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

(incorporated in Hong Kong with limited liability)

Stock Code: 1266

Annual Report 2014

Contents

Company Profile

Xiwang Special Steel Company Limited (the "**Company**") and its subsidiaries (collectively, the "**Group**") is a leading high-end special steel manufacturer located in Shandong Province of the People's Republic of China (the "**PRC**" or "**China**").

Founded in 2003, the Group was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 23 February 2012. Our production base is located in Xiwang Industrial Area, Zouping County, Shandong Province of China. We operate an integrated production process from iron smelting and steel smelting to secondary metallurgy, continuous casting and steel rolling. Our products consist of ordinary steel that is primarily used in buildings and infrastructures, as well as special steel that is used in automobile, shipbuilding, chemical and petrochemical, machinery and equipment sectors.

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

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

Our steel production facilities, as of 31 December 2014, consisted of:

- a sintering furnace, with a designed annual capacity of 3.7 million tonnes, supplies sinter for the two blast furnaces;

- two blast furnaces, with a designed annual capacity of 1.05 million tonnes each, use iron ore to convert sinter into molten iron and pig iron for production purposes of the EAFs and converters;

- two converters, i.e. Converter I and Converter II, with a designed annual capacity of 1.15 million tonnes each, convert raw materials including steel scraps, molten iron and pig iron into molten steel and then cast into ordinary steel billets and special steel billets;

- two EAFs, i.e. EAF I and EAF II, with a designed annual capacity of 500,000 tonnes each. The two EAFs convert raw materials, including steel scraps, molten iron and pig iron into molten steel and then cast into ordinary steel billets and special steel billets. The ordinary steel billets are rolled into ordinary steel products of rebars and wire rods. The special steel billets are rolled into special steel products, which include quality carbon structural steel, alloy structural steel and bearing steel;

- two bar rolling lines, Bar I and Bar II, with a designed annual capacity of 850,000 tonnes each upon the addition of equipment and improvement of technology for the year ended 31 December 2014 (the "**Year**"). Bar I and Bar II manufacture small to medium-sized steel bars, including rebars, quality carbon structural steel and alloy structural steel;

- a large bar rolling line, Bar III, with a designed annual capacity of 650,000 tonnes upon the addition of equipment and improvement of technology during the Period. Bar III manufactures large bar of special steel products including quality carbon structural steel, alloy structural steel and bearing steel; and

- a wire rolling line with a designed annual capacity of 650,000 tonnes upon the addition of equipment and improvement of technology during the Period. This wire rolling line manufactures steel products in the form of wire rod, which include wire rod, quality carbon structural steel and bearing steel.

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

1. ORDINARY STEEL

Rebar

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

Wire rod

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

2. SPECIAL STEEL

Quality carbon structural steel

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

Alloy structural steel

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

Bearing steel

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

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. WANG Hui *(Chief Executive Officer)*
Mr. JIANG Chang Lin
Mr. HE Qing Wen (resigned on 16 April 2015)
Mr. SUN Xinhu (re-designated from non-Executive Director to Executive Director on 16 April 2015)

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

Independent Non-Executive Directors
Mr. LEUNG Shu Sun Sunny
Mr. ZHANG Gongxue (resigned on 16 April 2015)
Mr. YU Kou
Mr. LIU Xiangming (appointed on 16 April 2015)

COMMITTEES

Audit Committee
Mr. LEUNG Shu Sun Sunny *(Chairman)*
Mr. SUN Xinhu (resigned on 16 April 2015)
Mr. ZHANG Gongxue (resigned on 16 April 2015)
Mr. YU Kou (appointed on 16 April 2015)
Mr. LIU Xiangming (appointed on 16 April 2015)

Remuneration Committee
Mr. ZHANG Gongxue *(Chairman)*
(resigned on 16 April 2015)
Mr. WANG Di
Mr. YU Kou
Mr. LIU Xiangming *(Chairman)*
(appointed on 16 April 2015)

Nomination Committee
Mr. ZHANG Gongxue *(Chairman)*
(resigned on 16 April 2015)
Mr. WANG Di
Mr. YU Kou
Mr. LIU Xiangming *(Chairman)*
(appointed on 16 April 2015)

COMPANY SECRETARY

Ms. LAM Wai Lin
(resigned on 25 July 2014)
Miss NG Weng Sin
(appointed on 25 July 2014)

AUTHORISED REPRESENTATIVES

Mr. WANG Di
Ms. LAM Wai Lin
(resigned on 25 July 2014)
Miss NG Weng Sin
(appointed on 25 July 2014)

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 (expired on 30 April 2014)
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

Financial Highlights

	For the year ended 31 December		
	2014	2013	Increase
	RMB'000	RMB'000	Percentage
Operational Results			
Revenue	**8,641,517**	7,029,766	22.9%
Gross profit	**841,319**	649,806	29.5%
Operating profit	**740,083**	635,487	16.5%
Profit for the year	**406,604**	383,804	5.9%

	As at 31 December		
	2014	2013	Increase/
	RMB'000	RMB'000	(Decrease)
			Percentage
Financial Position			
Non-current assets	**8,982,420**	7,914,268	13.5%
Current assets	**2,254,425**	2,494,102	(9.6)%
Non-current liabilities	**1,159,426**	516,125	124.6%
Current liabilities	**6,266,021**	6,758,675	(7.3)%
Total equity	**3,811,398**	3,133,570	21.6%
Earnings per share (RMB)	**20.3 cents**	19.2 cents	
Key Ratio Analysis			
Gross profit margin	**9.7%**	9.2%	
Operating profit margin	**8.6%**	9.0%	
Net profit margin	**4.7%**	5.5%	
Current ratio (Note 1)	**0.36**	0.37	
Asset liability ratio (Note 2)	**1.51**	1.43	
Gearing ratio (Note 3)	**194.8%**	232.2%	

Notes:

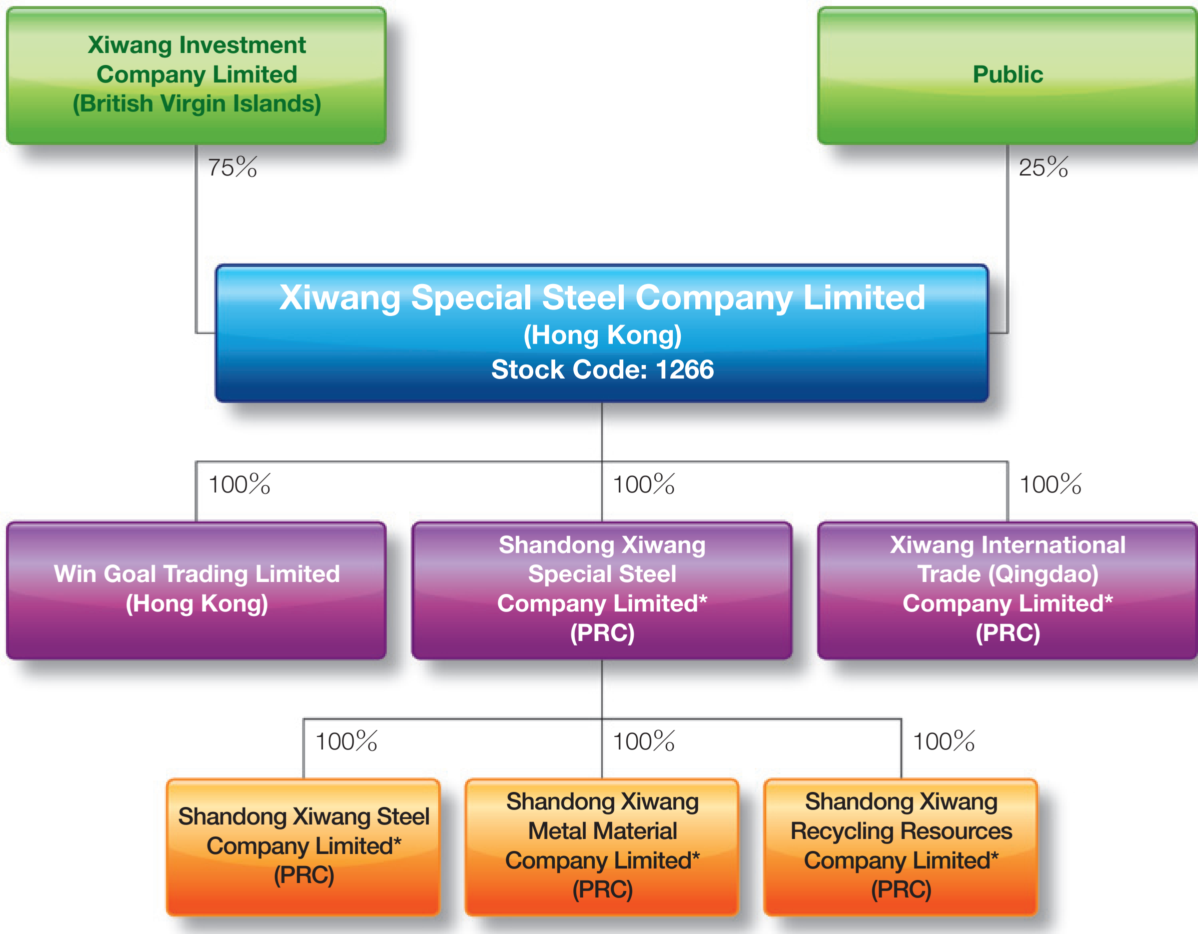
1. Current ratio: Current assets divided by current liabilities.

2. Asset liability ratio: Total assets divided by total liabilities.

3. Gearing ratio: Total liabilities divided by total equity.

Group Structure

As at 31 December 2014:



Chairman's Statement

In 2014, the gross domestic product ("**GDP**") of China grew by 7.4% to RMB63.6 trillion. As stated in the Government Work Report submitted to the National People's Congress by Li Keqiang, Premier of the State Council of the PRC, China has set its GDP growth target for 2015 at around 7% as the country's economic development shifting from rapid growth to moderate growth. At present, besides focus on the pace of economic growth as in the past, China has now put more emphasis on the growth quality. On the other hand, the development strategy of China has moved from low-to-medium industry to medium-to-high industry. As such, China is now undergoing a structural reform.

The steel industry is experiencing consolidation and reorganization, and underperforming companies will be eliminated so that the industry can growth healthy. By eliminating some of those underperforming companies, it can create room for those performing companies for further development.

From 2013 to 2014, Xiwang Steel had vigorously invested in fixed assets. As our second blast furnace and two converters were put into production at the end of 2013 and in 2014 respectively, the cost structure of the Group has changed. Our major production materials have changed from steel billets and steel scraps in the past to iron ore dust and coke. As the prices of iron ore dust and coke were lower than that of steel billets and steel scraps, our average cost per tonne reduced accordingly. The change in cost structure and the decrease in cost per tonne were driven by our investment in fixed assets over the past two years.

The development strategy of the Group is to raise the proportion of special steel in its product mix. In June 2014, 山東西王特鋼有限公司 (Shangdong Xiwang Special Steel Co., Ltd.), a wholly-owned subsidiary of the Group, entered into a technical cooperation agreement with 洛陽軸承研究所有限公司 (Luoyang Bearing Research Centre Company Limited*) for the development of bearing steel products. In November 2014, we entered into a strategic framework agreement with 中國科學院金屬研究所 (the Institute of Metal Research, Chinese Academy of Sciences) ("**IMR**"), by which it will have long-term research and development co-operation with IMR to develop high-end steel products. In January 2015, the Company, IMR and key personnel of IMR entered into a technology license and cooperation agreement, pursuant to which the parties will provide technological support to the Group, design new production lines for the production of products using licensed technologies, develop cooperative products (such as high-end tool and die steel and marine steel), and to develop special steel for use in various industries including the energy and electricity, petrochemical and marine engineering, and steel for kitchen cutleries. The Group is also pleased to introduce IMR and its key personnel as the shareholders of the Company.

In financial aspect, the Group has prepared for issuing USD denominated senior notes and proposed to conduct an international offering, with an aim to relieve the short-term financial pressure of the Group.

Looking forward, we believe the steel industry will pick up gradually. The Group will place particular emphasis on developing the high-end special steel products for higher returns, and will develop timely and appropriate strategies to meet market needs.

I would like to take this opportunity to thank our shareholders, business partners, customers, the Board and our staff for their contributions in the past year.

WANG Di
Chairman

23 March 2015

Management Discussion and Analysis

I. FINANCIAL REVIEW

Business performance

1. Revenue

Revenue of the Group was RMB8,641,517,000 during the Year (2013: RMB7,029,766,000), representing an increase of 22.9% as compared to last year. The increase in revenue was mainly attributable to a RMB965,266,000 or an 8-time growth of commodities trading amount primarily the trade of raw materials – the iron ore dust, pellet and coke, which reached RMB1,086,257,000 and accounted for 12.6% of overall sales. Moreover, production capacity was enhanced due to our investment in production facilities during 2013 and 2014, and the sales volume of steel increased to 2,610,190 tonnes during the Year from 2,047,120 tonnes last year, representing an increase of 27.5%. The rise in sales volume of steel resulted in an increase in sales of steel of RMB611,942,000, representing an increase of 9.2%. As the selling price of steel experienced a decline in general, the sales rise was partially offset.

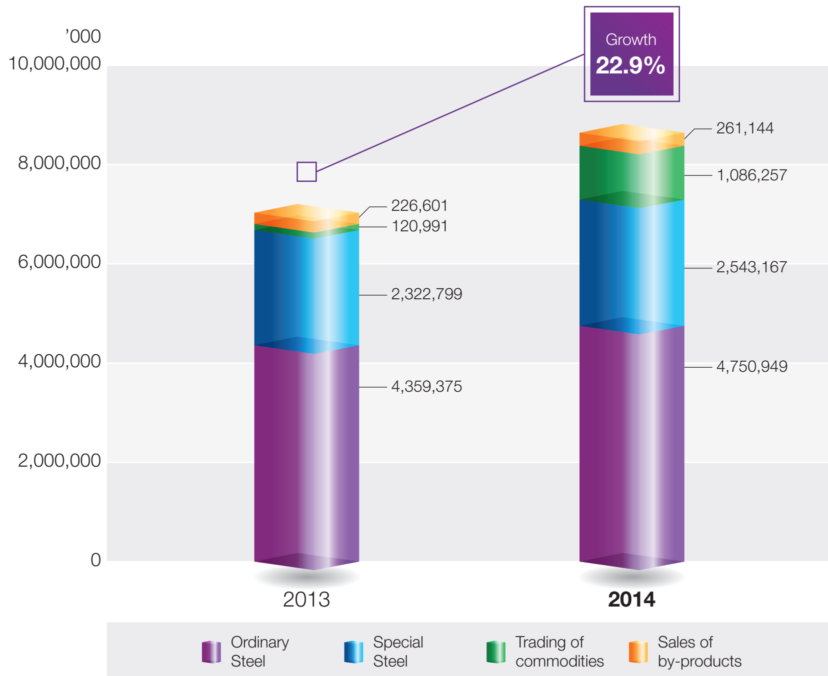
During the Year, the distribution of the sales of steel of the Group by regions was similar to that of the last year. Shandong Province continued to be the top sales region. During the Year, the export sales of special steel reached RMB293,092,000, accounted for 4.0% of the total sales of steel, which was primarily exported to new markets developed during the Year such as Korea, Taiwan and Vietnam.

Breakdown of revenue:

	2014		2013	
	RMB'000	**Percentage**	RMB'000	Percentage
Ordinary Steel				
Rebar	**2,861,344**	**33.1%**	2,654,308	37.8%
Wire rod	**1,889,605**	**21.9%**	1,705,067	24.2%
Subtotal	**4,750,949**	**55.0%**	4,359,375	62.0%
Special Steel				
Quality carbon structural steel	**2,018,654**	**23.4%**	1,939,573	27.6%
Alloy structural steel	**453,737**	**5.2%**	133,952	1.9%
Bearing steel	**70,621**	**0.8%**	218,958	3.1%
Stainless steel	**155**	**0.0%**	30,316	0.4%
Subtotal	**2,543,167**	**29.4%**	2,322,799	33.0%

	2014		2013	
	RMB'000	**Percentage**	RMB'000	Percentage
Production and sales of steel	**7,294,116**	**84.4%**	6,682,174	95.0%
Trading of commodities#	**1,086,257**	**12.6%**	120,991	1.7%
Sales of by-products##	**261,144**	**3.0%**	226,601	3.3%
Total	**8,641,517**	**100.0%**	7,029,766	100.0%

Breakdown of revenue



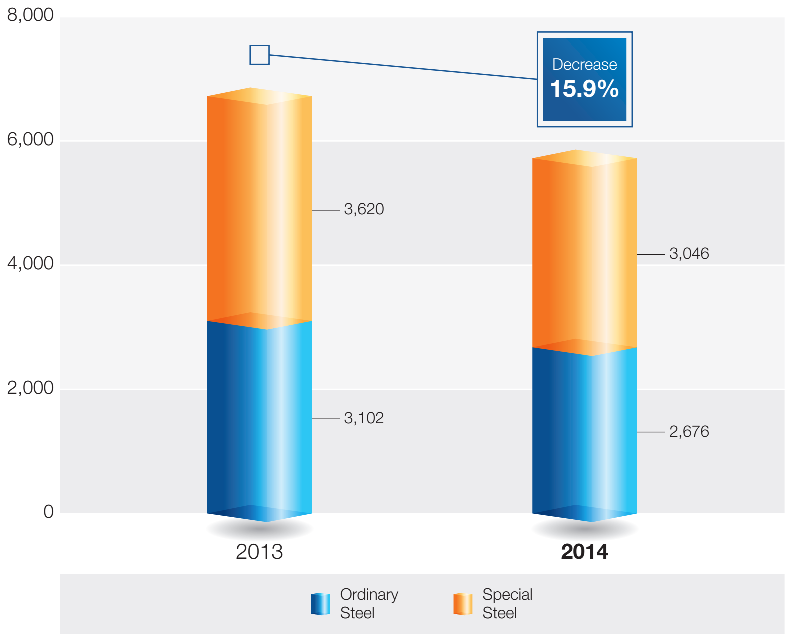
Trading of commodities mainly includes the trading of iron ore dust, pellet and coke.

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

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

	2014 RMB/tonne	2013 RMB/tonne	Increase/ (decrease) RMB/tonne	Increase/ (decrease) Percentage
Ordinary Steel				
Rebar	**2,604**	3,018	(414)	(13.7%)
Wire rod	**2,794**	3,241	(447)	(13.8%)
Average selling price	**2,676**	3,102	(426)	(13.7%)
Special				
Quality carbon structural steel	**3,038**	3,564	(526)	(14.8%)
Alloy structural steel	**3,017**	3,482	(465)	(13.4%)
Bearing steel	**3,516**	3,949	(433)	(11.0%)
Stainless steel	**1,906**	8,749	(6,843)	(78.2%)
Average selling price	**3,046**	3,620	(574)	(15.9%)

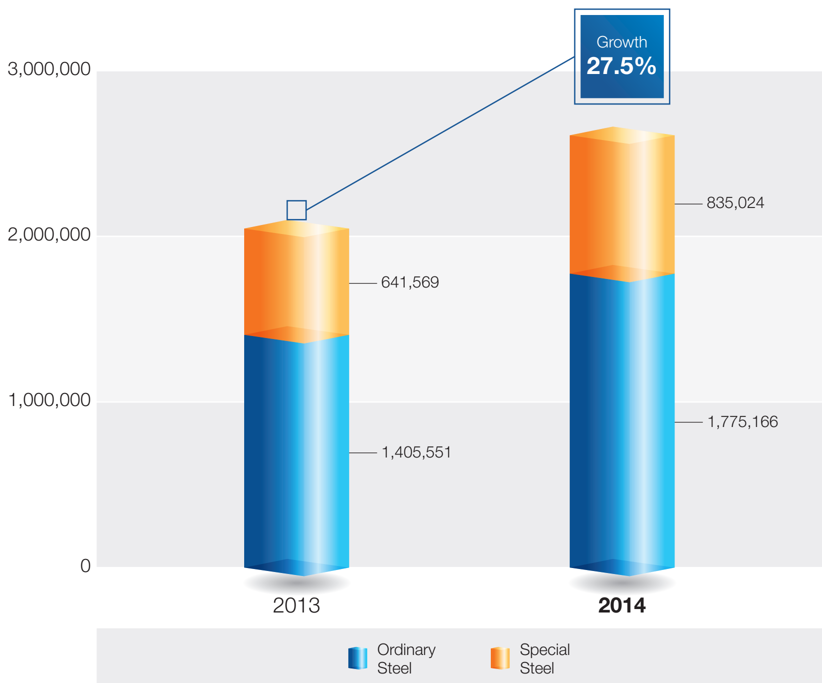
Breakdown of average selling price (tax-exclusive) per tonne



Breakdown of sales volume of steel:

	Sales volume 2014 Tonnes	2014 Percentage	2013 Tonnes	2013 Percentage
Ordinary steel				
Rebar	**1,098,782**	**42.1%**	879,539	43.0%
Wire rod	**676,384**	**25.9%**	526,012	25.7%
Subtotal	**1,775,166**	**68.0%**	1,405,551	68.7%
Special steel				
Quality carbon structural steel	**664,452**	**25.5%**	544,183	26.6%
Alloy structural steel	**150,403**	**5.7%**	38,471	1.8%
Bearing steel	**20,088**	**0.8%**	55,450	2.7%
Stainless steel	**81**	**0.0%**	3,465	0.2%
Subtotal	**835,024**	**32.0%**	641,569	31.3%
Total	**2,610,190**	**100.0%**	2,047,120	100.0%

Breakdown of sales volume of steel



Capacity and utilization rate for the Year:

		2014	2013
		EAF I + EAF II + Converter I + Converter II	EAF I + EAF II
Steel Smelting	Total designed capacity[1] *(tonnes)*	**3,300,000**	2,150,000
	Total effective capacity[2, 3] *(tonnes)*	**2,675,000**	1,479,167
	Total actual production[3] *(tonnes)*	**2,611,725**	760,839
	Overall utilization rate[4]	**97.6%**	51.4%
		Bar I + Bar II + Bar III + Wire Rolling Line	
Steel Rolling	Total designed capacity[1] *(tonnes)*	**3,000,000**	2,100,000
	Total effective capacity[2, 3] *(tonnes)*	**3,000,000**	2,100,000
	Total actual production[3] *(tonnes)*	**2,680,074**	2,122,379
	Overall utilization rate[4]	**89.3%**	101.1%
		Blast Furnace I + Blast Furnace II	Blast Furnace I
Iron Smelting	Total designed capacity[1] *(tonnes)*	**2,100,000**	1,050,000
	Total effective capacity[2, 3] *(tonnes)*	**2,100,000**	437,500
	Total actual production[3] *(tonnes)*	**2,471,384**	375,473
	Overall utilization rate[4]	**117.7%**	85.9%
		Sintering Furnace	
Sintering	Total designed capacity[1] *(tonnes)*	**3,700,000**	3,700,000
	Total effective capacity[2, 3] *(tonnes)*	**3,700,000**	1,541,667
	Total actual production[3] *(tonnes)*	**4,040,156**	565,092
	Overall utilization rate[4]	**109.2%**	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.*

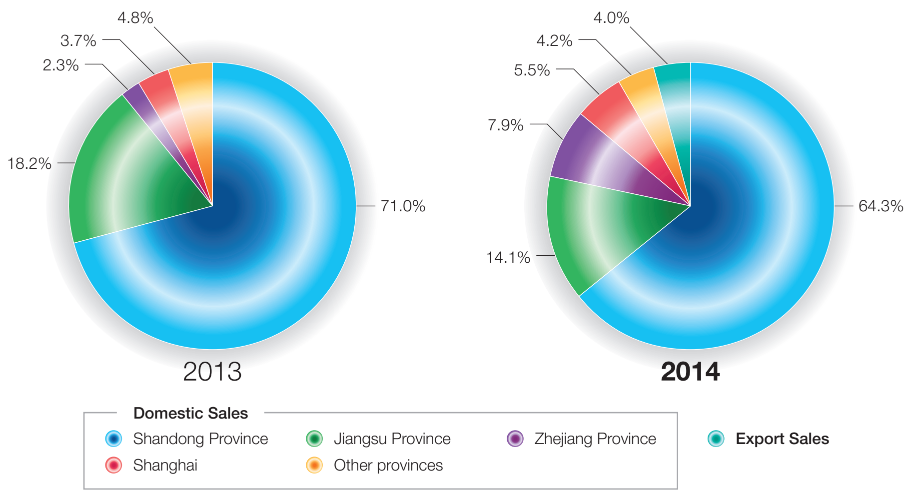
3 *We had additions of two blast furnaces, two converters and one sintering furnace in 2013. Each of the blast furnaces and converters has designed capacity of 1,050,000 tonnes and 1,150,000 tonnes respectively. One of the blast furnaces, one of the converters and the sintering furnace started normal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

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

Breakdown of sales of steel by regions:

	2014		2013	
	RMB'000	**Percentage**	RMB'000	Percentage
Domestic Sales				
Shandong Province	**4,686,914**	**64.3%**	4,746,846	71.0%
Jiangsu Province	**1,028,099**	**14.1%**	1,214,390	18.2%
Zhejiang Province	**577,021**	**7.9%**	153,137	2.3%
Shanghai	**405,086**	**5.5%**	243,979	3.7%
Other provinces	**303,904**	**4.2%**	323,822	4.8%
Export Sales	**293,092**	**4.0%**	–	N/A
	7,294,116	**100.0%**	6,682,174	100.0%

Breakdown of sales of steel by regions



Note: Export sales mainly included Korea, Taiwan and Vietnam.

2. Cost of sales

During the Year, our cost of sales was RMB7,800,198,000 (2013: RMB6,379,960,000), representing an increase of 22.3%. It was mainly attributable to the development of commodities trade during the Year with costs amounted to RMB1,062,994,000, increased 9 times when compared to last year, representing 13.6% of overall costs during the Year.

Cost structure of steel was changed during the Year since the major raw materials used were iron ore dust and coke which represented 56.8% of steel production costs, while the major raw materials used last year were steel billets which represented 57.7% of steel production costs. The difference arose as capital contribution, plant construction, production facilities enhancement were conducted in 2013, and long process production procedure was not yet started at the end of 2013 but took place in 2014. Therefore, the cost structure for the Year was different from that of the last year. As the long process production procedure was adopted, the cost structure changed, resulting in lower raw materials costs but higher production overhead when compared to last year.

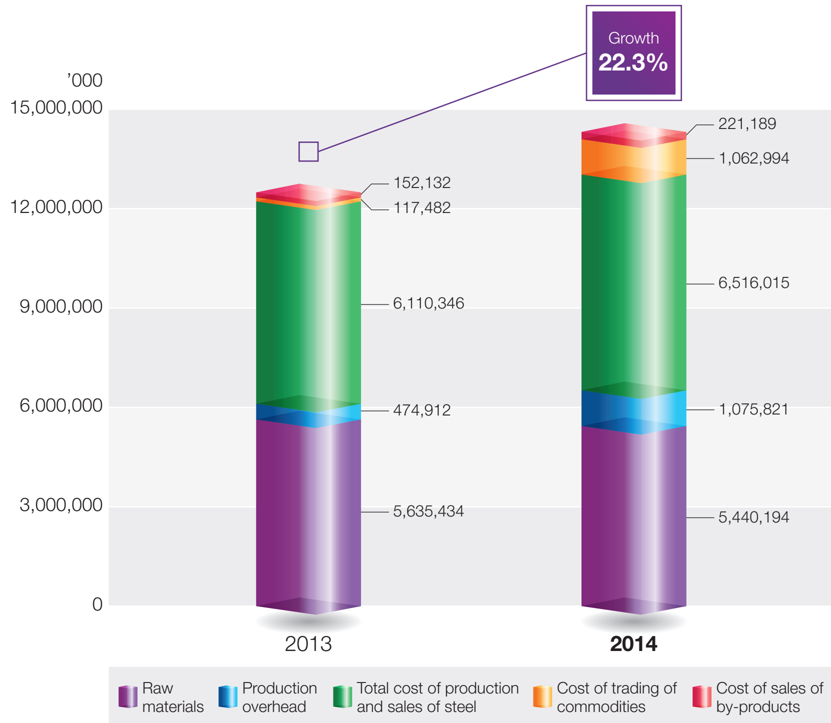
As more production facilities were in operation, the depreciation therefore represented 6.0% of steel production costs in the Year, increased from 3.6% last year; electricity represented 6.5% in the Year, increased from 2.9% last year; and labour costs represented 2.9% in the Year, increased from 1.3% last year.

The overall average production costs per tonne reduced from RMB2,985 last year to RMB2,496 during the Year, representing a decrease of RMB489 per tonne and 16.4% of production costs.

Breakdown of cost of sales:

	2014		2013	
	RMB'000	**Percentage**	RMB'000	Percentage
Raw materials				
Iron ore dust	**2,605,952**	**33.4%**	580,362	9.1%
Coke	**1,093,083**	**14.0%**	270,487	4.2%
Steel scraps	**352,484**	**4.5%**	781,014	12.2%
Coal	**266,014**	**3.4%**	59,921	0.9%
Steel billets	**206,020**	**2.7%**	3,527,170	55.3%
Coke powder	**94,438**	**1.2%**	15,973	0.3%
Pig iron	**21,844**	**0.3%**	1,121	0.0%
Molten iron	**3,588**	**0.1%**	125,981	2.0%
Others	**796,771**	**10.2%**	273,405	4.3%
Subtotal of raw materials	**5,440,194**	**69.8%**	5,635,434	88.3%
Production overhead				
Depreciation	**392,588**	**5.0%**	220,130	3.5%
Electricity	**419,893**	**5.4%**	179,116	2.8%
Labour	**184,273**	**2.4%**	73,943	1.2%
Others	**79,067**	**1.0%**	1,723	–
Subtotal of production overhead	**1,075,821**	**13.8%**	474,912	7.5%
Total cost of production and sales of steel	**6,516,015**	**83.6%**	6,110,346	95.8%
Cost of trading of commodities	**1,062,994**	**13.6%**	117,482	1.8%
Cost of sales of by-products	**221,189**	**2.8%**	152,132	2.4%
	7,800,198	**100.0%**	6,379,960	100.0%

Breakdown of cost of sales

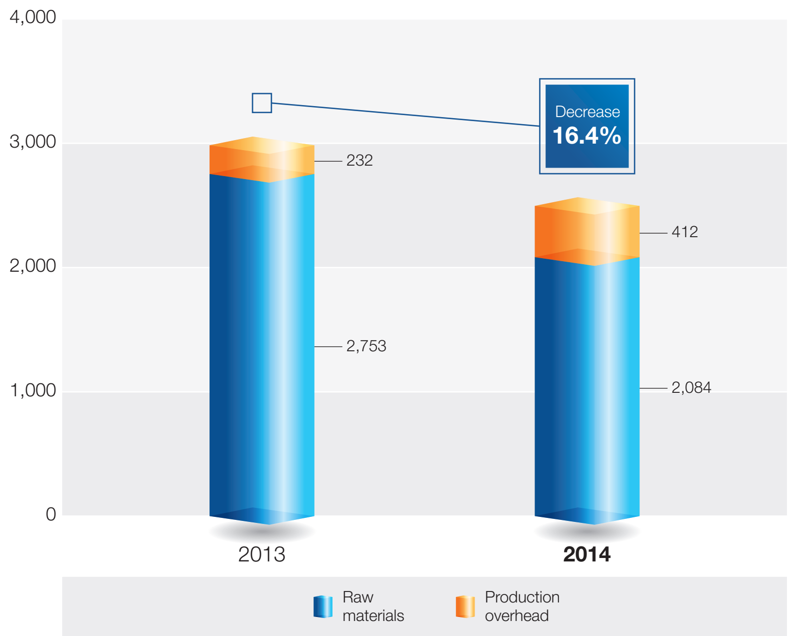


Average steel cost per tonne (tax-exclusive):

	2014		2013	
	RMB	**Percentage**	RMB	Percentage
Raw materials				
Iron ore dust	**999**	**40.0%**	283	9.5%
Coke	**419**	**16.8%**	132	4.4%
Steel scraps	**135**	**5.5%**	381	12.8%
Coal	**102**	**4.1%**	29	1.0%
Steel billets	**79**	**3.2%**	1,723	57.7%
Coke powder	**36**	**1.4%**	8	0.3%
Pig iron	**8**	**0.3%**	1	0.0%
Molten iron	**1**	**0.0%**	62	2.1%
Others	**305**	**12.2%**	134	4.4%
Subtotal of raw materials	**2,084**	**83.5%**	2,753	92.2%

	2014		2013	
	RMB	**Percentage**	RMB	Percentage
Depreciation	**150**	**6.0%**	108	3.6%
Electricity	**161**	**6.5%**	87	2.9%
Labour	**71**	**2.9%**	36	1.3%
Others	**30**	**1.1%**	1	0.0%
Subtotal of production overhead	**412**	**16.5%**	232	7.8%
Total production costs	**2,496**	**100.0%**	2,985	100.0%

Average steel cost per tonne (tax-exclusive)



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

	2014 RMB per tonne	2013 RMB per tonne	Increase/ (Decrease) Percentage
Iron ore dust	**628**	862	(27.1%)
Coke	**992**	1,198	(17.2%)
Steel scraps	**1,544**	1,739	(11.2%)
Coal	**605**	689	(12.2%)
Steel billets	**2,594**	2,630	(1.4%)
Coke powder	**655**	729	(10.2%)
Pig iron	**2,058**	2,178	(5.5%)
Molten iron	**2,223**	2,202	1.0%

3. Gross profit

During the Year, gross profit of the Group was RMB841,319,000 (2013: RMB649,806,000), representing an increase of 29.5% as compared to last year. During the Year, steel has contributed RMB778,101,000 to our overall gross profit, which accounted for 92.5% of our overall gross profit, of which RMB454,308,000 and RMB323,793,000 was from ordinary steel and special steel, respectively, accounted for 54.0% and 38.5% of our overall gross profit, respectively. Trading of commodities has contributed RMB23,263,000 to our gross profit, accounted for 2.8% of our overall gross profit. Gross profit from sales of by-products amounted to RMB39,955,000, accounted for 4.7% of our overall gross profit. Overall gross profit margin of the Group was 9.7% (2013: 9.2%), representing an increase of 0.5 percentage point as compared to last year. The increase was mainly attributable to the following four factors:

(i) Technology improvement to ordinary steel during the Year contributed to the increase of gross profit margin of ordinary steel from 5.9% last year to 9.6% for the Year;

(ii) Steel price has fallen during the Year. Average selling price of ordinary steel per tonne dropped by 13.7% from RMB3,102 last year to RMB2,676 for the Year, while average selling price of special steel per tonne also dropped by 15.9% from RMB3,620 to RMB3,046;

(iii) In respect of production, as long process production procedure was in place, the cost structure changed, together with the price fall of major raw materials – iron core dust, steel production costs per tonne therefore reduced by RMB489 or 16.4% from RMB2,985 last year to RMB2,496; and

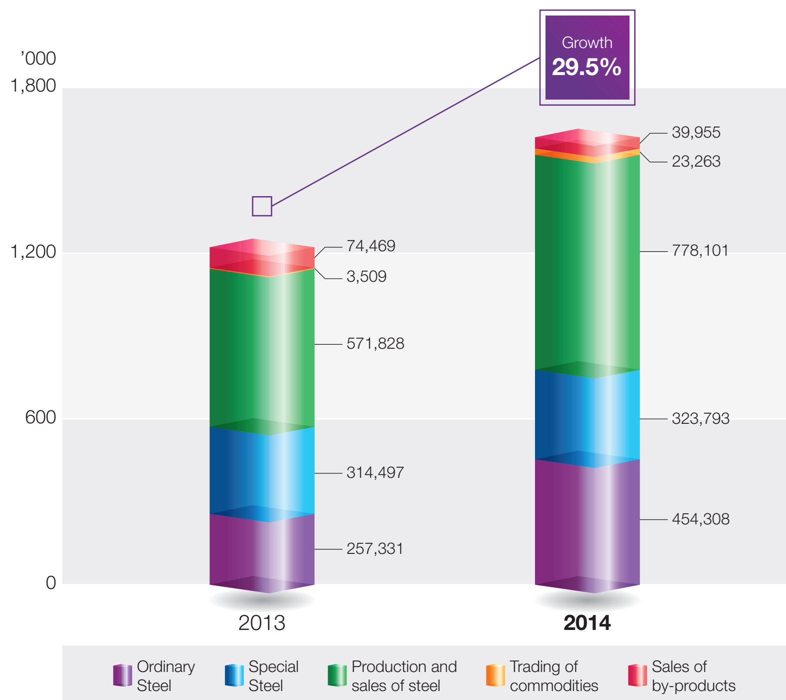
(iv) Commodities trading amount surged during the Year, accounted for 12.6% of the overall sales when compared to 1.7% last year. As the gross profit margin of commodities trading was 2.1%, which was lower than that of the steel, resulting in the decline of overall gross profit margin.

As the decline of steel costs was more significant than the price fall and the benefit of ordinary steel improved, despite the lower gross profit margin of commodities trading as compared to that of the steel, the overall gross profit margin slightly rose 0.5 percentage point when compared to the corresponding period of last year.

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

	2014		2013	
	RMB'000	**Percentage**	RMB'000	Percentage
Ordinary steel				
Rebar	**259,812**	**30.9%**	130,061	20.0%
Wire rod	**194,496**	**23.1%**	127,270	19.6%
	454,308	**54.0%**	257,331	39.6%
Special steel				
Quality carbon structural steel	**275,949**	**32.8%**	285,954	44.0%
Alloy structural steel	**41,909**	**5.0%**	(804)	(0.1%)
Bearing steel	**7,000**	**0.8%**	29,559	4.5%
Stainless steel	**(1,065)**	**(0.1%)**	(212)	0.0%
	323,793	**38.5%**	314,497	48.4%
Production and sales of steel	**778,101**	**92.5%**	571,828	88.0%
Trading of commodities	**23,263**	**2.8%**	3,509	0.5%
Sales of by-products	**39,955**	**4.7%**	74,469	11.5%
Total	**841,319**	**100.0%**	649,806	100.0%

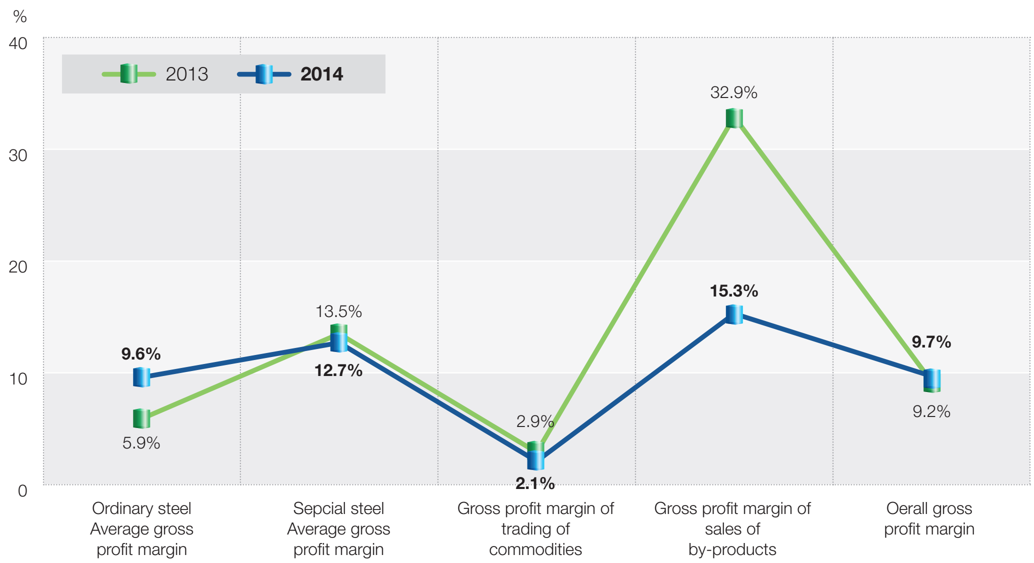
Breakdown of the contribution of gross profit by products and business



Gross profit margins of the products are as follow:

	2014 Percentage	2013 Percentage	Increase/ (decrease) in percentage point
Ordinary steel			
Rebar	**9.1%**	4.9%	4.2%
Wire rod	**10.3%**	7.5%	2.8%
Average gross profit margin	**9.6%**	5.9%	3.7%
Special steel			
Quality carbon structural steel	**13.7%**	14.7%	(1.0%)
Alloy structural steel	**9.2%**	(0.6%)	9.8%
Bearing steel	**9.9%**	13.5%	(3.6%)
Stainless steel	**(687.1%)**	(0.7%)	(686.4%)
Average gross profit margin	**12.7%**	13.5%	(0.8%)
Overall gross profit margin of production and sales of steel	**10.7%**	8.6%	2.1%
Gross profit margin of trading of commodities	**2.1%**	2.9%	(0.8%)
Gross profit margin of sales of by-products	**15.3%**	32.9%	(17.6%)
Overall gross profit margin	**9.7%**	9.2%	0.5%

Gross profit margins of the products are as follow



4. **Other income and gain**
Other income mainly includes bank interest income and government subsidies. Other income and gain for the Year amounted to RMB31,570,000 (2013: RMB40,902,000), representing a decrease of 22.8% as compared to last year. The decrease was mainly due to the decrease in bank interest income as a result of the decrease in pledged bank deposits during the Year.

5. **Other expenses**
Other expenses of the Group for the Year amounted to RMB36,103,000 (2013: nil), primary due to the provision of an impairment of RMB33,500,000 in respect of certain items of property, plant and equipment.

6. **Selling and distribution expenses**
The Group's selling and distribution expenses for the Year amounted to RMB20,174,000 (2013: RMB8,584,000), representing an increase of 1.35 times as compared to the corresponding period of last year. The increase was mainly attributable to the increase in sales commission because of the significant growth of commodities trading business during the Year since its commencement in the second half of 2013.

7. **Administrative expenses**
Administrative expenses mainly include general office expenses, salaries of administrative staff, professional and legal fees and bank service charges. Administrative expenses for the Year amounted to RMB76,529,000 (2013: RMB46,637,000), representing an increase of 64.1% as compared to the corresponding period of last year. Such increase was attributable to the increase in land use tax as a result of the construction of our blast furnace and converter have completed and commenced operation at the end of last year. In addition, because of the development of trading business during the Year, stamp duty arising from sourcing and selling of trading commodities also increased as relevant contracts increased. During the Year, the development of our commodities trading business also caused the rise of the number of staff and general administrative expenses, and our overall salary expenses had also increased during the Year.

8. **Finance costs**
The Group's finance costs for the Year amounted to RMB199,633,000 (2013: RMB132,300,000), representing an increase of 50.9% as compared to last year. The increase was mainly due to the increase in borrowings during the Year and the interest arising from the addition of loans from Xiwang Group, the ultimate holding company of the Company.

9. **Income tax expenses**
Income tax expenses of the Group for the Year amounted to RMB133,846,000 (2013: RMB119,383,000), representing an increase of 12.1% as compared to last year, which was primarily due to the increase in profit before tax.

10. **Profit for the Year**
Profit of the Group for the Year amounted to RMB406,604,000 (2013: RMB383,804,000), representing an increase of 5.9% as compared to last year, which was primarily due to the increase in gross profit.

Financial position

1. Liquidity and capital resources

As at 31 December 2014, cash and cash equivalents of the Group amounted to RMB127,067,000, representing an increase of RMB33,751,000 or 36.2% as compared with RMB93,316,000 as at 31 December 2013. During the Year, net cash inflow from operating activities, net cash outflow used in investing activities and net cash outflow used in financing activities were RMB1,887,388,000, RMB1,489,264,000 and RMB363,692,000, respectively.

Investing activities of the Group during the Year mainly included payment of RMB1,849,408,000 for the construction of plants and purchase of equipments to improve production capacity. Financing activities mainly included the repayment of net bank borrowings of RMB918,483,000, the repayment of other borrowings of RMB438,700,000, the repayment of borrowings of RMB425,260,000 to an independent third party, and new borrowings of RMB1,399,900,000 from Xiwang Group, the ultimate holding company of the Company during the Year. The Group mainly used its operating cash inflow to fund its working capital needs, while the capital requirement for addition of production equipments was mainly satisfied by cash inflows from operating and financing activities.

As at 31 December 2014, the capital commitment of the Group was RMB314,247,000, mainly used for renovation project and purchasing equipments to expand the production capacity. The Group also entered into a technical cooperation agreement with 洛陽軸承研究所有限公司 (Luoyang Bearing Research Centre Company Limited*) to enhance its product quality. As at 31 December 2014, commitment in respect of this technical consultation service amounted to RMB2,700,000.

2. Capital structure

As at 31 December 2014, the total liabilities and total equity of the Group were RMB7,425,447,000 and RMB3,811,398,000, respectively. The gearing ratio (total liabilities divided by total equity) was 1.95. Total assets of the Group was RMB11,236,845,000 and the asset liability ratio (total assets divided by total liabilities) was 1.51. Total bank and other borrowings of the Group was RMB755,082,000 in aggregate, RMB725,105,000 of which will be repaid within one year. All of the bank and other borrowings were secured by non-current assets, restricted bank deposits and/or guaranteed by Mr. WANG Yong, and/or Mr. WANG Di, the chairman of the Board of Directors of the Company.

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

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

Pledge of assets

Save as disclosed in this annual report, none of the assets of the Group was pledged as at 31 December 2014.

Contingent liabilities

The Group did not have any contingent liabilities as at 31 December 2014.

Foreign exchange risk

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

Employees and remuneration

As at 31 December 2014, the Group had a total of 4,564 employees (2013: 4,110). Staff-related costs incurred during the Year was RMB209,842,000 (2013: RMB167,390,000). The remuneration was determined based on the performance and professional experience of employees as well as the prevailing market conditions. The management will regularly review the remuneration policy and arrangement of the Group. In addition to pensions, the Group will also distribute discretionary bonuses to certain employees as incentives according to their performance.

II. BUSINESS OUTLOOK

The economic development of China has entered a new stage, with a change from rapid growth to moderate growth. The gross domestic product (“**GDP**”) of China in 2014 grew by 7.4% to RMB63,600 billion.

Our operations are mainly situated in Shandong Province. The GDP of Shandong Province reached RMB5,900 billion, grew by 8.7% in 2014, which was 1.3% higher than the national one. The per capita disposable income of residents from both urban and rural area in Shandong Province grew by 8.7% and 11.2%, respectively, while fixed asset investment grew by 15.8%. The development potential of Shandong Province remains huge. The progress of national urbanization facilities infrastructure development. Our ordinary steel can fulfill the demand in the construction market while the demands for special steel in machines, facilities and spare parts of automobile are also great.

After the Chinese government has issued policies in solving the problem of over-capacity of steel, integration and reorganization has already taken place in steel sector. On 3 January 2014, the Ministry of Industry and Information Technology of the People’s Republic of China published a list of enterprises that fulfilled the steel industry specification, Shandong Xiwang Special Steel Company Limited* (「山東西王特鋼有限公司」), our wholly-owned subsidiary, is one of them. This is a recognition of the Group’s operations, facilities and technology. In addition, the new “Environmental Protection Law of the People’s Republic of China” (《中華人民共和國環境保護法》) implemented on 1 January 2015 explained that the steel sector has gradually shifted its focus from quantity expansion and price competition to quality and difference competition. Accordingly, the development direction of the Group’s business is to enhance quality and characteristics for special steel segment, while cost control will be the focus of ordinary steel segment. The transformation of steel industry provided external room for the development of enterprises fulfilling specification. The expansion to overseas market was and will be one of the business goals in the Year and future.

At present, the steel industry in China continues to develop healthily. The Group grasped the opportunities to entered into cooperation agreements with IMR and 洛陽軸承研究所有限公司 (Luoyang Bearing Research Centre Company Limited*) respectively to concentrate on the development of special steel products. Notwithstanding the fierce competition and challenges in steel industry, the management is still confident about the Group’s products, operations and the ability in technical cooperation to cope with challenges, and is positive about the Group’s prospects.

EVENTS AFTER THE REPORTING PERIOD

(i) On 3 February 2015, the Board announced that the Company proposed to conduct an international offering of USD denominated senior notes. A confirmation of the eligibility for the listing of the Notes was received from The Stock Exchange of Hong Kong Limited. As at the date of this annual report, no binding agreement in relation to the proposed issuance of the Notes has been entered into.

(ii) Pursuant to a technology licence and cooperation agreement entered into by the IMR and 25 researchers of IMR on 5 January 2015 Technology, IMR agreed (i) to license certain licensed technologies in relation to steel production to the Group for a period of 10 years and the Group shall be authorised to use the licensed technologies after the expiration of the said period for free and (ii) to provide technological services and support to the Group in relation to the application of the licensed technologies, for a consideration of HK$122,000,000. The consideration shall be satisfied by the Company allotting and issuing an aggregate of 100,000,000 consideration shares to a company to be incorporated by IMR and the IMR Key Personnel at the issue price of HK$1.22 per consideration share.

In addition, pursuant to the Technology Licence and Cooperation Agreement, an aggregate of 40,000,000 bonus shares will be issued to the IMR Company and the IMR Key Personnel, subject to certain conditions being satisfied.

DIVIDEND

The Board has recommended the payment of a final dividend of RMB1.5 cents per share (approximately HK1.9 cents per share, based on the exchange rate of RMB1 equivalent to HK$1.24, for the purpose of calculating the amount of Hong Kong dollars payable) of the Company for the year ended 31 December 2014. The proposed final dividend, if approved by the shareholders at the annual general meeting, will be paid on or about Friday, 12 June 2015 to the shareholders whose names appear on the register of members of the Company on Monday, 8 June 2015.

Corporate Governance Report

The Company is committed to maintaining good corporate governance practices and procedures. The Company has adopted the code provisions in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**") as its own code of corporate governance. 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)*
Mr. JIANG Chang Lin
Mr. HE Qing Wen (resigned on 16 April 2015)
Mr. SUN Xinhu (re-designated from non-executive Director to Executive Director on 16 April 2015)

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

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

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

Mr. WANG Di has been appointed as chairman of the Company and Mr. WANG Yong has stepped down from his role as chairman, effective from 10 October 2014.

Mr. HE Qing Wen has resigned as executive Director, Mr. ZHANG Gongxue has resigned as independent Non-executive Director, Mr. SUN Xinhu has been re-designated from Non-executive Directors to Executive Director, Ms. LI Yiyi has been appointed as Non-executive Director and Mr. LIU Xiangming has been appointed as independent Non-executive Director, effective from 16 April 2015.

(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 2014, 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 2014 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 2014. 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 51 to 52 of this annual report.

(v) Relationship among members of the Board

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

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

(vi) Continuous professional development of Directors

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

D. Board committees

We have established the following board committees in compliance with the CG Code. Independent nonexecutive 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 results announcement for the year ended 31 December 2013 and the unaudited accounts and interim results announcement for the six months ended 30 June 2014. 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 2014 at the meeting held on 23 March 2015.

(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.

One meeting was held by the Nomination Committee during the Year. The Nomination Committee performed annual review of the structure of the Board, and re-assess the independence of the Independent Non-executive Directors of the Company.

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

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

	No. of meetings attended/no. of meetings held				
	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	General Meeting
Executive Directors:					
WANG Hui *(Chief Executive Officer)*	4/6	N/A	N/A	N/A	0/2
JIANG Chang Lin	5/6	N/A	N/A	N/A	0/2
HE Qing Wen (resigned on 16 April 2015)	4/6	N/A	N/A	N/A	0/2
Non-executive Directors:					
WANG Yong	5/6	N/A	N/A	N/A	0/2
WANG Di *(Chairman)*	5/6	N/A	1/1	1/1	0/2
SUN Xinhu	6/6	2/2	N/A	N/A	2/2
Independent Non-executive Directors:					
LEUNG Shu Sun Sunny	5/6	2/2	N/A	N/A	2/2
ZHANG Gongxue (resigned on 16 April 2015)	5/6	2/2	1/1	1/1	0/2
YU Kou	5/6	N/A	1/1	1/1	0/2

Note: Mr. WANG Di, 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.

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 2014 (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 40 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) and section 566 of the new Companies Ordinance (Cap. 622 of the Laws of Hong Kong), shareholders holding not less than 5% of the paid-up capital of the Company carrying the right of voting at general meeting of the Company may by written requisition to the Board for convene and putting forward proposals at an extraordinary general meeting. The procedures for shareholders to convene extraordinary general meetings and put forward proposal are as follows:

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

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

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

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

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

Shareholders can also send their written enquiries or suggestions on the business of the Company to Company Secretary at the Company's business address in Hong Kong. The Board and senior management of the Company will seriously consider shareholders' enquiries and address them accordingly and in compliance with the Listing Rules. 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 Di
Chairman

Hong Kong, 23 March 2015

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. WANG Hui（王輝）

Aged 37, 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 whollyowned 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 58, 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）

(resigned on 16 April 2015)

Aged 47, 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. SUN Xinhu（孫新虎）

(re-designated to executive Director on 16 April 2015)

Aged 40, was appointed as a non-executive Director in June 2011. Mr. Sun has been serving as vice general manager since he joined Xiwang Group Company Limited in March 2003. Mr. Sun earned his master's degree in food science from Southern Yangtze University（江南大學）in July 2004 and bachelor's degree in food science from Shandong Polytechnic University（山東輕工業學院）in July 1997. Mr. Sun was an executive director of Xiwang Property Holdings Company Limited (previously named Xiwang Sugar Holdings Company Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited under stock code 2088) since December 2008 and re-designated as a non-executive director on July 2012. Mr. Sun has also been a director of Xiwang Foodstuffs Company Limited ("**Xiwang Foodstuffs**", a company listed on the Main Board of the Shenzhen Stock Exchange under stock code 000639) since 2010 and the vice chairman of the board of Xiwang Foodstuffs since June 2014. Mr. Sun was the secretary of the board of Xiwang Foodstuffs from 2010 to October 2013.

NON-EXECUTIVE DIRECTORS

Mr. WANG Yong（王勇）

Aged 64, 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 31, Mr. WANG was appointed as a non-executive Director in November 2007 and was appointed as the chairman of the Company in October 2014, he is the son of Mr. WANG Yong. He has been serving as the head of branding of the Group since March 2010. Mr. WANG attended the bachelor's degree course of information conflict from the Electronic Engineering Institute of the Chinese People's Liberation Army（中國人民解放軍電子工程學院）from 2001 to 2005. Mr. WANG joined Xiwang Group in August 2005 and has been in charge of the international trading business of Xiwang Group for more than eight years. Mr. WANG has been granted various awards and honours, including outstanding worker for enterprise education and training of Shandong Province of the PRC in 2006, labour model of Binzhou City of Shandong Province of the PRC, labour model of Shandong Province, the PRC and outstanding entrepreneur in food industry of Shandong Province of the PRC. Mr. WANG is director and the chairman of Xiwang Foodstuffs. He was appointed as the executive director of Xiwang Property in November 2010 and the deputy chairman in July 2012, and was re-designated as the chairman and non-executive director on 15 July 2013.

Ms. LI Yiyi（李依依）

Aged 81, Ms. LI was appointed as an independent non-executive Director commencing from 16 April 2015. She was metallurgy and metal materials scientist, was selected as the academician of Chinese Academy of Sciences in 1993 and the academician of Third World Academy of Sciences in 1999, and was the director of Institute of Metal Research of Chinese Academy of Sciences for two consecutive terms from 1990 to 1998. She was the vice chairman of Chinese Society for Metals, the vice chairman of Chinese Materials Research Society, the vice chairman, chairman and honorary chairman of Liaoning Association of Science and Technology, and was a member and standing committee member of the fourth, fifth and sixth session committee of China Association for Science, a deputy director of the Division of Technology of Chinese Academy of Sciences, a member of the Presidium of Chinese Academy of Sciences, and a representative at the fourteenth and fifteenth National Congress of the Communist Party of China. She is now the honorary president of the Liaoning Association of Science and Technology, an honorary member of the China Association for Science and the Chinese Society for Metals, a committee member of the International Cryogenic Materials Society（國際低溫材料學會）and the chairman of the Academic Committee of Institute of Metal Research of Chinese Academy of Sciences.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LEUNG Shu Sun Sunny（梁樹新）

Aged 51, 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）
(resigned on 16 April 2015)

Aged 50, 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 67, 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.

Mr. LIU Xiangming（劉向明）

Aged 44, Mr. LIU was appointed as an independent non-executive Director commencing from 16 April 2015. Mr. LIU was graduated from The Party School of the Central Committee of the CPC（中共中央黨校）with a bachelor's degree in law in December 2011. He has worked in Shandong Liangzou Law Firm（山東梁鄒律師事務所）since December 1996 and has been the managing partner since May 2006. He has been a member of Shandong Criminal Defense Practice Committee since January 2015, a member of China Law Society since July 2013 and the vice president of Binzhou Law Society since May 2011. He was awarded Binzhou Outstanding Young Lawyer in October 1999.

SENIOR MANAGEMENT

Mr. ZHANG Qingsheng（張慶生）

Aged 36, 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 34, 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 31, 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 department 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 63, 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.

Miss NG Weng Sin（吳永蒨）

Aged 43, Miss NG was appointed as the Chief Financial Officer of the Company commencing from 26 May 2014 and was appointed as the company secretary of the Company (the "**Company Secretary**") commencing from 25 July 2014, Miss NG has over 17 years of experience in finance, accounting and auditing. Prior to joining the Company, Miss Ng worked at Deloitte Touche Tohmatsu from August 1997 to September 2001. From September 2001 to May 2006, she worked at finance departments in two companies listed on the main board of the Stock Exchange and a company listed on the NASDAQ Stock Market in the United States. From May 2006 to February 2010, she was the financial controller, the company secretary and authorized representative of China Information Technology Development Limited, a company listed on the Stock Exchange. From August 2010 to October 2013, she was the chief financial officer, the company secretary and the authorized representative of Billion Industrial Holdings Limited. Miss Ng obtained her bachelor's degree of arts in accountancy in 1996, a master's degree of professional accounting in 2010 and a master's degree of corporate finance in 2013 from the Hong Kong Polytechnic University. She is also a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

Miss NG was appointed as the Chief Financial Officer and the Company Secretary of Xiwang Property commencing from 26 May 2014 and 25 July 2014, respectively.

Ms. LAM Wai Lin（林惠蓮）
(resigned on 25 July 2014)

Aged 46, Ms. Lam was appointed as 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 Association of Chartered Certified Accountants and an associate member of Hong Kong Institute of Certified Public Accountants.

Mr. WANG Chao（王超）

Aged 31, 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 40, 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.

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 2014.

PRINCIPAL ACTIVITIES

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

DIVIDEND

The Board has recommended the payment of a final dividend of RMB1.5 cents per share (approximately HK1.9 cents per share, based on the exchange rate of RMB1 equivalent to HK$1.24, for the purpose of calculating the amount of Hong Kong dollars payable) of the Company for the year ended 31 December 2014. The proposed final dividend, if approved by the shareholders at the annual general meeting, will be paid on or about Friday, 12 June 2015 to the shareholders whose names appear on the register of members of the Company on Monday, 8 June 2015.

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), 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.

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 2014 are set out in note 27 to the consolidated financial statements of this annual report.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 120 of this annual report.

SHARE OPTION SCHEME

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The share option scheme became effective on 3 September 2014. No share options were exercised during the Year.

As at 31 December 2014, options to subscribe for 10,000,000 ordinary shares of the Company were outstanding, details of which are set out in note 29 to the consolidated financial statements and below:

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

Notes:

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

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

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

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

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 2014, 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 RMB30,093,000 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 24.9% (2013: 45.9%) of the Group's total cost of purchase for the Year. The largest supplier accounted for approximately 7.2% (2013: 16.3%) of the Group's total cost of purchase.

The Group's five largest customers accounted for approximately 27.2% (2013: 33.3%) of the Group's total revenue for the Year. The largest customer accounted for approximately 8.7% (2013: 12.6%) of the Group's total revenue for the Year.

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

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive Directors
Mr. WANG Hui *(Chief Executive Officer)*
Mr. JIANG Chang Lin
Mr. HE Qing Wen (resigned on 16 April 2014)
Mr. SUN Xinhu (re-designated from non-Executive Director to Executive Director on 16 April 2015)

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

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

Each of the executive Director, Mr. SUN Xinhu, non-executive Director, Ms. LI Yiyi, and independent non-executive Director, Mr. LIU Xiangming, has entered into a service agreement with the Company for a term of three years commencing from 16 April 2015. Each of these service agreements may be terminated by either party by giving to the other not less than three months' prior notice in writing.

Except for Mr. LIU Xiangming who has entered into a service agreement with the Company as mentioned above, each of the independent non-executive Directors has entered into a letter of appointment with the Company for a term of three years commencing from 23 February 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 nonexecutive 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 36 to 40 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 2014, the Directors or chief executive of the Company and their respective associates had the following interests in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("**SFO**")) which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO; or notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Name of Director	**Name of company/ associated corporation**	**Capacity**	**Number and class of securities held/interested** (Note 1)	**Approximate percentage shareholding in the same class of securities in the relevant corporation as at 31 December 2014**
WANG Yong	Company	Interest of controlled corporations (Note 2)	1,500,000,000 ordinary shares (L) (Note 4)	75%
	Xiwang Investment	Interest of controlled corporations (Notes 2, 3)	3 shares (L)	100%
	Xiwang Holdings	Beneficial owner (Note 2)	6,649 shares (L)	3.32%
		Interest of controlled corporations (Note 2)	190,000 shares (L)	95%
	Xiwang Hong Kong	Interest of controlled corporations (Note 2)	694,132,000 shares (L)	100%
	Xiwang Group	Beneficial owner (Note 2)	RMB1,305,000,000 (L)	65.25%
	Xiwang Property	Interest of controlled corporations (Note 3)	810,903,622 ordinary shares (L) (Note 3)	65.62%
			678,340,635 convertible preference shares (L) (Note 3)	99.68%

Name of Director	Name of company/ associated corporation	Capacity	Number and class of securities held/interested (Note 1)	Approximate percentage shareholding in the same class of securities in the relevant corporation as at 31 December 2014
WANG Di	Xiwang Holdings	Beneficial owner	177 shares (L)	0.09%
	Xiwang Group	Beneficial owner	RMB35,400,000 (L)	1.77%
SUN Xinhu	Xiwang Holdings	Beneficial owner	89 shares (L)	0.04%
	Xiwang Group	Beneficial owner	RMB17,800,000 (L)	0.89%

Notes:

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

(2) As at 31 December 2014, Xiwang Group is the ultimate holding company of the Company. Xiwang Group is owned as to 65.25% by Mr. WANG Yong and remaining 34.75% by 24 individuals. Further, these 24 individuals are accustomed to act in accordance with the directions of Mr. WANG Yong in respect of the exercise by such 24 individuals of their voting powers as a shareholder of Xiwang Group. Accordingly, Mr. WANG Yong is deemed to be interested in all the shares of the Company in which Xiwang Group is interested.

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

(3) As at 31 December 2014, Xiwang Investment, where the entire issued shares are deemed to be interested by Mr. WANG Yong, held 65.62% of ordinary shares of Xiwang Property Holdings Company Limited ("**Xiwang Property**") and 99.68% of convertible preference shares of Xiwang Property.

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

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

(a) Substantial shareholders of the Company

As at 31 December 2014, so far as it is known to the Directors of the Company, the following persons (other than the Directors and chief executive of the Company) had or were deemed or taken to have interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of substantial shareholder	Capacity	Number of shares of the Company held/ interested (Note 1)	Approximate percentage of interest in the Company as at 31 December 2014
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%
Xiwang Hong Kong	Interest of controlled corporations (Notes 2, 3)	1,500,000,000 ordinary shares (L)	75%
Xiwang Group	Interest of controlled corporations (Notes 2, 3)	1,500,000,000 ordinary shares (L)	75%
ZHANG Shufang	Interest of spouse (Note 4)	1,500,000,000 ordinary shares (L)	75%
Prominent State Limited	Person having a security interest (Note 5)	1,500,000,000 ordinary shares (L)	75%
VMS Investment Group Limited	Interest of a controlled corporation (Notes 5, 6)	1,500,000,000 ordinary shares (L)	75%
VMS Holdings Limited	Interest of a controlled corporation (Notes 5, 6)	1,500,000,000 ordinary shares (L)	75%
Mak Siu Hang Viola	Interest of a controlled corporation (Notes 5, 6)	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 Holdings directly holds 100% of the issued share capital of Xiwang Investment and therefore is deemed to be interested in the number of shares of the Company held by Xiwang Investment.

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

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

(5) On 26 September 2014, Xiwang Investment and Prominent State Limited entered into a share mortgage, pursuant to which Xiwang Investment mortgaged 1,500,000,000 ordinary shares of the Company to Prominent State Limited. Therefore, Prominent State Limited is interested in 1,500,000,000 ordinary shares of the Company.

(6) VMS Investment Group Limited directly holds 100% of the issued share capital of Prominent State Limited and therefore is deeded to be interested in the number of shares of the Company in which Prominent State Limited is interested. VMS Investment Group Limited is wholly owned by VMS Holdings Limited, which in turn is wholly owned by Ms. Mak Siu Hang Viola. Therefore, VMS Investment Group Limited, VMS Holdings Limited and Ms. Mak Siu Hang Viola are deemed to be interested in the number of shares of the Company in which Prominent State Limited is 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 2014, 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 33(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.

Save as the supply of steam under the Steam Supply Agreement dated 11 November 2014 entered into between the Shandong Xiwang Special Steel Company Limited and Shandong Xiwang Sugar Industry Company Limited ("**Shandong Xiwang Sugar**"), which is subject to the reporting, annual review and announcement requirements, all such continuing connected transactions were exempt continuing connected transactions under Rule 14A.33(3) of the Listing Rules and are exempted from the reporting, annual review, announcement and independent shareholders' approval requirement under the Listing Rules.

(1) Sale of Steam to Shandong Xiwang Sugar

On 11 November 2014, Shandong Xiwang Special Steel Company Limited ("**Xiwang Special Steel**"), a wholly-owned subsidiary of the Company, entered into the Steam Supply Agreement with Shandong Xiwang Sugar, pursuant to which, the Group would supply steam to Shandong Xiwang Sugar for a period commencing on the date of the Steam Supply Agreement and ending on 31 December 2016 (both dates inclusive). Xiwang Investment is the controlling shareholder of the Company and indirectly holds the entire equity interest in Shandong Xiwang Sugar. As such, Shandong Xiwang Sugar is a connected person of the Company and the transactions contemplated under the Steam Supply Agreement constituted continuing connected transactions. Pursuant to the Steam Supply Agreement, Xiwang Special Steel is responsible for laying or altering the steam pipe, installing the steam meter and supplying steam to Shandong Xiwang Sugar and its subsidiaries. It was agreed that if the coal price in the Zouping County market reaches RMB0.15 per kcal (tax-inclusive), the corresponding price for steam will be RMB125 per tonne (tax-inclusive). With the aforesaid standard as basis, the price for steam will be adjusted upward or downward by RMB5 per tonne (tax-inclusive) accordingly for the corresponding increase or decrease of each RMB0.01 per kcal (tax-inclusive) of the coal price. Steam is a by-product generated during the Group's production of special steel, while the Group only make use of a small amount of steam in its production process. By entering into the Steam Supply Agreement, the Group can generate additional income from the sale of steam unused while saving the cost in its construction of steam pipeline. It was expected that the maximum aggregate annual transaction amounts under the Steam Supply Agreement for each of the three years ending 31 December 2016 would be RMB34,668,000, RMB64,598,000 and RMB78,304,000, respectively. As of 31 December 2014, the actual aggregate annual transaction amount incurred was

RMB22,351,000. During the term of the agreement, the transaction amount did not exceed the annual cap as set out in the agreement. For details of the transaction, please refer to the announcement of the Company dated 11 November 2014.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors of the Company have reviewed the above continuing connected transactions referred to in item (1) and are of the opinion that the continuing connected transactions as stated in item (1) above have been (i) carried out in the usual and ordinary course of business of the Group; (ii) conducted on normal commercial terms; and (iii) entered into in accordance with the terms of the agreement which are fair and reasonable and in the interests of the Company's shareholders as a whole.

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

(i) have not been approved by the Board;

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

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

(iv) have exceeded the cap.

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

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 26 to 35 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 29 May 2015.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 27 May 2015 to Friday, 29 May 2015, 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 with the Company's Hong Kong share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Tuesday, 26 May 2015.

The register of members of the Company will be closed from Thursday, 4 June 2015 to Monday, 8 June 2015, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 3 June 2015.

AUDITORS

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

On behalf of the Board

WANG Di
Chairman

Hong Kong, 23 March 2015

EY 安永

22/F, CITIC Tower
1 Tim Mei Avenue
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 53 to 119, which comprise the consolidated and company statements of financial position as at 31 December 2014, 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 80 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), 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 2014, 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
23 March 2015

Consolidated Statement of Profit or Loss

Year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
REVENUE	5	**8,641,517**	7,029,766
Cost of sales		**(7,800,198)**	(6,379,960)
Gross profit		**841,319**	649,806
Other income and gain	5	**31,570**	40,902
Other expenses		**(36,103)**	–
Selling and distribution expenses		**(20,174)**	(8,584)
Administrative expenses		**(76,529)**	(46,637)
OPERATING PROFIT		**740,083**	635,487
Finance costs	7	**(199,633)**	(132,300)
PROFIT BEFORE TAX	6	**540,450**	503,187
Income tax expense	10	**(133,846)**	(119,383)
PROFIT FOR THE YEAR		**406,604**	383,804
Profit attributable to owners of the parent	11	**406,604**	383,804
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**RMB20.3 cents**	RMB19.2 cents
Diluted		**RMB20.3 cents**	RMB19.2 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 2014

	2014 RMB'000	2013 RMB'000
PROFIT FOR THE YEAR	**406,604**	383,804
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**2,189**	(4,833)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**2,189**	(4,833)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**408,793**	378,971
Total comprehensive income attributable to owners of the parent	**408,793**	378,971

Consolidated Statement of Financial Position

31 December 2014

	Notes	**31 December 2014 RMB'000**	31 December 2013 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**8,875,432**	7,817,528
Prepaid land lease payments	15	**100,725**	90,919
Deferred asset	25	**352**	1,057
Deferred tax assets	26	**5,911**	4,764
Total non-current assets		**8,982,420**	7,914,268
CURRENT ASSETS			
Inventories	17	**863,155**	914,745
Trade and bills receivables	18	**297,751**	106,503
Prepayments, deposits and other receivables	19	**194,970**	260,650
Due from a fellow subsidiary	33(c)(i)	**25,256**	–
Pledged deposits	20	**746,226**	1,118,888
Cash and cash equivalents	20	**127,067**	93,316
Total current assets		**2,254,425**	2,494,102
CURRENT LIABILITIES			
Trade and bills payables	21	**2,366,445**	1,776,705
Receipts in advance, other payables and accruals	22	**2,737,440**	3,435,299
Interest-bearing bank and other borrowings	23	**725,105**	1,443,121
Due to the immediate holding company	33(c)(i)	**230,140**	–
Due to a related party	33(c)(i)	**–**	69,434
Due to fellow subsidiaries	33(c)(i)	**155,000**	–
Income tax payable		**51,891**	34,116
Total current liabilities		**6,266,021**	6,758,675
NET CURRENT LIABILITIES		**(4,011,596)**	(4,264,573)
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,970,824**	3,649,695

Consolidated Statement of Financial Position

31 December 2014

	Notes	31 December 2014 RMB'000	31 December 2013 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	23	**29,977**	499,065
Due to the ultimate holding company	33(c)(ii)	**1,109,939**	–
Deferred tax liability	26	**19,093**	17,060
Derivative financial instrument	24	**417**	–
Total non-current liabilities		**1,159,426**	516,125
Net assets		**3,811,398**	3,133,570
EQUITY			
Equity attributable to owners of the parent			
Share capital: nominal value	27	**–**	165,903
Other statutory capital reserves		**–**	789,930
Share capital and other statutory capital reserve		**955,833**	955,833
Other reserves	28	**2,825,565**	2,147,737
Proposed final dividend	12	**30,000**	30,000
Total equity		**3,811,398**	3,133,570

WANG Di
Director

WANG Yong
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2014

	Attributable to owners of the parent								
	Share capital RMB'000 (note 27)	Share premium account* RMB'000 (note 27)	Contributed surplus RMB'000	Statutory surplus reserve RMB'000 (note 28(a))	Special reserve RMB'000 (note 28(b))	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend 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
Profit for the year	–	–	–	–	–	–	383,804	–	383,804
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations	–	–	–	–	–	(4,833)	–	–	(4,833)
Total comprehensive income for the year	–	–	–	(4,833)	383,804	–	378,971		
Profit appropriated to reserves	–	–	–	136,198	41,305	–	(177,503)	–	–
Final 2012 dividend declared	–	–	–	–	–	–	–	(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

* Included in other statutory capital reserves in the consolidated statement of financial position.

	Attributable to owners of the parent											
	Share capital RMB'000 (note 27)	Share premium account# RMB'000 (note 27)	Contributed surplus RMB'000	Other reserve RMB'000	Statutory surplus reserve RMB'000 (note 28(a))	Warrant reserve RMB'000 (note 27)	Share option reserve RMB'000 (note 29)	Special reserve RMB'000 (note 28(b))	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total equity RMB'000
At 1 January 2014	165,903	789,930	78,938	–	400,899	–	–	78,525	1,636	1,587,739	30,000	3,133,570
Profit for the year	–	–	–	–	–	–	–	–	–	406,604	–	406,604
Other comprehensive income for the year:												
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	2,189	–	–	2,189
Total comprehensive income for the year	–	–	–	–	–	–	–	–	2,189	406,604	–	408,793
Profit appropriated to reserves	–	–	–	–	48,672	–	–	41,045	–	(89,717)	–	–
Final 2013 dividend declared	–	–	–	–	–	–	–	–	–	–	(30,000)	(30,000)
Capital contribution from the ultimate shareholder (note 33(b)(iii))	–	–	–	297,069	–	–	–	–	–	–	–	297,069
Issue of warrants, net of issue expenses (note 27)	–	–	–	–	–	1,189	–	–	–	–	–	1,189
Equity-settled share option expense (note 29)	–	–	–	–	–	–	777	–	–	–	–	777
Transition to no-par value regime (note 27)	789,930	(789,930)	–	–	–	–	–	–	–	–	–	–
Proposed final 2014 dividend (note 12)	–	–	–	–	–	–	–	–	–	(30,000)	30,000	–
At 31 December 2014	955,833	–	78,938*	297,069*	449,571*	1,189*	777*	119,570*	3,825*	1,874,626*	30,000	3,811,398

* These reserve accounts comprise the consolidated other reserves of RMB2,825,566,000 (2013: RMB2,147,737,000) in the consolidated statement of financial position.

\# Included in other statutory capital reserves in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**540,450**	503,187
Adjustments for:			
Finance costs	7	**199,633**	132,300
Interest income	5	**(26,409)**	(36,429)
Exchange gain, net	5	**3,575**	(4,473)
Depreciation	14	**405,261**	225,852
Recognition of prepaid land lease payments	15	**2,344**	1,976
Equity-settled share option expense	29	**777**	–
Impairment of items of property, plant and equipment	6	**33,465**	–
		1,159,096	822,413
Decrease/(increase) in inventories		**51,590**	(341,911)
Increase in trade and bills receivables		**(191,247)**	(57,305)
Decrease in prepayments, deposits and other receivables		**59,288**	215,348
Increase in amounts due to fellow subsidiaries		**85,561**	–
Increase/(decrease) in trade and bills payables		**589,740**	(653,034)
Increase in receipts in advance, other payables and accruals		**29,067**	80,067
Increase in derivative financial liability		**417**	–
Increase in an amount due to the immediate holding company		**230,140**	–
Increase in an amount due from a fellow subsidiary		**(25,256)**	–
Increase in an amount due to a related party		**–**	47,335
Cash generated from operations		**1,988,396**	112,913
Interest received		**32,782**	32,399
Interest element of finance lease rental payments		**(18,605)**	(29,373)
PRC tax paid		**(115,185)**	(114,352)
Net cash flows from operating activities		**1,887,388**	1,587

	Note	2014 RMB'000	2013 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(1,849,408)**	(2,215,581)
Purchase of prepaid land lease payment		**(12,518)**	–
Decrease in pledged deposits		**372,662**	257,112
Net cash flows used in investing activities		**(1,489,264)**	(1,958,469)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank and other loans		**363,004**	1,607,183
(Decrease)/increase in an amount due to an independent third party		**(425,260)**	1,687,134
Increase in an amount due to the ultimate holding company		**1,399,900**	–
Capital element of finance lease rental payments		**(174,318)**	(153,644)
Repayment of bank loans		**(918,483)**	(1,290,000)
Repayment of other loans		**(438,700)**	–
Net proceeds from issue of warrants		**1,189**	–
Dividends paid		**(30,000)**	(30,000)
Interest paid		**(141,024)**	(140,990)
Net cash flows (used in)/from financing activities		**(363,692)**	1,679,683
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**34,432**	(277,199)
Cash and cash equivalents at beginning of year		**93,316**	370,172
Effect of foreign exchange rate changes, net		**(681)**	343
CASH AND CASH EQUIVALENTS AT END OF YEAR		**127,067**	93,316
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	20	**127,067**	93,316
Cash and cash equivalents as stated in the statement of cash flows		**127,067**	93,316

Statement of Financial Position

31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	16	**960,348**	887,227
CURRENT ASSETS			
Due from subsidiaries	16	**638,612**	395,804
Prepayments and other receivables	19	**2,181**	221
Cash and cash equivalents	20	**1,113**	5,790
Total current assets		**641,906**	401,815
CURRENT LIABILITIES			
Other payables and accruals	22	**1,831**	3,359
Interest-bearing bank loans	23	**73,460**	176,933
Due to the immediate holding company	33(c)(i)	**226,096**	–
Due to subsidiaries	16	**276,832**	115,662
Total current liabilities		**578,219**	295,954
NET CURRENT ASSETS		**63,687**	105,861
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**29,977**	–
Derivative financial instrument	24	**417**	–
Total non-current liabilities		**30,394**	–
Net assets		**993,641**	993,088
EQUITY			
Share capital: nominal value	27	**–**	165,903
Other statutory capital reserves		**–**	789,930
Share capital and other statutory capital reserve		**955,833**	955,833
Other reserves	28	**7,808**	7,255
Proposed final dividend	12	**30,000**	30,000
Total equity		**993,641**	993,088

WANG Di
Director

WANG Yong
Director

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 Limited Company (西王投資有限公司) which is wholly owned by Xiwang Holdings Limited ("**Xiwang Holdings**") (西王控股有限公司). During the year ended 31 December 2014, the ultimate holding company of the Company was Xiwang Holdings for the period from 1 January 2014 to 14 February 2014 and Xiwang Group Company Limited ("**Xiwang Group**") (西王集團有限公司) for the remaining period.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. The financial statements have been prepared under the historical cost convention, except for derivative financial instrument which has been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

Going concern

As at 31 December 2014, the Group's current liabilities exceeded its current assets by approximately RMB4,011.6 million (31 December 2013: RMB4,264.6 million). The directors of the Company have considered the following factors:

- The Group's expected net cash inflows from operating activities in 2015;
- The directors of the Company are also confident that those bank loans, which will expire during the next 12 months, could be renewed upon expiration based on the Group's past experience and credit standing; and
- Other available sources of financing from banks and the ultimate shareholder given the Group's credit history.

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

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2014. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described 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 revised standards and new interpretation for the first time for the current year's financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	*Investment Entities*
Amendments to HKAS 32	*Offsetting Financial Assets and Financial Liabilities*
Amendments to HKAS 36	*Recoverable Amount Disclosures for Non-Financial Assets*
Amendments to HKAS 39	*Novation of Derivatives and Continuation of Hedge Accounting*
HK(IFRIC)-Int 21	*Levies*
Amendment to HKFRS 2 included in *Annual Improvements 2010 – 2012 Cycle*	*Definition of Vesting Condition*[1]
Amendment to HKFRS 3 included in *Annual Improvements 2010 – 2012 Cycle*	*Accounting for Contingent Consideration in a Business Combination*[1]
Amendment to HKFRS 13 included in *Annual Improvements 2010 – 2012 Cycle*	*Short-term Receivables and Payables*
Amendment to HKFRS 1 included in *Annual Improvements 2011 – 2013 Cycle*	*Meaning of Effective HKFRSs*

1 Effective from 1 July 2014

Except for the amendment to HKFRS 1 which is only relevant to an entity's first HKFRS financial statements, the nature and the impact of each amendment and interpretation is described below:

(a) 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 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 amendments have had no impact on the Group as the Company does not qualify as an investment entity as defined in HKFRS 10.

(b) The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to set off" 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 have had no impact on the Group as the Group does not have any offsetting arrangement.

(c) 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 have had no impact on the financial position or performance of the Group.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(d) The HKAS 39 Amendments provide an exception to the requirement of discontinuing hedge accounting in situations where over-the-counter derivatives designated in hedging relationships are directly or indirectly, novated to a central counterparty as a consequence of laws or regulations, or the introduction of laws or regulations. For continuance of hedge accounting under this exception, all of the following criteria must be met: (i) the novations must arise as a consequence of laws or regulations, or the introduction of laws or regulations; (ii) the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties; and (iii) the novations do not result in changes to the terms of the original derivative other than changes directly attributable to the change in counterparty to achieve clearing. The amendments have had no impact on the Group as the Group has not novated any derivatives during the current and prior years.

(e) HK(IFRIC)-Int 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognised before the specified minimum threshold is reached. The interpretation has had no impact on the Group as the Group applied, in prior years, the recognition principles under HKAS 37 Provisions, Contingent Liabilities and Contingent Assets which for the levies incurred by the Group are consistent with the requirements of HK(IFRIC)-Int 21.

(f) The HKFRS 2 Amendment clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including (i) a performance condition must contain a service condition; (ii) a performance target must be met while the counterparty is rendering service; (iii) a performance target may relate to the operations or activities of an entity, or to those of another entity in the same group; (iv) a performance condition may be a market or non-market condition; and (v) if the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied. The amendment has had no impact on the Group.

(g) The HKFRS 3 Amendment clarifies that contingent consideration arrangements arising from a business combination that are not classified as equity should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of HKFRS 9 or HKAS 39. The amendment has had no impact on the Group.

(h) The HKFRS 13 Amendment clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. The amendment has had no impact on the Group.

2.3 NEW AND REVISED HKFRSS AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED

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*[4]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment entities: Applying the consolidation Exception*[2]
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[2]
HKFRS 14	*Regulatory Deferral Accounts*[5]
Amendments to HKAS 1	*Disclosure Initiative*[2]
HKFRS 15	*Revenue from Contracts with Customers*[3]
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[2]
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*[2]
Amendments to HKAS 19	*Defined Benefit Plans: Employee Contributions*[1]
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*[2]
Annual Improvements 2010 – 2012 Cycle	Amendments to a number of HKFRSs[1]
Annual Improvements 2011 – 2013 Cycle	Amendments to a number of HKFRSs[1]
Annual Improvements 2012 – 2014 Cycle	Amendments to a number of HKFRSs[2]

1 Effective for annual periods beginning on or after 1 July 2014
2 Effective for annual periods beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2017
4 Effective for annual periods beginning on or after 1 January 2018
5 Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

In addition, the requirements of Part 9 "Accounts and Audit" of the Hong Kong Companies Ordinance (Cap. 622) will come into operation as from the Company's first financial year commencing after 3 March 2014 in accordance with section 358 of that Ordinance, which will be the year ending 31 December 2015. The Group is in the process of making an assessment of the expected impact of the changes in the period of initial application of Part 9 of the Ordinance. So far it has concluded that the impact is unlikely to be significant and will primarily affect the presentation and disclosure of information in the consolidated financial statements.

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

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Group's financial assets. Further information about the impact will be available nearer the implementation date of the standard.

2.3 NEW AND REVISED HKFRSS AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED

(Continued)

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

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

HKFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. The Group expects to adopt HKFRS 15 on 1 January 2017 and is currently assessing the impact of HKFRS 15 upon adoption.

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

The *Annual Improvements to HKFRSs 2010-2012 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Except for those described in note 2.2, the Group expects to adopt the amendments from 1 January 2015. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendment most applicable to the Group are as follows:

2.3 NEW AND REVISED HKFRSS AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED

(Continued)

HKFRS 8 *Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker.

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 *Non-current Assets Held for Sale and Discontinued Operations* 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 of the acquiree.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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.

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

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

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

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

Fair value measurement

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement (Continued)

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.

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

Level 1: based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Impairment of non-financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

(vi) the entity is controlled or jointly controlled by a person identified in (a); 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 gain in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

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.

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

Loans and borrowings

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

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

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

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

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

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

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

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

Government grants

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

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

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

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

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

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.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Fair value of an amount due to the ultimate holding company upon initial recognition
Upon initial recognition, an amount due to the ultimate holding company has been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation requires the Group to make estimates about expected future cash flows, credit risk, volatility and discount rates, and hence they are subject to uncertainty. Further details are included in note 33(b)(iii) to the financial statements.

4. OPERATING SEGMENT INFORMATION

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

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

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

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

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

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

Geographical information

The Group generates substantially all of its revenue from customers domiciled in Mainland China. The principal assets and capital expenditure of the Group were located and incurred in Mainland China. Accordingly, no geographical information is presented.

Information about major customers

For the years ended 31 December 2013 and 2014, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

4. OPERATING SEGMENT INFORMATION (Continued)

Information about major customers (Continued)

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

	Ordinary steel RMB'000	Special steel RMB'000	Trading of commodities RMB'000	By-products RMB'000	Consolidated RMB'000
Year ended 31 December 2014					
Segment revenue:					
Sales to external customers	**4,750,949**	**2,543,167**	**1,086,257**	**261,144**	**8,641,517**
Cost of sales	**(4,296,641)**	**(2,219,374)**	**(1,062,994)**	**(221,189)**	**(7,800,198)**
Gross profit	**454,308**	**323,793**	**23,263**	**39,955**	**841,319**
Reconciliation:					
Other income and gain					**31,570**
Selling and distribution expenses					**(20,174)**
Administrative expenses					**(76,529)**
Other expenses					**(36,103)**
Finance costs					**(199,633)**
Profit before tax					**540,450**

	Ordinary steel RMB'000	Special steel RMB'000	Trading of commodities RMB'000	By-products RMB'000	Consolidated RMB'000
Year ended 31 December 2013					
Segment revenue:					
Sales to external customers	4,359,375	2,322,799	120,991	226,601	7,029,766
Cost of sales	(4,102,044)	(2,008,302)	(117,482)	(152,132)	(6,379,960)
Gross profit	257,331	314,497	3,509	74,469	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

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	
	2014	2013
	RMB'000	RMB'000
Revenue		
Sale of ordinary steel	**4,750,949**	4,359,375
Sale of special steel	**2,543,167**	2,322,799
Trading of commodities	**1,086,257**	120,991
Sale of by-products	**261,144**	226,601
	8,641,517	7,029,766
Other income		
Bank interest income	**26,409**	36,429
Subsidy income	**4,990**	–
Others	**171**	–
Gain		
Foreign exchange gain, net	**–**	4,473
	31,570	40,902

6. PROFIT BEFORE TAX

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

		Group	
		2014	2013
	Notes	**RMB'000**	RMB'000
Cost of inventories sold^		**7,800,198**	6,379,960
Depreciation^	14	**405,261**	225,852
Amortisation of prepaid land lease payments^	15	**2,344**	1,976
Research expenses^		**271,159**	119,467
Auditors' remuneration		**1,700**	1,700
Employee benefit expense (including directors' remuneration)^:			
Wages and salaries		**209,842**	167,390
Pension scheme contributions*		**11,235**	6,979
Staff welfare expenses		**5,981**	2,594
		227,058	176,963
Foreign exchange differences, net		**2,221**	(4,473)
Bank interest income	5	**(26,409)**	(36,429)
Impairment of items of property, plant and equipment**	14	**33,465**	–
Reversal of impairment loss of inventories^		**–**	(3,173)
Fair value loss on a forward foreign exchange contract**	24	**417**	–

^ 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 reversal of impairment loss of inventories amounting to approximately RMB865,000,000 (2013: RMB432,749,000). 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.

** The impairment of items of property, plant and equipment and fair value loss on a forward foreign exchange contract are included in "Other expenses" in the consolidated statement of profit or loss.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Group	
	2014	2013
	RMB'000	RMB'000
Interest on bank borrowings wholly repayable within five years	**82,379**	131,618
Interest on a finance lease	**18,605**	28,512
Interest on an amount due to the ultimate holding company*	**56,397**	–
Interest on an amount due to independent third parties (note 22)	**110,150**	60,364
Total interest expense on financial liabilities not at fair value through profit or loss	**267,531**	220,494
Less: Interest capitalised	**(67,898)**	(88,194)
	199,633	132,300

* Includes notional interest of RMB7,108,000 on an amount due to the ultimate holding company (note33(b)(iii)).

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

	Group	
	2014	2013
	RMB'000	RMB'000
Fees	**218**	220
Other emoluments:		
Salaries, allowances and benefits in kind	**2,008**	2,877
Equity-settled share option expense	**698**	–
Pension scheme contributions	**9**	19
	2,933	3,116

8. DIRECTORS' REMUNERATION (Continued)

(a) Independent non-executive directors

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

	2014 RMB'000	2013 RMB'000
Mr. Leung Shu Sun Sunny	**118**	120
Mr. Zhang Gongxue	**50**	50
Mr. Yu Kou	**50**	50
	218	220

There were no other emoluments payable to the independent non-executive directors during the year (2013: Nil).

(b) Executive directors and non-executive directors

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

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
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.

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 (2013: two directors), details of whose remuneration are set out in note 8(b) above. Details of the remuneration for the year of the remaining three (2013: three) non-director highest paid employees for the year are as follows:

	Group	
	2014	2013
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**1,526**	4,172
Performance – related bonus	**332**	1,150
Equity-settled share option expense	**78**	–
Pension scheme contributions	**9**	12
	1,945	5,334

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

	Number of employees	
	2014	2013
Nil to RMB1,000,000	**3**	2
RMB1,000,001 to RMB2,000,000	**–**	1
	3	3

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable in Mainland China have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof.

10. INCOME TAX (Continued)

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 2014.

	Group	
	2014	2013
	RMB'000	RMB'000
Group:		
Current – Mainland China		
Charge for the year	**132,960**	119,508
Deferred (note 26)	**886**	(125)
Total tax charge for the year	**133,846**	119,383

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			
	2014		2013	
	RMB'000	%	RMB'000	%
Profit before tax	**540,450**		503,187	
Tax at the statutory tax rate	**135,113**	25	125,797	25
Lower tax rate enacted by local authority	**119**	–	230	–
Expenses not deductible for tax	**3,385**	1	1,897	–
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	**2,033**	–	1,920	1
Effect of super deduction of research expenses	**(9,086)**	(2)	(11,277)	(2)
Tax losses not recognised	**2,282**	1	816	–
Tax charge at the Group's effective tax rate	**133,846**	25	119,383	24

The Group has tax losses arising in Hong Kong of approximately RMB59,147,000 as at 31 December 2014 (2013: RMB48,647,000), 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 2014 includes a loss of RMB9,907,000 (2013: loss of RMB1,406,000) which has been dealt with in the financial statements of the Company.

12. DIVIDEND

	2014 RMB'000	2013 RMB'000
Proposed final dividend (not recognised as a liability as at 31 December) – RMB0.015 (2013: 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 attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares in issue during the year.

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

The calculation of basic and diluted earnings per share is based on:

	2014 RMB'000	2013 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**406,604**	383,804

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

	2014	2013
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**2,000,000,000**	2,000,000,000
Effect of dilution – weighted average number of ordinary shares:		
Warrants	**–***	–
Share options	**207,671**	–
	2,000,207,671	–

* No dilutive effect of the warrant has been taken into consideration, because the average quoted market price of ordinary shares is lower than the exercise price of the warrants (note 27) since the date of warrants issued to the end of the reporting period.

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

As at 31 December 2014, the Group has not yet obtained the building ownership certificates in respect of certain buildings with a net book value of RMB3,264,248,000 (2013: RMB1,990,527,000).

The net carrying amounts of the Group's fixed assets held under a finance lease included in the amount of machinery and equipment at 31 December 2014 amounted to RMB475,456,000 (2013: RMB514,119,000).

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 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

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2014	2013
	RMB'000	RMB'000
Carrying amount at 1 January	**92,895**	94,871
Addition	**12,518**	–
Recognised during the year	**(2,344)**	(1,976)
Carrying amount at 31 December	**103,069**	92,895
Current portion included in prepayments, deposits and other receivables (note 19)	**(2,344)**	(1,976)
Non-current portion	**100,725**	90,919

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 RMB88,604,000 as at 31 December 2014 (2013: RMB31,407,000) were pledged as security for the Group's bank loans and other borrowings (note 23).

16. INVESTMENTS IN SUBSIDIARIES

	Company	
	2014	2013
	RMB'000	RMB'000
Unlisted shares, at cost	**960,348**	887,227

The amounts due from subsidiaries and the amounts due to subsidiaries included in the Company's current assets and current liabilities of RMB638,612,000 (31 December 2013: RMB395,804,000) and RMB276,832,000 (31 December 2013: RMB115,662,000), 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	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Win Goal Trading Limited	Hong Kong 9 November 2012	US$28,500,000	100	–	Trading of commodities
Xiwang International Trade (Qingdao) Co., Ltd. (西王國際貿易(青島)有限公司)*	PRC/Mainland China 24 June 2013	US$16,380,000	100	–	Trading of commodities
Shandong Xiwang Metal Material Co., Ltd. (山東西王金屬材料有限公司)*	PRC/Mainland China 20 April 2004	RMB407,359,000	–	100	Production and sale of steel products
Shandong Xiwang Steel Co., Ltd. (山東西王鋼鐵有限公司)*	PRC/Mainland China 31 December 2003	RMB240,000,000	–	100	Production and sale of steel products
Shandong Xiwang Special Steel Co., Ltd. (山東西王特鋼有限公司)*	PRC/Mainland China 29 December 2007	US$111,800,000	100	–	Production and sale of steel products
Shandong Xiwang Recycling Resources Co., Ltd. (山東西王再生資源有限公司)*	PRC/Mainland China 7 May 2009	RMB30,000,000	–	100	Purchase and sale of steel scrap

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

17. INVENTORIES

	Group 2014 RMB'000	2013 RMB'000
Raw materials	**178,185**	443,285
Work in progress	**100,686**	127,815
Finished goods	**440,060**	343,645
Trading commodities	**144,224**	–
	863,155	914,745

Certain of the Group's inventories with a carrying amount of RMB214,600,000 as at 31 December 2014 (2013: RMB866,036,000), were pledged as security for the Group's issuance of bills payable (note 21).

18. TRADE AND BILLS RECEIVABLES

	Group 2014 RMB'000	2013 RMB'000
Bills receivable	**76,706**	8,353
Trade receivables	**221,045**	98,150
	297,751	106,503

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

The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to customers with a good track record, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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	
	2014	2013
	RMB'000	RMB'000
Within 3 months	**271,296**	81,354
3 to 6 months	**25,604**	24,941
6 months to 1 year	**91**	208
Over 1 year	**760**	–
	297,751	106,503

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

	Group	
	2014	2013
	RMB'000	RMB'000
Neither past due nor impaired	**296,900**	106,295
Less than 1 month past due	**–**	–
1 to 3 months past due	**91**	208
6 months to 1 year past due	**760**	–
	297,751	106,503

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	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**123,489**	216,151	**–**	221
Bank interest receivables	**4,125**	12,437	**–**	–
VAT recoverable	**53,218**	24,942	**–**	–
Deposits and other receivables	**11,794**	5,144	**2,181**	–
Current portion of prepaid land lease payments (note 15)	**2,344**	1,976	**–**	–
	194,970	260,650	**2,181**	221

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	
		2014	2013	**2014**	2013
	Notes	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Cash and bank balances		**127,067**	93,316	**1,113**	5,790
Time deposits		**746,226**	1,118,888	**–**	–
		873,293	1,212,204	**1,113**	5,790
Less: Pledged time deposits:					
Guarantee deposits for issuance of bills payable	21	**(612,080)**	(925,449)	**–**	–
Guarantee deposits for certain bank borrowings	23	**(134,146)**	(193,439)	**–**	–
Cash and cash equivalents		**127,067**	93,316	**1,113**	5,790

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB55,773,000 (2013: RMB87,117,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

21. TRADE AND BILLS PAYABLES

	Group	
	2014	2013
	RMB'000	RMB'000
Bills payable	**1,570,039**	1,677,242
Trade payables	**796,406**	99,463
	2,366,445	1,776,705

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	
	2014	2013
	RMB'000	RMB'000
Within 1 month	**367,764**	51,200
1 to 3 months	**1,072,619**	554,580
3 to 6 months	**742,260**	1,080,393
6 to 12 months	**151,224**	36,622
Over 12 months	**32,578**	53,910
	2,366,445	1,776,705

The Group's bills payable amounting to RMB1,570,039,000 (2013: RMB1,677,242,000) were secured by the pledged time deposits of RMB612,080,000 (2013: RMB925,449,000) (note 20) and the Group's inventories of RMB214,600,000 (2013: RMB886,036,000) (note 17).

Additionally, Mr. Wang Yong, a non-executive director of the Company, and Ms. Zhang Shufang (spouse of Mr. Wang Yong) guaranteed certain of the Group's bills payable of RMB155,000,000 jointly and severally as at 31 December 2014 (31 December 2013: RMB340,000,000) (note 33(b)(i)). Mr. Wang Yong guaranteed certain of the Group's bills payable of RMB652,478,000 as at 31 December 2014 (31 December 2013: Nil) (note 33(b)(i)). Mr. Wang Di, a non-executive director of the Company, guaranteed certain of the Group's bills payable of RMB452,478,000 as at 31 December 2014 (31 December 2013: Nil) (note 33(b)(i)). Xiwang Group guaranteed certain of the Group's bills payable of RMB646,478,000 as at 31 December 2014 (31 December 2013: RMB547,242,000) (note 33(b)(i)). An independent third party guaranteed certain of the Group's bills payable of RMB400,000,000 as at 31 December 2014 (31 December 2013: Nil). Certain leasehold land of Shandong Xiwang Logistics Company Limited ("Xiwang Logistics") (山東西王物流有限公司), a fellow subsidiary of the Company, were pledged to secure the Group's bills payable of RMB155,000,000 as at 31 December 2014 (31 December 2013: Nil (note 33(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	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Advances from customers	**273,490**	133,928	**–**	–
Salaries and welfare payables	**63,124**	35,567	**–**	–
Other tax payables	**12,375**	999	**–**	–
Construction and equipment payables	**854,486**	1,333,897	**–**	–
Other payables	**1,533,965**	1,930,908	**1,831**	3,359
	2,737,440	3,435,299	**1,831**	3,359

Included in the Group's other payables as at 31 December 2014 is an amount of RMB836.7 million due to an independent third party, which is unsecured, bears interest at 7.0% per annum and is repayable on 31 March 2015.

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

23. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group	**2014**			2013		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Finance lease payables (note 25)	**7.13**	**2015**	**142,079**	7.13	2014	185,938
Interest-bearing bank loans – secured	**(LIBOR+1%) ~8.40**	**2015**	**333,026**	2.50-10.00	2014	1,257,183
Current portion of long term interest-bearing other loan – secured	**7.24**	**2015**	**250,000**	–	–	–
			725,105			1,443,121
Non-current						
Finance lease payables (note 24)	**–**	**–**	**–**	7.13	2015	149,065
Long term interest-bearing other loan – secured	**–**	**–**	**–**	7.24	2015	350,000
Long term interest-bearing bank loans – secured	**HIBOR +2.8%**	**2017**	**29,977**	–	–	–
			29,977			499,065
			755,082			1,942,186

23. INTEREST-BEARING BANK AND OTHER BORROWINGS

Company	2014 Effective interest rate (%)	2014 Maturity	2014 RMB'000	2013 Effective interest rate (%)	2013 Maturity	2013 RMB'000
Current						
Interest-bearing bank loans – secured	**2.2%**	**2015**	**73,460**	2.5-3.0	2014	176,933
Non-current						
Long term interest-bearing bank loans – secured	**HIBOR +2.8%**	**2017**	**29,977**	–	–	–
			103,437			176,933

	Group 2014 RMB'000	Group 2013 RMB'000	Company 2014 RMB'000	Company 2013 RMB'000
Analysed into:				
Bank and other loans repayable:				
Within one year	**725,105**	1,443,121	**73,460**	176,933
In the second year	**–**	499,065	**–**	–
In the third year	**29,977**	–	**29,977**	–
	755,082	1,942,186	**103,437**	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 RMB88,604,000 as at 31 December 2014 (2013: RMB31,407,000) (note 15) and pledged time deposits of RMB134,146,000 (2013: 193,439,000) (note 20).

In addition, Xiwang Group guaranteed certain of the Group's bank loans of RMB381,068,000 as at 31 December 2014 (2013: RMB390,000,000) (note 33(b)(ii)). Mr. Wang Yong and Ms. Zhang Shufang guaranteed certain of the Group's bank loans of RMB27,000,000 jointly and severally as at 31 December 2014 (2013: RMB300,000,000). Mr. Wang Yong guaranteed certain of the Group's bank loans of RMB350,000,000 as at 31 December 2014 (2013: RMB100,000,000) (note 33(b)(ii)). An independent third party guaranteed certain of the Group's bank loans of RMB100,000,000 as at 31 December 2014 (2013: RMB500,000,000). Certain leasehold land of Xiwang Logistics were pledged to secure the Group's bank loans of RMB27,000,000 as at 31 December 2014 (2013: RMB188,562,000) (note33(b)(ii)).

(ii) The carrying amounts of the Group's interest-bearing bank and other borrowings approximate to their fair values (note 35).

24. DERIVATIVE FINANCIAL INSTRUMENT

The Company has entered into a forward foreign exchange contract to manage its exchange rate exposures. The forward foreign exchange contract has a maturity date of 5 June 2017. It is not designated for hedge purposes and is measured at fair value through profit or loss. Fair value loss of the forward foreign exchange contract amounting to RMB417,000 was charged to the statement of profit or loss during the year (2013: Nil).

25. 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 one year.

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 2014, the amount of the deferred asset is RMB352,000 (2013: RMB1,057,000) which is amortised over the lease term.

At 31 December 2014, the total future minimum lease payments under a finance lease and their present values were as follows:

Group	**Minimum lease payments 2014 RMB'000**	Minimum lease payments 2013 RMB'000	**Present value of minimum lease payments 2014 RMB'000**	Present value of minimum lease payments 2013 RMB'000
Amounts payable:				
Within one year	**160,614**	211,529	**132,887**	185,938
In the second year	**–**	160,614	**–**	132,887
In the third to the fourth year	**–**	–	**–**	–
Total minimum finance lease payments	**160,614**	372,143	**132,887**	318,825
Future finance charges	**(18,535)**	(37,140)		
Total net finance lease payables	**142,079**	335,003		
Portion classified as current liabilities (note 23)	**(142,079)**	(185,938)		
Non-current portion (note 23)	**–**	149,065		

26. DEFERRED TAX

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

Deferred tax assets

	Group 2014 RMB'000	2013 RMB'000
At 1 January	**4,764**	2,969
Deferred tax credited to the statement of profit or loss during the year (note 10)	**1,147**	1,795
Gross deferred tax assets at the end of the year	**5,911**	4,764

For the year ended 31 December 2014, 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.

Deferred tax liability

	Group 2014 Withholding tax on the distributable profits RMB'000	2013 Withholding tax on the distributable profits RMB'000
At 1 January	**17,060**	15,140
Deferred tax charged to the statement of profit or loss during the year (note 10)	**2,033**	1,920
At 31 December	**19,093**	17,060

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 2014, 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 totalled approximately RMB131,391,000 (2013: RMB113,072,000).

27. SHARE CAPITAL

	2014 RMB'000	2013 RMB'000
Authorised: (note (i))		
Nil (2013: 100,000,000,000 ordinary shares of HK$0.1 each) (note (ii))	–	10,000,000
Issued and fully paid:		
2,000,000,000 (2013: 2,000,000,000) ordinary shares	**955,833**	200,000

Notes:

(i) Under the Hong Kong Companies Ordinance (Cap. 622), which commenced operation on 3 March 2014, the concept of authorised share capital no longer exists.

(ii) In accordance with section 135 of the Hong Kong Companies Ordinance (Cap. 622), the Company's shares no longer have a par or nominal value with effect from 3 March 2014. There is no impact on the number of shares in issue or the relative entitlement of any of the members of the Company as a result of this transition.

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

	Number of shares in issue RMB'000	Share capital RMB'000	Share premium account RMB'000	Total RMB'000
At 31 December 2012 and 2013	2,000,000,000	165,903	789,930	955,833
Transition to no-par value regime on 3 March 2014 (a)	–	789,930	(789,930)	–
At 31 December 2014	**2,000,000,000**	**955,833**	**–**	**955,833**

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

Warrants

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

The net proceeds from the warrant subscription of RMB1,189,000 were recorded as a component of shareholders' equity in the warrant reserve.

28. 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.

Company

	Exchange reserve RMB'000	Retained profits/ (accumulated Losses) RMB'000	Share premium RMB'000	Warrant reserve RMB'000	Share option reserve RMB'000	Proposed final dividend RMB'000	Total reserves RMB'000
At 1 January 2013	7,144	(350,483)	789,930	–	–	30,000	476,591
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 and 1 January 2014	7,144	111	789,930	–	–	30,000	827,185
Profit for the year	–	29,982	–	–	–	–	29,982
Final 2013 dividend declared	–	–	–	–	–	(30,000)	(30,000)
Issue of warrants, net of issue expenses (note 27)	–	–	–	1,189	–	–	1,189
Equity-settled share option expense (note 29)	–	–	–	–	777	–	777
Transition to no-par value regime (note 27)	–	–	(789,930)	–	–	–	(789,930)
Proposed final 2014 dividend (note12)	–	(30,000)	–	–	–	30,000	–
Exchange differences on translation of foreign operations	(1,395)	–	–	–	–	–	(1,395)
At 31 December 2014	**5,749**	**93**	**–**	**1,189**	**777**	**30,000**	**37,808**

29. SHARE OPTION SCHEME

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

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

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

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

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

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

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

29. SHARE OPTION SCHEME (Continued)

No share options were exercised during the period. The exercise price and exercise period of the share options outstanding as at the end of the reporting period are as follows:

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

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

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

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

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

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

At the end of the reporting period, the Company had 10,000,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 10,000,000 additional ordinary shares of the Company and additional share capital of HK$12,796,000 (equivalent to RMB10,468,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 10,000,000 share options outstanding under the Scheme, which represented approximately 0.5% of the Company's shares in issue as at that date.

30. 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.

31. OPERATING LEASE ARRANGEMENTS

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

Group	**2014** **RMB'000**	2013 RMB'000
Within one year	**1,168**	1,168
In the second to fifth years, inclusive	**4,672**	4,672
After five years	**14,538**	15,706
	20,378	21,546

32. COMMITMENTS

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

Group	**2014** **RMB'000**	2013 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	**314,247**	42,737

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

	2014 **RMB'000**	2013 RMB'000
Contracted, but not provided for:		
Consulting services	**2,700**	–

33. RELATED PARTY TRANSACTIONS AND BALANCES

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

		Group	
	Notes	**2014** **RMB'000**	2013 RMB'000
Rental expenses to Xiwang Group	33(a)(i)	**369**	369
Rental expenses to Xiwang Logistics	33(a)(i)	**692**	–
Interest expenses to Xiwang Group	33(a)(ii)	**56,397**	–
Sale of steam to Shandong Xiwang Sugar Industry Company Limited ("Shandong Xiwang Sugar") (a fellow subsidiary)	33(a)(iii)	**22,351**	–

(i) The rental expenses to Xiwang Group and Xiwang Logistics were recognised at a price based on mutual agreement between both parties.

(ii) The interest expenses to Xiwang Group included the interest of RMB49,289,000 on the amount due to Xiwang Group for the period from 8 April 2014 to 6 November 2014 and the notional interest of RMB7,108,000 on the amount due to Xiwang Group for the period from 7 November 2014 to 31 December 2014 (notes 7 and note 33(c)(ii)).

(iii) The selling price of steam to Shandong Xiwang Sugar was recognised at a price based on mutual agreement between both parties.

(b) Other related party transactions:

(i) As detailed in note 21, Xiwang Group guaranteed certain of the Group's bills payable of RMB646,478,000 as at 31 December 2014 (2013: RMB547,242,000). Mr. Wang Yong and Mrs. Zhang Shufang guaranteed certain of the Group's bills payable of RMB155,000,000 jointly and severally as at 31 December 2014 (2013: RMB340,000,000). Mr. Wang Yong guaranteed certain of the Group's bills payable of RMB652,478,000 as at 31 December 2014 (2013: Nil). Mr. Wang Di guaranteed certain of the Group's bills payable of RMB452,478,000 as at 31 December 2014 (2013: Nil). Certain leasehold land of Xiwang Logistics were pledged to secure the Group's bills payable of RMB155,000,000 as at 31 December 2014 (31 December 2013: Nil). The guarantees provided by the related parties will expire from 11 March 2015 to 18 April 2017.

33. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(b) Other related party transactions: (Continued)

(ii) As detailed in note 23(i), Xiwang Group guaranteed certain of the Group's bank loans of RMB381,068,000 as at 31 December 2014 (2013: RMB390,000,000). Mr. Wang Yong and Mrs. Zhang guaranteed certain of the Group's bank loans of RMB27,000,000 jointly and severally as at 31 December 2014 (2013: RMB300,000,000). Mr. Wang Yong guaranteed certain of the Group's bank loans of RMB350,000,000 as at 31 December 2014 (2013: RMB100,000,000). Certain leasehold land of Xiwang Logistics were pledged to secure the Group's bank loans of RMB27,000,000 as at 31 December 2014 (2013: RMB188,562,000). The guarantees provided by the related parties will expire from 31 July 2015 to 18 April 2017.

(iii) As detailed in note 33(c)(ii), pursuant to a supplemental loan agreement entered into between the Group and Xiwang Group on 7 November 2014, the principal amounts of RMB670,000,000 and RMB729,900,000 became interest-free with effect from 7 November 2014, the maturity dates of which were extended to 8 April 2020 and 8 June 2020, respectively.

Upon initial recognition, an amount of RMB297,069,000, being the excess of the aggregate principal amount of RMB1,399,900,000 over its fair value as at 7 November 2014, was accounted for as contribution from the ultimate holding company and credited to "Other reserve" in the consolidated statement of financial position accordingly. As at 31 December 2014, the amortised cost of the amount due to Xiwang Group is RMB1,109,939,000.

(c) Outstanding balances with related parties:

(i) The amount due from a fellow subsidiary, amounts due to the immediate holding company and amounts due from/to fellow subsidiaries as at 31 December 2014 are unsecured, interest-free and payable on demand.

Included in the amounts due to fellow subsidiaries is an amount of RMB118,536,000 due to Zouping Xiwang Power Co., Ltd. ("Xiwang Power")（鄒平縣西王動力有限公司）, which was arisen from the payments made by Xiwang Power on behalf of the Group. Xiwang Power was a related party ultimately controlled by Mr. Wang Yong as at 31 December 2013 and became a fellow subsidiary of the Group from 15 February 2014. The balance due to Xiwang Power was RMB69,434,000 as at 31 December 2013. The remaining amounts due to fellow subsidiaries are unsecured, interest-free and payable on demand.

33. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

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

(ii) The amount due to Xiwang Group is unsecured. Pursuant to the original loan agreements dated 8 April 2014 and 8 June 2014, respectively, the principal amounts of RMB670,000,000 and RMB729,900,000, which bear interest at 7.0% per annum, are repayable on 9 April 2016 and 9 June 2016, respectively. On 7 November 2014, the Group and Xiwang Group entered into a supplemental loan agreement, the principal amounts of RMB670,000,000 and RMB729,900,000 became interest-free with effect from 7 November 2014, the maturity dates of which were extended to 8 April 2020 and 8 June 2020, respectively. As at 31 December 2014, the amortised cost of the amount due to Xiwang Group is RMB1,109,939,000 (note33(b)(iii)).

In addition, the amounts due to Xiwang Group will be subordinated in the right of payment to the Notes (note 37(i)).

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

	Group	
	2014	2013
	RMB'000	RMB'000
Employee benefit expenses	**4,596**	5,850
Equity-settled share option expense	**78**	–
Pension scheme contributions	**59**	58
Total compensation paid to key management personnel	**4,733**	5,908

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

The related party transactions in respect of item 33(a) above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

34. 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	
	2014	2013
	Loans and receivables	Loans and receivables
	RMB'000	RMB'000
Trade and bills receivables	**297,751**	106,503
Financial assets included in prepayments, deposits and other receivables	**15,919**	17,581
Pledged deposits	**746,226**	1,118,888
Cash and cash equivalents	**127,067**	93,316
Due from a fellow subsidiary	**25,256**	–
Total	**1,212,219**	1,336,288

Financial liabilities

	Group	
	2014	2013
	Financial liabilities at amortised cost	Financial liabilities at amortised cost
	RMB'000	RMB'000
Trade and bills payables	**2,366,445**	1,776,705
Financial liabilities included in receipts in advance, other payables and accruals	**2,451,575**	3,300,372
Due to the ultimate holding company	**1,109,939**	–
Due to the immediate holding company	**230,140**	–
Due to fellow subsidiaries	**155,000**	–
Due to a related party	**–**	69,434
Interest-bearing bank and other borrowings	**755,082**	1,942,186
Derivative financial instrument	**417**	–
Total	**7,068,598**	7,088,697

34. 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 assets

	Company	
	2014	2013
	Loans and receivables	Loans and receivables
	RMB'000	RMB'000
Due from subsidiaries	**638,612**	395,804
Cash and cash equivalents	**1,113**	5,790
Total	**639,725**	401,594

Financial liabilities

	Company	
	2014	2013
	Financial liabilities at amortised cost	Financial liabilities at amortised cost
	RMB'000	RMB'000
Other payables	**1,831**	3,359
Interest-bearing bank loans	**103,437**	176,933
Due to subsidiaries	**276,832**	115,662
Due to the immediate holding company	**226,096**	–
Derivative financial instrument	**417**	–
Total	**608,613**	295,954

35. 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, an amount due from a fellow subsidiary, trade and bills payables, financial liabilities included in receipts in advance, other payables and accruals, amounts due to the immediate holding company, amounts due to the follow subsidiaries 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 finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the executive vice president and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the executive vice president. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

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

The fair values of an amount due to the ultimate holding company and interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for an amount due to the ultimate holding company and interest-bearing bank and other borrowings as at 31 December 2014 was assessed to be insignificant.

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

As at 31 December 2014, derivative financial instrument, an amount due to the ultimate holding company and interest-bearing bank and other borrowings were measured at fair value using significant observable inputs (Level 2). There were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2013: Nil).

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

Interest rate risk

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

The Group's policy is to obtain the most favourable interest rate available. The effective interest rate and terms of repayment of the interest-bearing bank loans of the Group are set out in note 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 78% (2013: 66%) 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 2014			
RMB	**100**	**(699)**	**–**
RMB	**(100)**	**699**	**–**
31 December 2013			
RMB	100	(2,811)	–
RMB	(100)	2,811	–

* Excluding retained profits

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk

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

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

	Increase/ (decrease) in foreign exchange rate	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity* RMB'000
2014			
If the United States dollar weakens against the RMB	**5%**	**8,876**	**–**
If the United States dollar strengthens against the RMB	**5%**	**(8,876)**	**–**
If the Hong Kong dollar weakens against the RMB	**5%**	**1,499**	**–**
If the Hong Kong dollar strengthens against the RMB	**5%**	**(1,499)**	**–**
2013			
If the United States dollar weakens against the RMB	5%	8,847	–
If the United States dollar strengthens against the RMB	5%	(8,847)	–
If the Hong Kong dollar weakens against the RMB	5%	–	–
If the Hong Kong dollar strengthens against the RMB	5%	–	–

* Excluding retained profits

Credit risk

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

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

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

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

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables and deposits and other receivables are disclosed in notes 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 2014					
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	–	232,663	547,421	191,896	–	971,980
Trade and bills payables	–	925,971	1,440,474	–	–	2,366,445
Due to fellow subsidiaries	155,000	–	–	–	–	155,000
Due to the immediate holding company	230,140	–	–	–	–	230,140
Financial liabilities included in receipts in advance, other payables and accruals	425,163	1,444,816	596,238	–	–	2,466,217
Due to the ultimate holding company	–	–	–	–	1,399,900	1,399,900
Derivative financial instrument	–	–	–	417	–	417
	810,303	2,603,450	2,584,133	192,313	1,399,900	7,590,099

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

Group	31 December 2013					
	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

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:

Company	**31 December 2014**					
	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	**–**	**1,831**	**–**	**–**	**–**	**1,831**
Interest-bearing bank loans	**–**	**73,725**	**684**	**31,283**	**–**	**105,692**
Due to the immediate holding company	**226,096**	**–**	**–**	**–**	**–**	**226,096**
Due to subsidiaries	**276,832**	**–**	**–**	**–**	**–**	**276,832**
Derivative financial instrument	**–**	**–**	**–**	**417**	**–**	**417**
	502,928	**75,556**	**684**	**31,700**	**–**	**610,868**

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

	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

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 2014 and 31 December 2013.

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

		Group	
	Notes	**2014 RMB'000**	2013 RMB'000
Interest-bearing bank and other borrowings	23	**755,082**	1,942,186
An amount due to the ultimate holding company	33(c)(iii)	**1,109,939**	–
An amount due to an independent third party	22	**836,705**	1,687,134
Total debt		**2,710,726**	3,629,320
Total assets		**11,236,845**	10,408,370
Gearing ratio		**24.0%**	34.9%

37. EVENTS AFTER THE REPORTING PERIOD

(i) Pursuant to an announcement of the Company dated 3 February 2015, the Company proposed to conduct an international offering of USD denominated senior notes (the "**Notes**"). A confirmation of the eligibility for the listing of the Notes was received from The Stock Exchange of Hong Kong Limited. As at the date of this report, no binding agreement in relation to the proposed issuance of the Notes has been entered into.

(ii) Pursuant to a technology licence and cooperation agreement entered into by the Company, the Institute of Metal Research, Chinese Academy of Sciences ("**IMR**") and 25 researchers of IMR (the "**IMR Key Personnel**") on 5 January 2015 (the "**Technology Licence and Cooperation Agreement**"), IMR agreed (i) to license certain licensed technologies in relation to steel production to the Group for a period of 10 years and the Group shall be authorised to use the licensed technologies after the expiration of the said period for free and (b) to provide technological services and support to the Group in relation to the application of the licensed technologies, for a consideration of HK$122,000,000. The consideration shall be satisfied by the Company allotting and issuing an aggregate of 100,000,000 consideration shares to a company to be incorporated by IMR (the "**IMR Company**") and the IMR Key Personnel at the issue price of HK$1.22 per consideration share.

In addition, pursuant to the Technology Licence and Cooperation Agreement, an aggregate of 40,000,000 bonus shares will be issued to the IMR Company and the IMR Key Personnel, subject to certain conditions being satisfied.

Further details of the Technology Licence and Cooperation Agreement are set out in the announcement of the Company dated 5 January 2015.

38. COMPARATIVE AMOUNTS

The comparative operating segment information has been restated to reflect the newly reportable segment, the trading of commodities, as a separate segment.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 March 2015.

Five-year Financial Summary

	2014	2013	2012	2011	2010
For the year (RMB million)					
Revenue	**8,642**	7,030	6,891	8,541	5,387
Gross profit	**841**	650	533	1,293	601
EBITDA[1]	**1,152**	822	633	1,341	654
Operating profit	**740**	635	492	1,246	622
Net profit	**407**	384	345	909	493
As at December 31 (RMB million)					
Current assets	**2,254**	2,494	2,844	2,367	850
Non-current assets	**8,982**	7,914	4,697	3,366	2,294
Total assets	**11,236**	10,408	7,541	5,733	3,144
Current liabilities	**6,266**	6,759	3,723	2,813	2,296
Non-current liabilities	**1,159**	516	1,034	1,027	–
Total liabilities	**7,425**	7,275	4,757	3,840	2,296
Total equity	**3,811**	3,134	2,784	1,893	848
Total liabilities and equity	**11,236**	10,409	7,541	5,733	3,144
Per share (RMB)					
Basic earnings per share	**0.203**	0.192	0.178	0.568	0.308
Dividends per share	**0.015**	0.015	0.015	0.137	–
Financial and performance ratios					
Gross profit margin (%)	**9.7**	9.2	7.7	15.1	11.2
Operating profit margin (%)	**8.6**	9.0	7.1	14.6	11.6
Net profit margin (%)	**4.7**	5.5	5.0	10.6	9.1
Current ratio	**0.36**	0.37	0.76	0.84	0.37
Net debts to equity	**0.16**	0.59	0.52	0.79	1.02
Average inventory turnover days	**41.6**	42.6	28.6	18.3	25.7
Average debtor turnover days	**6.8**	3.1	1.3	1.0	0.5
Average creditor turnover days	**21.0**	9.1	11.3	7.1	5.3

Note:

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

Information for Shareholders

Corporate calendar	
Announcement of 2014 annual results	23 March 2015 (Monday)
Annual general meeting	29 May 2015 (Friday)
Website	www.xiwangsteel.com
Stock code	
The Stock Exchange of Hong Kong Limited	1266
Bloomberg	1266 HK EQUITY
Board lot	1,000 shares
Financial year-end date	31 December
As at 31 December 2014	
Market Value:	HK$2,420 million
Issued shares:	2,000,000,000 shares
Closing market price:	HKD1.21 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 Wednesday, 27 May 2015 to Friday, 29 May 2015, 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 Tuesday, 26 May 2015;

(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 Thursday, 4 June 2015 to Monday, 8 June 2015, 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 Wednesday, 3 June 2015.

Annual general meeting

The AGM of the Company will be held on Friday, 29 May 2015. 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 Monday, 27 April 2015.

Hong Kong share registrar and transfer office

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

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