materials | **443,285** | 278,617 |
| Work in progress | **127,815** | 4,227 |
| Finished goods | **343,645** | 289,990 |
| | **914,745** | 572,834 |

Certain of the Group's inventories with a carrying amount of RMB866,036,000 as at 31 December 2013 (2012: RMB418,982,000) were pledged as security for the Group's issuance of bills payable (note 21).

## 18. TRADE AND BILLS RECEIVABLES

| | Group 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Bills receivable | **8,353** | 29,681 |
| Trade receivables | **98,150** | 19,517 |
| | **106,503** | 49,198 |

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.

## 18. TRADE AND BILLS RECEIVABLES (continued)

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

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Within 3 months | **81,354** | 36,117 |
| 3 to 6 months | **24,941** | 12,577 |
| 6 months to 1 year | **208** | 504 |
| | **106,503** | 49,198 |

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

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Neither past due nor impaired | **106,296** | 48,694 |
| Less than 1 month past due | **–** | – |
| 1 to 3 months past due | **207** | 504 |
| | **106,503** | 49,198 |

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

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

## 19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Prepayments | **216,151** | 402,360 | **221** | 212 |
| Bank interest receivables | **12,437** | 8,408 | **–** | – |
| VAT recoverable | **24,942** | 62,496 | **–** | – |
| Deposits and other receivables | **5,144** | 758 | **–** | – |
| Current portion of prepaid land lease payments (note 15) | **1,976** | 1,976 | **–** | – |
| | **260,650** | 475,998 | **221** | 212 |

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 | |
|---|---|---|---|---|---|
| | | **2013** | 2012 | **2013** | 2012 |
| | Note | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Cash and bank balances | | **93,316** | 370,172 | **5,790** | 8,278 |
| Time deposits | | **1,118,888** | 1,376,000 | **–** | – |
| | | **1,212,204** | 1,746,172 | **5,790** | 8,278 |
| Less: Pledged time deposits: | | | | | |
| Guarantee deposits for issuance of bills payable | 21 | **(925,449)** | (1,376,000) | **–** | – |
| Guarantee deposits for certain bank borrowings | 23 | **(193,439 )** | – | **–** | – |
| Cash and cash equivalents | | **93,316** | 370,172 | **5,790** | 8,278 |

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB87,117,000 (2012: RMB361,894,000). 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 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Bills payable | **1,677,242** | 2,211,000 |
| Trade payables | **99,463** | 218,739 |
| | **1,776,705** | 2,429,739 |

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

| | Group 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Within 1 month | **51,200** | 598,387 |
| 1 to 3 months | **554,580** | 1,182,340 |
| 3 to 6 months | **1,080,393** | 623,808 |
| 6 to 12 months | **36,622** | 20,492 |
| Over 12 months | **53,910** | 4,712 |
| | **1,776,705** | 2,429,739 |

The Group's bills payable amounting to RMB1,677,242,000 (2012: RMB2,211,000,000) were secured by the pledged time deposits of RMB925,449,000 (2012: RMB1,376,000,000) (note 20) and the Group's inventories of RMB866,036,000 (2012: RMB418,982,000) (note 17).

Additionally, Mr. Wang Yong, the Chairman and non-executive director of the Company, and Mrs. Zhang Shufang (spouse of Mr. Wang Yong) guaranteed certain of the Group's bills payable of RMB340,000,000 jointly and severally as at 31 December 2013 (2012: RMB300,000,000) (note 31 (b)(i)). Xiwang Group, a company controlled by Mr. Wang Yong, guaranteed certain of the Group's bills payable of RMB547,242,000 as at 31 December 2013 (2012: RMB180,000,000) (note 31(b)(i)).

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

## 22. RECEIPTS IN ADVANCE, OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Advances from customers | **133,928** | 104,023 | **–** | – |
| Salaries and welfare payables | **35,567** | 24,674 | **–** | – |
| Other tax payables | **999** | 4,616 | **–** | – |
| Other payables | **3,264,805** | 319,291 | **3,359** | 1,700 |
| | **3,435,299** | 452,604 | **3,359** | 1,700 |

Included in the Group's other payables as at 31 December 2013 is an amount of RMB1,687.1 million due to an independent third party, which is unsecured, bears interest at 7.0% per annum and has no fixed terms of repayment. Pursuant to an agreement entered into between the Group and the independent third party as above-mentioned on 13 March 2014, the Group will repay the amount of RMB1,687.1 million on 31 March 2015 (note 35).

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

## 23. INTEREST-BEARING BANK AND OTHER BORROWINGS

| Group | | **2013** | | | 2012 | |
|---|---|---|---|---|---|---|
| | **Effective interest rate (%)** | **Maturity** | **RMB'000** | Effective interest rate (%) | Maturity | RMB'000 |
| **Current** | | | | | | |
| Finance lease payable (note 24) | **7.13** | **2014** | **185,938** | 7.13 | 2013 | 199,195 |
| Interest-bearing bank loans – secured | **2.50-10.00** | **2014** | **1,257,183** | 6.60-7.57 | 2013 | 590,000 |
| | | | **1,443,121** | | | 789,195 |
| **Non-current** | | | | | | |
| Finance lease payables (note 24) | **7.13** | **2015** | **149,065** | 7.13 | 2015 | 318,825 |
| Long term interest-bearing other loan – secured | **7.24** | **2015** | **350,000** | – | – | – |
| Long term interest-bearing bank loans – secured | **–** | **–** | **–** | 10.50 | 2014 | 700,000 |
| | | | **499,065** | | | 1,018,825 |
| | | | **1,942,186** | | | 1,808,020 |

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

| Company | 2013 Effective interest rate (%) | 2013 Maturity | 2013 RMB'000 | 2012 Effective interest rate (%) | 2012 Maturity | 2012 RMB'000 |
|---|---|---|---|---|---|---|
| **Current** | | | | | | |
| Interest-bearing bank loans – secured | 2.5-3.0 | 2014 | 176,933 | – | – | – |

| | Group 2013 RMB'000 | Group 2012 RMB'000 | Company 2013 RMB'000 | Company 2012 RMB'000 |
|---|---|---|---|---|
| Analysed into: | | | | |
| Bank and other loans repayable: | | | | |
| Within one year | 1,443,121 | 789,195 | 176,933 | – |
| In the second year | 499,065 | 700,000 | – | – |
| In the third year | – | 318,825 | – | – |
| | 1,942,186 | 1,808,020 | 176,933 | – |

Notes:

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

certain of the Group's leasehold land with a carrying amount of RMB31,407,000 as at 31 December 2013 (2012: RMB32,076,000) (note 15) and pledged time deposits of RMB193,439,000 (2012: Nill) (note 20).

In addition, Xiwang Group guaranteed certain of the Group's bank loans of RMB390,000,000 as at 31 December 2013 (2012: RMB870,000,000) (note 31(b)(ii)). Mr. Wang Yong guaranteed certain of the Group's bank loans of RMB400,000,000 as at 31 December 2013 (2012: RMB820,000,000). Mrs. Zhang Shufang guaranteed certain of the Group's bank loans of RMB300,000,000 as at 31 December 2013 (2012: Nil) (note 31(b)(ii)). An independent third party guaranteed certain of the Group's bank loans of RMB500,000,000, as at 31 December 2013 (2012: RMB1,000,000,000). Certain leasehold land of two independent third parties were pledged to secure the bank loans of RMB188,562,000 as at 31 December 2013 (2012: RMB80,400,000).

(ii) The carrying amounts of the Group's interest-bearing bank and other borrowings approximate to their fair values (note 33).

## 24. FINANCE LEASE PAYABLES

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

The excess of the carrying amount of the machinery and equipment over the sales proceeds was accounted for as a deferred asset. As at 31 December 2013, the amount of the deferred asset is RMB1,057,000 (2012: RMB1,760,000) which is amortised over the lease term.

At 31 December 2013, the total future minimum lease payments under finance lease and their present values were as follows:

| Group | **Minimum lease payments 2013 RMB'000** | Minimum lease payments 2012 RMB'000 | **Present value of minimum lease payments 2013 RMB'000** | Present value of minimum lease payments 2012 RMB'000 |
|---|---|---|---|---|
| Amounts payable: | | | | |
| Within one year | **211,529** | 211,529 | **185,938** | 199,195 |
| In the second year | **160,614** | 211,529 | **132,887** | 185,938 |
| In the third to the fourth year | **–** | 160,614 | **–** | 132,887 |
| Total minimum finance lease payments | **372,143** | 583,672 | **318,825** | 518,020 |
| Future finance charges | **(37,140)** | (65,652) | | |
| Total net finance lease payables | **335,003** | 518,020 | | |
| Portion classified as current liabilities (note 23) | **(185,938)** | (199,195) | | |
| Non-current portion (note 23) | **149,065** | 318,825 | | |

## 25. DEFERRED TAX

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

### Deferred tax assets

| | **Group 2013 RMB'000** | 2012 RMB'000 |
|---|---|---|
| At 1 January | **2,969** | 1,370 |
| Deferred tax credited to the statement of profit or loss during the year (note 10) | **1,795** | 1,599 |
| Gross deferred tax assets at the end of the year | **4,764** | 2,969 |

For the year ended 31 December 2013, deferred tax assets were recognised in respect of the unrealised profit arising from intra-group sales and impairment loss of inventories to net realisable value.

## 25. DEFERRED TAX (continued)

### Deferred tax liability

| | Group 2013 Withholding tax on the distributable profits RMB'000 | 2012 Withholding tax on the distributable profits RMB'000 |
|---|---|---|
| At 1 January | **15,140** | 27,280 |
| Deferred tax charged/(credited) to the statement of profit or loss during the year (note 10) | **1,920** | (12,140) |
| **At 31 December** | **17,060** | 15,140 |

Pursuant to the New CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on dividend distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2013, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liability has not been recognised totaled approximately RMB113,072,000 (2012: RMB95,706,000).

## 26. SHARE CAPITAL

| | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|
| Authorised: | | |
| 100,000,000,000 (2012: 100,000,000,000) ordinary shares of HK$0.1 each | **10,000,000** | 10,000,000 |
| Issued and fully paid: | | |
| 2,000,000,000 (2012: 2,000,000,000) ordinary shares of HK$0.1 each | **200,000** | 200,000 |

## 26. SHARE CAPITAL (continued)

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

| | Number of shares in issue | Issued share capital RMB'000 | Share premium account RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At 1 January 2012 | 1,600,000,000 | 133,392 | 1,119 | 134,511 |
| Issue of new shares for global offering | 400,000,000 | 32,511 | 829,036 | 861,547 |
| Share issue expenses | – | – | (40,225) | (40,225) |
| **At 31 December 2012 and 2013** | **2,000,000,000** | **165,903** | **789,930** | **955,833** |

## 27. RESERVES

### Group

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

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

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31 December 2013

## 27. RESERVES (continued)

### Company

| | Exchange reserve RMB'000 | Retained profits/ (accumulated losses) RMB'000 | Share premium RMB'000 | Proposed final dividend RMB'000 | Total reserves RMB'000 |
|---|---|---|---|---|---|
| At 1 January 2012 | 6,999 | (298,371) | 1,119 | 274,000 | (16,253) |
| Exchange differences on translation of foreign operations | 145 | – | – | – | 145 |
| Loss for the year | – | (21,565) | – | – | (21,565) |
| Issue of new shares for the global offering | – | – | 829,036 | – | 829,036 |
| Share issue expenses | – | – | (40,225) | – | (40,225) |
| Final 2011 dividend declared | – | (547) | – | (274,000) | (274,547) |
| Proposed final 2012 dividend | – | (30,000) | – | 30,000 | – |
| At 31 December 2012 and 1 January 2013 | 7,144 | (350,483) | 789,930 | 30,000 | 476,591 |
| Exchange differences on translation of foreign operations | – | – | – | – | – |
| Profit for the year | – | 380,594 | – | – | 380,594 |
| Final 2012 dividend declared | – | – | – | (30,000) | (30,000) |
| Proposed final 2013 dividend | – | (30,000) | – | 30,000 | – |
| At 31 December 2013 | **7,144** | **111** | **789,930** | **30,000** | **827,185** |

## 28. PLEDGE OF ASSETS

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

## 29. OPERATING LEASE ARRANGEMENTS

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

| | Group | |
|---|---|---|
| | **2013** **RMB'000** | 2012 RMB'000 |
| Within one year | **1,168** | 369 |
| In the second to fifth years, inclusive | **4,672** | 1,475 |
| After five years | **15,706** | 4,886 |
| | **21,546** | 6,730 |

## 30. COMMITMENTS

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

| | Group | |
|---|---|---|
| | **2013** **RMB'000** | 2012 RMB'000 |
| Contracted, but not provided for: | | |
| Property, plant and equipment | **42,737** | 928,172 |

## 31. RELATED PARTY TRANSACTIONS AND BALANCES

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

| | Group | |
|---|---|---|
| | **2013** **RMB'000** | 2012 RMB'000 |
| Rental expenses to Xiwang Group: | **369** | 369 |

The rental expenses to Xiwang Group were charged by reference to the market prices.

**(b)** Other related party transactions:

(i) As detailed in note 21, Xiwang Group guaranteed certain of the Group's bills payable of RMB547,242,000 as at 31 December 2013 (2012: RMB180,000,000). Mr. Wang Yong guaranteed certain of the Group's bills payable of RMB340,000,000 in 31 December 2013 (2012: RMB300,000,000). The guarantees provided by the related parties will be expired on 18 May 2014.

(ii) As detailed in note 23(i), Xiwang Group guaranteed certain of the Group's bank loans of RMB390,000,000 as at 31 December 2013 (2012: RMB870,000,000). Mr. Wang Yong guaranteed certain of the Group's bank loans of RMB400,000,000 as at 31 December 2013 (2012: RMB820,000,000). Mrs. Zhang Shufang guaranteed certain of the Group's bank loans of RMB300,000,000 as at 31 December 2013 (2012: Nil). The guarantees provided by the related parties will be expired from 23 May 2016 to 31 August 2016.

(iii) During the year, the Group occupied certain area of a property owned by Xiwang Group for operational use, which is free of charge.

## 31. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

| | Group 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Due to a related party | | |
| Zouping Xiwang Power Co., Ltd. ("Xiwang Power") | | |
| (鄒平縣西王動力有限公司) | **69,434** | 22,099 |

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

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

| | Group 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Employee benefit expenses | **5,850** | 2,575 |
| Pension scheme contributions | **58** | 78 |
| Total compensation paid to key management personnel | **5,908** | 2,653 |

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

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

## 32. FINANCIAL INSTRUMENTS BY CATEGORY

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

### Financial assets

| | Group 2013 Loans and receivables RMB'000 | 2012 Loans and receivables RMB'000 |
|---|---|---|
| Trade and bills receivables | **106,503** | 49,198 |
| Financial assets included in prepayments, deposits and other receivables | **17,581** | 9,166 |
| Pledged deposits | **1,118,888** | 1,376,000 |
| Cash and cash equivalents | **93,316** | 370,172 |
| Total | **1,336,288** | 1,804,536 |

## 32. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

### Financial liabilities

| | Group | |
|---|---|---|
| | **2013** | 2012 |
| | **Financial liabilities at amortised cost** | Financial liabilities at amortised cost |
| | **RMB'000** | RMB'000 |
| Trade and bills payables | **1,776,705** | 2,429,739 |
| Financial liabilities included in receipts in advance, other payables and accruals | **3,300,372** | 343,965 |
| Due to a related party | **69,434** | 22,099 |
| Interest-bearing bank and other borrowings | **1,942,186** | 1,808,020 |
| Total | **7,088,697** | 4,603,823 |

### Financial assets

| | Company | |
|---|---|---|
| | **2013** | 2012 |
| | **Loans and receivables** | Loans and receivables |
| | **RMB'000** | RMB'000 |
| Due from subsidiaries | **395,804** | 27,073 |
| Cash and cash equivalents | **5,790** | 8,278 |
| Total | **401,594** | 35,351 |

### Financial liabilities

| | Company | |
|---|---|---|
| | **2013** | 2012 |
| | **Financial liabilities at amortised cost** | Financial liabilities at amortised cost |
| | **RMB'000** | RMB'000 |
| Other payables | **3,359** | 1,700 |
| Interest-bearing bank loans | **176,933** | – |
| Due to subsidiaries | **115,662** | 75,327 |
| Total | **295,954** | 77,027 |

## 33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

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

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

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

The fair values of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2013 was assessed to be insignificant.

As at 31 December 2013, interest-bearing bank and other borrowings were measured at fair value using significant observable inputs (Level 2). There were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2012: Nil).

## 34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

### Interest rate risk

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

The Group's policy is to obtain the most favourable interest rate available. The effective interest rate and terms of repayment of the interest-bearing bank loans of the Group are set out in note 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 66% (2012: 97%) 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 2013** | | | |
| RMB | **100** | **(2,811)** | **–** |
| RMB | **(100)** | **2,811** | **–** |
| 31 December 2012 | | | |
| RMB | 100 | (210) | – |
| RMB | (100) | 210 | – |

* Excluding retained profits

## 34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Foreign currency risk

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

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

### Credit risk

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

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

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

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

### Liquidity risk

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

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

| | 31 December 2013 | | | | | |
|---|---|---|---|---|---|---|
| **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 | – | 556,050 | 983,033 | 510,614 | – | 2,049,697 |
| Trade and bills payables | – | 1,385,294 | 391,411 | – | – | 1,776,705 |
| Due to a related party | 69,434 | – | – | – | – | 69,434 |
| Financial liabilities included in receipts in advance, other payables and accruals | 1,747,498 | 155,346 | 1,397,528 | – | – | 3,300,372 |
| | 1,816,932 | 2,096,690 | 2,771,972 | 510,614 | – | 7,196,208 |

## 34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

**Liquidity risk** (continued)

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: (continued)

| | 31 December 2012 | | | | | |
|---|---|---|---|---|---|---|
| Group | On demand RMB'000 | Less than 3 months RMB'000 | 3 to less than 12 months RMB'000 | 1 to 5 years RMB'000 | Over 5 years RMB'000 | Total RMB'000 |
| Interest-bearing bank and other borrowings | – | 180,970 | 716,669 | 1,129,514 | – | 2,027,153 |
| Trade and bills payables | – | 904,344 | 1,525,395 | – | – | 2,429,739 |
| Due to a related party | 22,099 | – | – | – | – | 22,099 |
| Financial liabilities included in receipts in advance, other payables and accruals | – | 124,988 | 222,377 | – | – | 347,365 |
| | 22,099 | 1,210,302 | 2,464,441 | 1,129,514 | – | 4,826,356 |

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 2013** | | | | | |
|---|---|---|---|---|---|---|
| **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 | **–** | **3,359** | **–** | **–** | **–** | **3,359** |
| Interest-bearing bank loans | **–** | **77,178** | **101,676** | | | **178,854** |
| Due to subsidiaries | **115,662** | **–** | **–** | **–** | **–** | **115,662** |
| | **115,662** | **80,537** | **101,676** | **–** | **–** | **297,875** |

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

## 34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### 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 2013 and 31 December 2012.

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 an independent third party. The Group's policy is to maintain the gearing ratio between 20% and 50%. The gearing ratios as at the end of the reporting periods were as follows:

| | | Group | |
|---|---|---|---|
| | Note | **2013 RMB'000** | 2012 RMB'000 |
| Interest-bearing bank and other borrowings | 23 | **1,942,186** | 1,808,020 |
| An amount due to an independent third party | 22 | **1,687,134** | – |
| Total debt | | **3,629,320** | 1,808,020 |
| Total assets | | **10,408,370** | 7,541,411 |
| Gearing ratio | | **34.9%** | 24.0% |

## 35. EVENTS AFTER THE REPORTING PERIOD

As at 31 December 2013, the Group had an amount of RMB1,687.1 million due to an independent third party, which is unsecured, bears interest at 7.0% per annum and has no fixed terms of repayment. Pursuant to an agreement entered into between the Group and the independent third party as abovementioned on 13 March 2014, the Group will repay the amount of RMB1,687.1 million on 31 March 2015 (note 22).

## 36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2014.

# Five-year Financial Summary

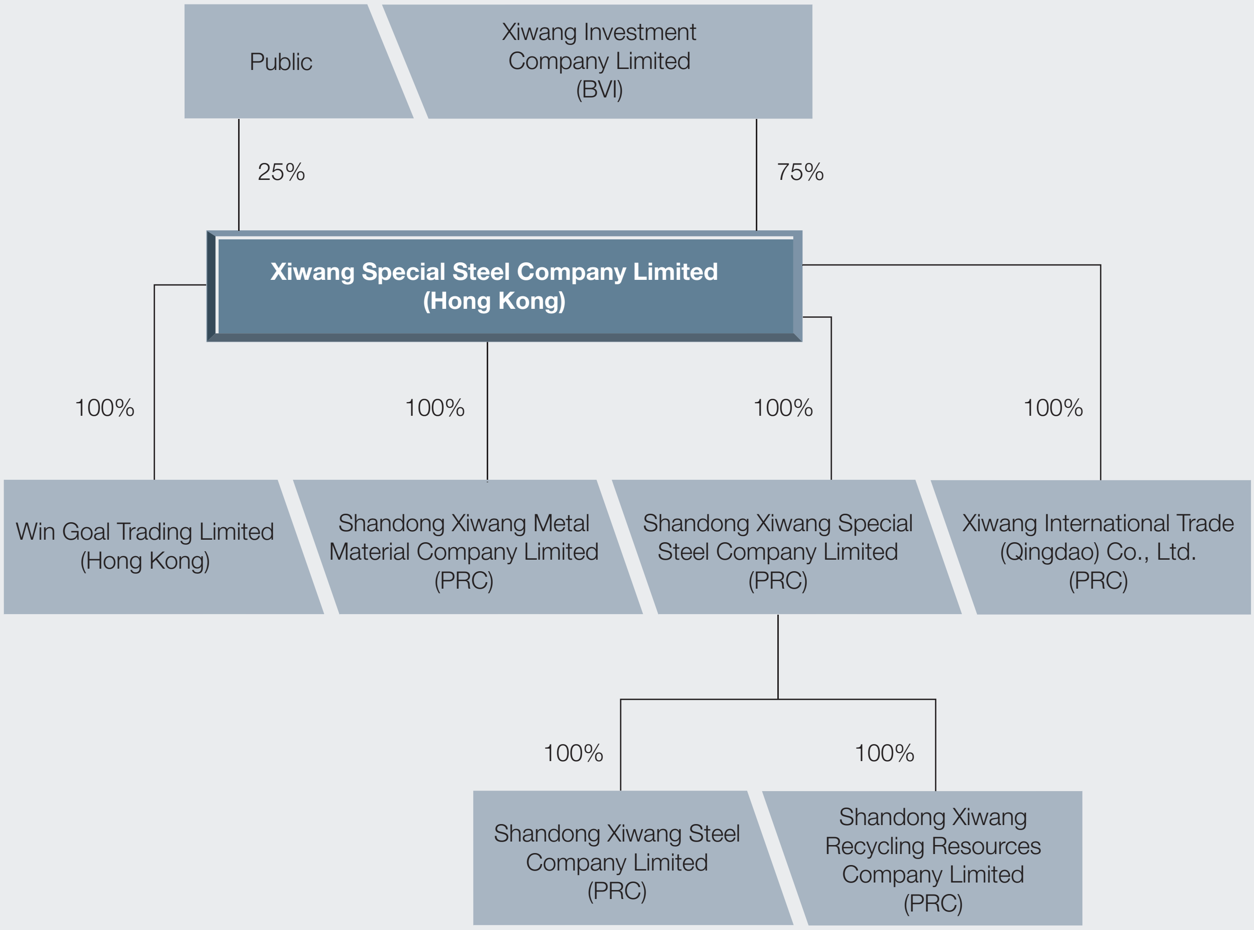
| | **2013** | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| **For the year (RMB million)** | | | | | |
| Revenue | **7,030** | 6,891 | 8,541 | 5,387 | 3,777 |
| Gross profit | **650** | 533 | 1,293 | 601 | 246 |
| EBITDA[(1)] | **822** | 633 | 1,341 | 654 | 248 |
| Operating profit | **635** | 492 | 1,246 | 622 | 252 |
| Net profit | **384** | 345 | 909 | 493 | 199 |
| **As at December 31 (RMB million)** | | | | | |
| Current assets | **2,494** | 2,844 | 2,367 | 850 | 2,291 |
| Non-current assets | **7,914** | 4,697 | 3,366 | 2,294 | 1,563 |
| Total assets | **10,408** | 7,541 | 5,733 | 3,144 | 3,854 |
| Current liabilities | **6,759** | 3,723 | 2,813 | 2,296 | 3,504 |
| Non-current liabilities | **516** | 1,034 | 1,027 | – | – |
| Total liabilities | **7,275** | 4,757 | 3,840 | 2,296 | 3,504 |
| Total equity | **3,134** | 2,784 | 1,893 | 848 | 350 |
| Total liabilities and equity | **10,409** | 7,541 | 5,733 | 3,144 | 3,854 |
| **Per share (RMB)** | | | | | |
| Basic earnings per share | **0.192** | 0.178 | 0.568 | 0.308 | 0.121 |
| Dividends per share | **0.015** | 0.015 | 0.137 | – | – |
| **Financial and performance ratios** | | | | | |
| Gross profit margin (%) | **9.2** | 7.7 | 15.1 | 11.2 | 6.5 |
| Operating profit margin (%) | **9.0** | 7.1 | 14.6 | 11.6 | 6.7 |
| Net profit margin (%) | **5.5** | 5.0 | 10.6 | 9.1 | 5.3 |
| Current ratio | **0.37** | 0.76 | 0.84 | 0.37 | 0.65 |
| Net debts to equity | **0.59** | 0.52 | 0.79 | 1.02 | 1.55 |
| Average inventory turnover days | **42.6** | 28.6 | 18.3 | 25.7 | 32.4 |
| Average debtor turnover days | **3.1** | 1.3 | 1.0 | 0.5 | 0.3 |
| Average creditor turnover days | **9.1** | 11.3 | 7.1 | 5.3 | 3.3 |

Note:

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

# Organization Structure

As at the date of this annual report:



# Information for Shareholders

## Corporate calendar

| | |
|---|---|
| Announcement of 2013 annual results | 27 March 2014 (Thursday) |
| Annual general meeting | 22 May 2014 (Thursday) |

## Website

www.xiwangsteel.com

## Stock code

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

## Board lot

1,000 shares

## Financial year-end date

31 December

## As at 31 December 2013

| | |
|---|---|
| Market Value: | HK$2,140 million |
| Issued shares: | 2,000,000,000 shares |
| Closing market price: | HK$1.07 per share |

## Annual report

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

## Closure of register of members

(i) For the purpose of ascertaining shareholders' entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 20 May 2014 to Thursday, 22 May 2014, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's transfer office and share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 19 May 2014;

(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, 28 May 2014 to Thursday, 29 May 2014, both days inclusive, during which period no transfer of shares will be registered. In order to establish entitlements to the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's transfer office and share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 27 May 2014.

# Information for Shareholders

## Annual general meeting

The AGM of the Company will be held on Thursday, 22 May 2014. A notice convening the AGM 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 Thursday, 17 April 2014.

## Hong Kong share registrar and transfer office

Tricor Investor Services Limited
Level 22, Hopewell Centre,
183 Queen's Road East
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 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 etc., 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 Listing Rules, the Company does not undertake to update any forward-looking statements or opinions contained in this annual report.

## Miscellaneous

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