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

(incorporated in Hong Kong with limited liability)

（於香港註冊成立之有限公司）

Stock Code股份代號：1266

年報

Annual Report

2016

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 steel 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 2016, consisted of:

- a sintering furnace, with a designed annual capacity of 3.7 million tonnes, which supplies sinter for the two blast furnaces;
- two blast furnaces, with a designed annual capacity of 1.05 million tonnes each, which 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, which 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 1,700,000 tonnes in total. 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. 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.
- clean intelligent preparation for special steel model line of high-end equipment, with a designed annual capacity of 300,000 tonnes of quality ingots and 100,000 tonnes of forgings materials/forgings.

The Group produced and sold ordinary steel and special steel and mainly traded raw materials, such as iron ore dust and pellet, during the reporting 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 in the construction and infrastructure sectors.

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 that of 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 that of 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.

Ingots

Ingots manufactured by the Company can be applied to the transportation, power and energy, petrochemical, oceanic engineering, space and aeronautics as well as weaponry industries. Our products include wide and thick slabs, round ingots, square ingots, rhombus ingots and hollow ingots weighting from 3 tonnes to 80 tonnes.

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. ZHANG Jian *(Chief Executive Officer)*
Mr. SUN Xinhu
Ms. LI Hai Xia

Non-executive Directors
Mr. WANG Yong
Mr. WANG Di *(Chairman)*
Ms. LI Yiyi (resigned on 24 May 2016)

Independent Non-executive Directors
Mr. LEUNG Shu Sun Sunny
Mr. YU Kou
Mr. LI Bangguang (appointed on 31 March 2016)
Mr. LIU Xiangming (resigned on 31 March 2016)

COMMITTEES

Audit Committee
Mr. LEUNG Shu Sun Sunny *(Chairman)*
Mr. YU Kou
Mr. LI Bangguang (appointed on 31 March 2016)
Mr. LIU Xiangming (resigned on 31 March 2016)

Remuneration Committee
Mr. LI Bangguang *(Chairman)*
(appointed on 31 March 2016)
Mr. WANG Di
Mr. YU Kou
Mr. LIU Xiangming *(Chairman)*
(resigned on 31 March 2016)

Nomination Committee
Mr. LI Bangguang *(Chairman)*
(appointed on 31 March 2016)
Mr. LIU Xiangming *(Chairman)*
(resigned on 31 March 2016)
Mr. WANG Di
Mr. YU Kou

COMPANY SECRETARY

Mr. WONG Kai Hing

AUTHORISED REPRESENTATIVES

Mr. WANG Di
Mr. WONG Kai Hing

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

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Boardroom Share Registrars (HK) Limited
31/F, 148 Electric Road,
North Point,
Hong Kong

INVESTOR RELATIONS CONTACT

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WEBSITE

www.xiwangsteel.com

Financial Highlights

	For the year ended 31 December		
	2016	2015	Increase/
	RMB'000	RMB'000	(Decrease)
			Percentage
Operational Results			
Revenue	**7,566,781**	6,751,643	12.1%
Gross profit	**1,068,389**	576,306	85.4%
Operating profit	**762,584**	282,882	169.6%
Profit for the year	**332,589**	169,224	96.5%
Earnings per share (RMB)			
Basic	**16.57 cents**	8.46 cents	
Diluted	**16.57 cents**	8.43 cents	
Key Ratio Analysis			
Gross profit margin	**14.1%**	8.5%	
Operating profit margin	**10.1%**	4.2%	
Net profit margin	**4.4%**	2.5%	

Chairman's Statement

In 2016, the gross domestic product (the "**GDP**") of China grew by 6.7%, representing a decrease in growth rate as compared to previous years. It is predicted that China's economy in 2017 will seek improvement in stability. The focus of our economic development is shifting from investment-driven and scale expansion to quality, enhanced efficiency, structure optimization and industry upgrade. The problem and prominent struggles faced by economic development are not periodic but rather structural long-term and deep-rooted conflicts, and are originated from the change of development conditions, such as natural resources. Boost of economy through short-term financial stimulus in V or U shape becomes infeasible. It will experience a L-shape development stage. Accordingly, as the iron and steel industry has developed to a "medium-high end level", increased efficient supply becomes a clear and present requirement. Also, the development of society and ecological civilization will put forward renewed requirements in respect of energy conservation, emission reduction and quality improvement to the iron and steel industry, and corporations will have more expectations on optimizing the market environment and mechanism for fair competition and survival of the fittest. The Central Committee of the Communist Party of China and the State Council regard solving iron, steel and coal overcapacity as a significant breakthrough in the process of structural reform in the supply side, and "de-capacity, output control, cost reduction, risk prevention and efficiency enhancing" have become the main tasks. The pace of structural adjustment and transformational upgrade speeds up obviously, with further strengthening of abilities in technological innovation.

The development strategy of the Group highly conform with national policies and principles, and the Group actively promotes energy conservation, emission reduction and intelligent upgrading and speeds up its pace in increasing the percentage of special steel to its total output and transforming to a high-end special steel corporation. Xiwang Metal Science & Technology Company Ltd, a wholly-owned subsidiary of the Group, is included in the list of corporations that meet the regulatory criteria of the iron and steel industry as announced by the Ministry of Industry and Information Technology of China, which represents the recognition to the Group's operation, equipment and technological competence. On such basis, the Group conducts recovery of low-quality waste heat recycling and integrated heating and cooling project and develops recycling economy. In order to promote the intelligent upgrade, the Group works out a strategy with Shanghai Baoxin to enable the operation of a comprehensive information system featured "production goes along with sales, management goes along with control and business goes along with finance" by building a one-stop information system characterized by " basic automation, process automation (PCS), manufacturing execution system (MES) and operation management control (ERP)". The Group has entered into cooperation agreements with the Institute of Metal Research of Chinese Academy of Sciences (中國科學院金屬研究所) (the "IMR") and Luoyang Bearing Science & Technology Co., Ltd respectively for the development of special steel products. The Group entered into a technology cooperation agreement with Luoyang Bearing Science & Technology Co., Ltd to develop bearing steel products, and signed a strategic framework agreement with the IMR to carry out long-term R&D cooperation with Chinese Academy of Sciences for the development of high-end steel products. The Group continues to deepen the cooperation with the IMR and its key personnel in the fields including technology license and joint R&D, for the purpose of developing high-end tool and die steel, marine steel, special steel for use in various industries, including the energy and electricity, petrochemical and marine engineering sectors, and steel for kitchen cutleries. In the future, the Group will recruit R&D specialists in high-end special steel, establish professional R&D teams, focus on developing high added value new products, such as high-quality bearing steel, railway transportation steel, automobile steel and military steel, continue to expand its business coverage beyond Shandong Province and explore overseas markets proactively.

Chairman's Statement

Looking forward, the Group will place particular emphasis on the following aspects:

- further conserve energy and reduce emission, develop recycling economy, speed up intelligent reform and promote enterprise transformation and upgrade;
- develop high-end special steel products to strengthen the competitive edges and profit of the Group;
- strengthen the establishment of talent teams, and increase investment in innovation and strengthen our independent ability in innovation and R&D;
- continue to diversify our sales channels and enhance our value-added services to customers to improve our profitability; and
- strengthen our market position in Shandong Province and eastern China, continuously explore new markets in China and overseas and increase product export.

We will closely monitor the market and stay competitive by satisfying the market demand for the sake of maximizing our profit.

I would like to take this opportunity to thank our shareholders, business partners, customers, the Board and our staff for their contribution in 2016. We promise to strive for our best in the years to come and continue to deliver fruitful results.

WANG Di
Chairman

30 March 2017

I. BUSINESS REVIEW

During the year ended 31 December 2016 (the "Year"), the Group's main source of revenue was the production and sales of steel. Trading commodities and sales of by-products were not the Group's main business. Geographically, the Group's primary production department was in Shandong Province, which remained as the main sales region of the Group. Revenue attributable to the region constitutes 70.9% of the total sales of steel during the Year (2015: 64.7%). In addition, the Group has been actively developing markets in other provinces. During the Year, Zhejiang Province had a relatively large demand for steel, and was the second largest contributor to the Group's revenue, which attributed to 6.8% of the total revenue (2015: 9.4%).

Production and Sales of Steel

The ordinary steel products manufactured by the Group included rebars and wire rods, mainly used for construction and infrastructure projects, constituting 69.7% of the total sales amount of steel during the Year (2015: 63.2%). The special steel products of the Group mainly included quality carbon structural steel used for mechanical processing and equipment production, and alloy structural steel used for machineries, bearing steel used for automobile manufacturing and ingots used in transportation, marine engineering and weaponries, constituting 30.3% of the total sales amount of steel during the Year (2015: 36.8%).

Project Review

Against the backdrop of national-wide adjustment and upgrade initiatives and of structural reform of the iron and steel industry, the Group continued to adhere to the national policy and procured transformation and upgrade according to its own status. On 16 March 2015, the automatic ladle car designed by IMR, passed the test, and the production of the Phase I of "Model Line of Special Steel for High-end Equipment with Intelligent Cleaning", which was jointly developed by the IMR and the Group, was commenced. On 3 October 2016, the 50MN fast forging unit passed the trial run also, representing the commencement of production the Phase II project of Special Steel for High-end Equipment. Currently, more than 90 types of new products have been developed. The aforesaid project will proceed in three phases. Upon completion, the Group can achieve an annual production scale of 300,000 tonnes of ingots, 100,000 tonnes of forge materials and pieces and 12,000 tonnes of special steel.

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

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

Management Discussion and Analysis

II. FINANCIAL REVIEW

1. Revenue

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

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

During the Year, the distribution of the sales of special steel of the Group by regions was similar to that of last year. Shandong continued to be the top sales region. During the Year, the export sales was RMB101,951,000 (2015: RMB226,170,000), accounted for 1.7% (2015: 4.1%) of the total sales of steel.

Breakdown of revenue:

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

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

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

Management Discussion and Analysis

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

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

Breakdown of sales volume of steel:

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

2. Cost of sales

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

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

Breakdown of cost of sales:

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

Average steel cost per tonne (tax-exclusive):

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

3. **Gross profit**

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

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

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

Gross profit margins of the products are as follow:

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

4. Other income and gain

Other income mainly includes bank interest income and government subsidies. Other income and gain for the Year amounted to RMB22,173,000 (2015: RMB25,084,000), representing a decrease of 11.6% as compared to last year. The decrease was mainly due to the decrease in bank interest income as a result of the decrease in pledged bank deposits during the Year.

Management Discussion and Analysis

5. **Selling and distribution expenses**

   The Group's selling and distribution expenses for the Year amounted to RMB20,535,000 (2015: RMB21,500,000), representing a decrease of 4.5% as compared to the corresponding period of last year. The decrease was mainly attributable to the decrease of delivery expenses as a result of the decrease in export sales during the Year.

6. **Administrative expenses**

   Administrative expenses mainly include general office expenses, salaries of administrative staff, professional and legal fees and bank service charges. Administrative expenses for the Year amounted to RMB52,356,000 (2015: RMB66,725,000), representing a decrease of 21.5% as compared to the corresponding period of last year. Such decrease was attributable to the decline in the bank charges of trade financing during the Year as compared to last year.

7. **Other expenses**

   Other expenses of the Group for the Year amounted to RMB1,794,000 (2015: RMB19,819,000), representing a decrease of 90.9% as compared to the corresponding period of last year. The decrease was mainly attributable to no impairment of bills receivable (2015: RMB7,299,000) and no impairment of inventories to net realisable value (2015: RMB6,405,000) during the year.

8. **Finance costs**

   The Group's finance costs for the Year amounted to RMB336,060,000 (2015: RMB91,107,000), representing an increase of 2.7 times as compared to last year. The increase was mainly due to the increase in interest expenses charged by Xiwang Group Company Limited ("**Xiwang Group**"), the ultimate holding Company of the Company, amounted to RMB204,748,000 (2015: notional interest of RMB48,976,000) during the year.

9. **Income tax expenses**

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

Financial position

Liquidity and capital resources

As at 31 December 2016, cash and cash equivalents of the Group amounted to RMB102,459,000, representing a decrease of RMB169,305,000 or 62.3% as compared with RMB271,764,000 as at 31 December 2015. The Group mainly used its operating cash inflow to fund its working capital needs, while the capital requirement for addition of production equipment was mainly satisfied by cash inflows from operating and financing activities.

The table below sets forth our short-term and long-term interest-bearing borrowings as at 31 December 2016.

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

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

Management Discussion and Analysis

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

As at 31 December 2016, leasehold land with a carrying amount of RMB55,397,000 (31 December 2015: RMB86,674,000) and pledged deposits of RMB334,588,000 (31 December 2015: RMB462,167,000) were pledged as security for interest-bearing bank borrowings and bills payable.

Capital commitments and contingent liabilities

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

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

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

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

Foreign exchange risk

The majority of the operating income, costs and expenditures of the Group were denominated in RMB. As such, the Group has not been exposed to material foreign exchange risk during its operation. As at 31 December 2016, the Group mainly exposed to risks related to its net liabilities denominated in US dollar amounted to RMB429,438,000 (31 December 2015: RMB303,207,000) and in HK dollar amounted to Nil (31 December 2015: RMB31,836,000).

Employees and remuneration

As at 31 December 2016, the Group had a total of 3,865 employees (2015: 3,681). Staff-related costs incurred during the Year was RMB189,203,000 (2015: RMB189,441,000). The remuneration was determined based on the performance and professional experience of employees as well as the prevailing market conditions. The management will regularly review the remuneration policy and arrangement of the Group. In addition to pensions, the Group will also distribute discretionary bonuses to certain employees as incentives according to their performance.

III. BUSINESS OUTLOOK

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

Management Discussion and Analysis

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

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

IV. EVENT AFTER THE REPORTING PERIOD

On 10 April 2017, the board of directors of the Company announced that the Company invests RMB2.55 billion to establish a new production line, which is capable of producing 700,000 tonnes of rail steel, 150,000 tonnes of railway billet and 150,000 tonnes of figured steel per annum. The development project will be carried out in two phases, with the first phase scheduled to be completed in 2018, and the second phase scheduled to be completed in 2020. When the first phase is completed, the designed production capacity of the new production line is expected to be 300,000 tonnes of rail steel and 150,000 tonnes of railway billet per annum.

The Group has been cooperating with IMR and develops a new rail steel material characterised with a high level of strength and toughness as well as a low level of alloy. This material adopts the LF+VD refinement process and utilises the advanced technology of argon airtight protection casting, which can effectively minimise the level of unreliable gas while improving the overall performances including strength, toughness, etc. When the new material is used on rail steel, the increased strength and resistance can improve the durability of the rail steel by around 40% to 50% according to the internal research conducted by the Company.

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. Save as disclosed herein, 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 Audit Committee of the Company (the "**Audit Committee**").

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, two 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. ZHANG Jian *(Chief Executive Officer)*
Mr. SUN Xinhu
Ms. LI Hai Xia

Non-executive Directors
Mr. WANG Di *(Chairman)*
Mr. WANG Yong
Ms. LI Yiyi (resigned on 24 May 2016)

Independent Non-executive Directors
Mr. LEUNG Shu Sun Sunny
Mr. YU Kou
Mr. LI Bangguang (appointed on 31 March 2016)
Mr. Liu Xiang Ming (resigned on 31 March 2016)

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.

(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. LI Bangguang 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 2016, 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 2016 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 2016. The Board wishes to draw your attention to page 62 of this annual report setting out the material uncertainties that may cast significant doubt on the Group'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 62 to 66 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 materials of comprehensive guidance on directors' duties and liabilities are provided 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 relating to the connected transaction and public float. 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 non-executive Directors are majority of members of these committees appointed by the Board. Written terms of reference of these committees based on the CG Code have been approved and adopted by the Board.

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

(i) Audit Committee

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

The members of the Audit Committee comprised Mr. LEUNG Shu Sun Sunny (Chairman), Mr. LI Bangguang and Mr. YU Kou. Mr. LEUNG Shu Sun Sunny, Mr. LI Bangguang and Mr. YU Kou 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 2015 and the unaudited accounts and interim results announcement for the six months ended 30 June 2016. 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 2016 at the meeting held on 30 March 2017.

(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.

Mr. LI Bangguang (Chairman), Mr. WANG Di and Mr. YU Kou are members of the Remuneration Committee, and Mr. LI Bangguang 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, assess the performance of executive directors, 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.

Mr. LI Bangguang (Chairman), Mr. WANG Di and Mr. YU Kou are members of the Nomination Committee, and Mr. LI Bangguang and Mr. YU Kou are independent non-executive Directors of the Company.

The primary responsibilities of the Nomination Committee are to determine the policy for the nomination of directors, 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:					
Mr. ZHANG Jian *(Chief Executive Officer)*	4/6	N/A	N/A	N/A	2/3
Mr. SUN Xinhu	5/6	N/A	N/A	N/A	2/3
Ms. LI Hai Xia	4/6	N/A	N/A	N/A	1/3
Non-executive Directors:					
WANG Di *(Chairman)*	6/6	N/A	1/1	1/1	1/3
WANG Yong	4/6	N/A	N/A	N/A	1/3
Ms. LI Yiyi (resigned on 24 May 2016)	0/1	N/A	N/A	N/A	0/1
Independent Non-executive Directors:					
LEUNG Shu Sun Sunny	6/6	2/2	N/A	N/A	3/3
YU Kou	6/6	2/2	1/1	1/1	1/3
Mr. LI Bangguang (appointed on 31 March 2016)	4/5	0/1	0/1	0/0	1/2
Mr. LIU Xiangming (resigned 31 March 2016)	0/1	0/1	1/1	1/1	0/1

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 RMB1,000,000	4
RMB1,000,001 to RMB1,500,000	1
	5

F. Auditors' remuneration

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

	For the year ended 31 December 2016 (RMB'000)
Service rendered	
Ernst & Young	
Annual audit services	1,750
Non-audit services	–

G. Internal control

Risk Management and Internal Control

Maintaining sound risk management and internal control systems is pivotal to the fulfillment of the Group's business objectives and its long-term sustainable growth. The Board acknowledges its overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and ensuring that the Company establishes and maintains appropriate and effective risk management and internal control systems to safeguard shareholders' investment and the Group's assets. To this end, the Board continuously reviews the effectiveness and makes improvements in its risk management and internal control framework. During the year, the Group set up an internal audit department and conducted a comprehensive review of the adequacy and effectiveness of the Group's internal control and risk management, resulting in an enhanced enterprise risk management ("**ERM**") framework through a robust and inclusive system that manages risks at all levels of the organisation.

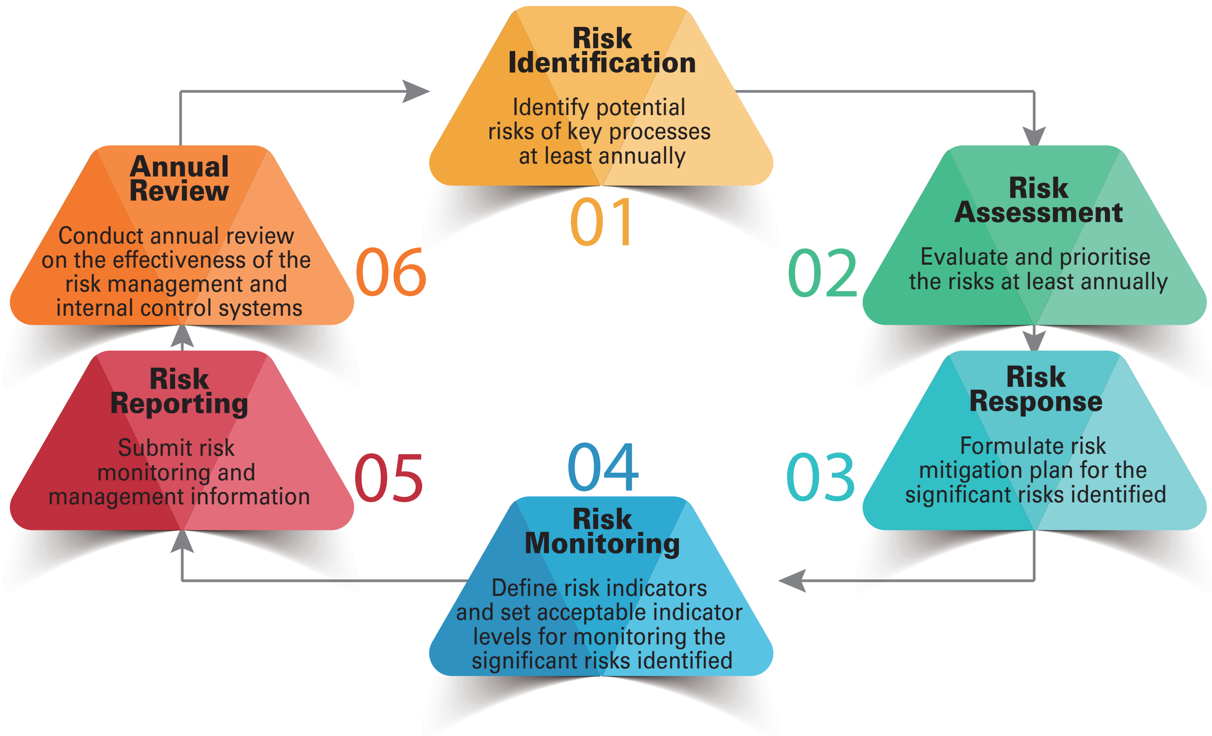
Risk Management Framework

The Group's risk management system is aligned with the internal control framework of international body consisting of the five elements, namely, the control environment, risk assessment, control activities, information and communication, and monitoring. The risk management and internal control systems of the Company are designed to manage rather than eliminate the risk of failure to achieve business objectives of the Group and can provide reasonable, but no absolute assurance against material misstatement or loss. The systems are made of by two essential features, the risk governance structure and process.

Risk Governance Structure

The Group's risk governance structure is based on the "3 lines of defence" model comprised of day-to-day operational management and control, risk and compliance oversight, and independent assurance. The ERM policy formalised by the Group clearly defines roles and responsibilities of each of the multiple layers of the structure, including the Board, the Audit Committee, management board, department heads, operational level and internal audit.

Risk Management Process and Scope – The Group's ERM approach is a structured mechanism and a continuous process of identifying, evaluating, prioritising, managing and monitoring of the risks that the Group faces. The key process of the Group's ERM is illustrated below:



The ERM adopted by the Group is embedded in our strategy development, business planning and day-to-day operations. The Group adopts a control and risk self-assessment methodology and continuously assesses and manages its risk profile on a regular basis. Risks that are relevant to the Group's business are identified, assessed and ranked according to their likelihood, financial consequence and reputational impact on the Group. The ERM system uses risk indicators and red flags to monitor the priority risks identified. As a process used to review the effectiveness of the risk management and internal control system, risk owners are required to submit risk alerts with risk mitigation plan promptly and regular risk reports are presented to the management board and Audit Committee for ongoing review and monitoring. The quality of managements on-going monitoring of risks and of internal control system is considered satisfactory. The key risks identified, managed and monitored during the year included environmental safety and sales process. Action plans were formulated and implemented during the year to address the areas of concern effectively.

The Internal Audit Department have risk management and internal control reviews covering operational, financial and compliance controls of the Group. The Group's internal audit function reports directly to the Audit Committee. It carries out independent reviews of key business processes and controls in accordance with its annual audit plan approved by the Audit Committee. The head of internal audit meet with the Audit Committee at least once a year to report the key findings and recommendations for improvement of audit issues and enable it to assess control of the Company and the effectiveness of risk management.

Annual Review of System Effectiveness

The Board, through the Audit Committee, had conducted annual review of the effectiveness of the Group's risk management and internal control systems for the year ended 31 December 2016. Heads of key business units and functional departments are required to confirm the effectiveness of the risk management and internal control system of their responsible areas during the year. The Board has received a confirmation from the management board on the effectiveness of the systems and no significant areas of concern have been identified and considered the systems and the Company's processes for financial reporting and Listing Rule compliance effective and adequate.

During the annual review, the Audit Committee has also considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's internal audit, accounting and financial reporting function is in place.

H. Inside Information

The Company takes seriously of its obligations under the Part XIVA of the Securities and Futures Ordinance and the Listing Rules with respect to procedures and internal controls for the handling and dissemination of inside information. The Group's disclosure policy ("**Disclosure Policy**") sets out guidelines and procedures to the Directors and officers of the Group to ensure inside information of the Group is to be disseminated to the public in equal and timely manner. Under the Disclosure Policy, the Company's Disclosure Team comprising executive directors and members of senior management have the overall delegated authority to decide whether the information reported is inside information and require disclosure and refer the subject matter to the Board for decision. Measures are in place to preserve the confidentiality of inside information and to ensure that its recipients recognise their obligations to maintain confidentiality. In communicating with external parties, only designated officers are authorised to respond to enquiries in allocated areas of issues. Briefing session is held regularly for officers to facilitate their understanding and compliance with the Disclosure Policy.

I. Company Secretary

The Company Secretary provides advice and services to the Board in relation to the compliance with all the Board procedures and all applicable rules and regulations. The 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 Company Secretary has sufficient relevant professional training during the Year as required under Rule 3.29 of the Listing Rules.

J. 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.

K. 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 where appropriate.

The Board considers that the Company was in compliance with all applicable code provisions set out in the CG Code throughout the Year except for the deviation from paragraphs A.6.7 and E.1.2 of the CG Code as LI Bangguang and YU Kou, independent non-executive directors, WANG Yong, the non-executive director, and WANG Di, the non-executive director and Chairman of the Board, were absent from the annual general meeting of the Company held on 17 June 2016 due to their overseas or other business engagements. LIU Xiangming and YU Kou, ex-independent non-executive director and independent non-executive director, WANG Yong and LI Yiyi, non-executive director and ex-non-executive director, and WANG Di, the non-executive director and chairman of the Board, were absent from the extraordinary general meeting of the Company held on 8 March 2016 due to other business engagements.

During the Year, pursuant to article 50 of the Articles 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 convening 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.

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.

L. 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, 30 March 2017

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. ZHANG Jian（張健）

Mr. ZHANG, aged 35, was appointed as an executive Director and the Chief Executive Officer of the Company on 14 October 2015. He obtained his Bachelor of Engineering from Yanbian University*（延邊大學）in 2004 and Master of Engineering from Qilu University of Technology（齊魯工業大學）in 2013. He joined the production department of Shandong Xiwang Sugar Company Limited（山東西王糖業有限公司）(“**Xiwang Sugar**”) from February 2004 to August 2004. From August 2004 to October 2014, he held several managerial positions including director of general manager office, manager of supply department, project manager, deputy managers and general managers within Xiwang Group and its subsidiaries, including Shangdong Xiwang Steel Co., Ltd.（山東西王鋼鐵有限公司）, Shandong Xiwang Biochemical Technology Co., Ltd.（山東西王生化科技有限公司）, Xiwang Sugar, Shandong Youhuo Fructose Co., Ltd.（山東西王悠活果糖有限公司）and Xiwang Pharmaceutical Company Limited*（西王藥業有限公司）. Since October 2014, he has been the general manager of Xiwang Metal Science & Technology Company Ltd（西王金屬科技有限公司）(“**Xiwang Metal Science**”)（previously named Shangdong Xiwang Special Steel Company Limited 山東西王特鋼有限公司）, a wholly-owned subsidiary of the Company.

Mr. SUN Xinhu（孫新虎）

Mr. SUN, aged 42, was appointed as a non-executive Director in June 2011 and re-designated to executive Director on 16 April 2015. 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.

Ms. LI Hai Xia（李海霞）

Ms. LI, aged 35, was appointed as an executive Director of the Company on 14 October 2015. She graduated from the Party School of the Central Committee of C.P.C（中共中央黨校）with a bachelor degree in Economics and Management in 2009. She worked in Xiwang Sugar from December 2003 to July 2015, during which she was the finance manager from May 2013 to July 2015. She has been the deputy finance general manager of Xiwang Metal Science since August 2015.

NON-EXECUTIVE DIRECTORS

Mr. WANG Yong（王勇）

Mr. WANG, aged 66, was appointed as the chairman and a non-executive Director of the Company in June 2011. Mr. WANG stepped down from his role as the Chairman but remain as a non-executive Director of the Company commencing from 9 October 2014. 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 an executive director of Xiwang Property and was re-designated as the deputy chairman and a non-executive director from 15 July 2013. He is also a director of Xiwang Foodstuffs since February 2010 and is effectively held as to 60.52% by Xiwang Group.

Mr. WANG Di（王棣）

Mr. WANG, aged 33, 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 a non-executive director on 15 July 2013. Mr. WANG was appointed an chairman of Xiwang Group Company Limited in October 2013.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LEUNG Shu Sun Sunny（梁樹新）

Mr. LEUNG, aged 54, 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 China Arts Financial Holdings Limited, a company listed on the Main Board of the Stock Exchange under stock code 1572, since October 2016. 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. YU Kou（于叩）

Mr. YU, aged 69, 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. LI Bangguang（李邦廣）

Mr. LI, aged 43, was appointed as an independent non-executive Director commencing from 31 March 2016. Mr. LI is a qualified PRC lawyer. Mr. LI graduated from Shandong University（山東大學）in 2005 majoring in law. Mr. LI worked as sales manager at Zouping County Health Products Company（鄒平縣保健品有限公司）from June 1994 to October 2000 and as staff attorney at Zouping County Cheng Zhong Legal Services Office（鄒平縣城中法律服務所）from October 2000 to May 2005. Since May 2005, Mr. LI joined Shandong Li Zhi Law Office（山東勵志律師事務所）and is working as a practicing lawyer there.

SENIOR MANAGEMENT

Mr. ZHANG Qingsheng（張慶生）

Mr. ZHANG, aged 39, 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）

Mr. HU, aged 37, 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. LI Dian Zhong（李殿中）

Mr. Li Dian Zhong, age 48, was appointed as the technical director of the Group commencing from 16 April 2015. He was graduated from Harbin Institute of Technology（哈爾濱工業大學）with a doctorate degree in engineering in 1998. Mr. Li is a researcher and doctoral supervisor and the director of the Materials Process Modeling Division of Shenyang National Laboratory for Materials Science, Institute of Metal Research of Chinese Academy of Sciences. In 1998, he was admitted to the "Hundred Talents Program（百人計劃）" of China Academy of Science. He is mainly engaged in the research of optimizing the key material composition and alloy phase control for heavy castings and forgings products and high-quality special steel; material modeling and defect control; simulation of nucleation during metal solidification; computer simulation of structural evolution under deformation condition for steel; real-time observation and computer simulation of liquid metal flows, etc. He has won National Outstanding Science and Technology Worker in 2014, State Scientific and Technological Progress Award (Second Class) in 2012, Outstanding Achievement Award in Science and Technology from Chinese Academy of Science in 2009, and Ho Leung Ho Lee Foundation Prize for Scientific and Technological Innovation in 2007. He has published more than 100 papers on periodicals like Acta Mater, and registered more than 30 patents and 2 software licenses.

Mr. WONG Kai Hing（黃繼興）

Mr. Wong, aged 42, was appointed as the Chief Financial Officer and the Company Secretary of the Company (the "**Company Secretary**") commencing from 20 November 2015. Mr. Wong is a member of the Hong Kong Institute of Certified Public Accountants and a member of Chartered Financial Analyst. Mr. Wong holds a Bachelor's degree in Business Administration in Professional Accountancy from the Chinese University of Hong Kong in 1997. He obtained a Master of Business Administration from the Chinese University of Hong Kong in 2006. He has over 17 years of experience in company secretary, auditing, finance and accounting fields in various listed companies and an international accounting firm in Hong Kong. Prior to joining the Company, Mr. Wong was the financial controller and company secretary of China Modern Dairy Holdings Limited from April 2012 to October 2015.

Mr. Wong was appointed as the Chief Financial Officer and the Company Secretary of Xiwang Property commencing from 20 November 2015.

Mr. WANG Chao（王超）

Mr. WANG, aged 34, 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）.

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 2016.

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

BUSINESS REVIEW

Business review of the Company and a discussion and analysis of the Group's performance during the Year, the material factors underlying its results and financial position, and an indication of likely future development in the Company's business are set out in the Management Discussion and Analysis on pages 9 to 21 of this Annual Report. An analysis of Group's performance using financial key performance indicators is provided in the Management Discussion and Analysis on pages 9 to 21 of this Annual Report. These discussions form part of this Directors' report.

1 Major Risks and Uncertain Factors

A Risk of Raw Material Price Increase

The level of supply of raw material has a material impact on the price of iron and steel, and fluctuation in raw material price also brings uncertainty to the Company's market strategy formulation and implementation as well as impacts the cost control of the Company to certain extent.

B Market Risks

The Group bears market risks such as risks of interest rate and currency rate. Since the steel industry is a capital intensive industry, operation of the Group needs to be supported by financing. Increase of loan interest rate will cause burden of increased financial cost. Some businesses of the Group involve foreign currency, so adverse fluctuation of currency rate will cause exchange loss to be borne by the Group. The Group has proactively communicated with some financial institutions which have fixed the exchange rates for some businesses.

C Risk of New Product

We are proactively carrying out industrial upgrade and transformation, and gradually increase the ratio of special steel products with relatively high profit. Therefore we may face increased capital input and production cost while we are unable to secured sales in the fierce market competition.

2 Environmental Policies and Performance

The Ministry of Industry and Information Technology of the PRC, together with other authorities, established the Standard Conditions for Iron and Steel Industry which prescribes specific standards for the production scale, equipment and environmental protection of steel enterprises. Upon review of competent authorities, the Group has complied with the requirements and qualifications set forth in the Standard Conditions for Iron and Steel Industry. We discharge pollutants in strict compliance with the requirement of the permit for pollutant discharge, the requirement of China's environmental protection laws and regulations and the requirement of competent environmental protection authorities.

The Group strives to be an environment friendly enterprise by investing large amount of fund to install environmental protection facilities and proactively designing recycle and reuse of wastes. The Group has begun to research and design plans together with Zouping Xiwang Power Co., Ltd（鄒平縣西王動力有限公司） for the purpose of recycling and reusing the waste water and gas generated from the production and applying them on heating in properties and surrounding buildings. This project will not only contribute to environmental protection but also generate financial earnings for the Group.

The Group pays attention to nourishing and enhancing employees' awareness of cherishing resources and utilizing resources with high efficiency, and proactively promotes environmental protection. In recent years, the Group has implemented a number of policies to encourage employees on duty to summarize and improve the procedures that waste raw materials and energies, eliminate wasting and increase effective use of raw materials and energies. Meanwhile, the Group also urges and encourages employees on duty to save energies and paper during office works. The ultimate purpose for all of the above is to save resources and costs, protect the environment and promote the general profit of the Group.

3 Compliance with Laws and Regulations

The Group's operations are mainly carried out by the Company's subsidiaries in the mainland China while the Company itself is listed on the Stock Exchange. Our establishment and operations accordingly shall comply with relevant laws and regulations in the mainland China and Hong Kong. During the year ended 31 December 2016 and up to the date of this report, to the knowledge of the Company, we have complied with all the relevant laws and regulations in the mainland China and Hong Kong that have a significant impact on the Group in all material respects.

4 **Notes on Important Relationship with Employees, Customers and Suppliers**

The Group promotes a person-oriented management culture and emphasizes the value of employees as it believes the employees are very important resource for enhancing the Company's productivity and core competency. To provide employees with competitive remunerations and opportunities to receive skill trainings is closely connected to the realization of employees' individual values as well as the Group's strategic goals.

The Group's regular income relies on the constant patronage of its major customers. Many customers are distributors who sell our products to the downstream steel producers, real estate developers and construction contractors. They contribute to a substantial portion of the Group's earnings and operation performance. Maintaining good cooperative relationship with customers will positively promote the Group's business performance and obtain steady and healthily growing results. The Group has entered into long-term supply contracts with some major customers. Meanwhile, we are also proactively developing new customers and providing them with high-quality presale and post-sale supporting services for the sake of reducing risks and obtaining more market shares.

We also pay close attention to the relationship with suppliers. Being able to obtain sufficient quantity of raw materials with competitive prices is an important safeguard for the Group to maintain production schedule and fulfill commitments to customers. Though the Group may use electric arc furnaces to produce billets internally, we still need raw materials supplied by major supplies such as waste steel, molten iron, pig iron and billets to meet the production demand. The Group proactively enters into purchase agreements with current supplies and meanwhile proactively seeks to expand the supplier network, timely communicate with suppliers and produce plans to maintain good relationship and solve problems in order to provide effective safeguard for the planned production schedule.

The Group holds annual meeting every year, and distributes questionnaires to share our achievements with employees, customers and suppliers. The Group also discusses the defects existing in the past and strives to discover any room of improvement in order to create closer mutually benefiting relationship.

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 2016 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 142 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 for their contribution or would be contribution to the Group so as to encourage them to participate in the long-term development of the Group and to share common interests and objectives with the Group and/or to enable the Group to recruit and retain high calibre employees and attract human resources that are valuable to the Group. The share option scheme became effective on 3 September 2014, no share options were exercised during the year ended 31 December 2016.

(1) Eligible Participants to the Share Option Scheme

The Directors may, at their absolute discretion, invite any eligible participants (the "**Eligible Participants**"), to take up options (the "**Options**") to subscribe for Shares at a price calculated in accordance with paragraph (7) below for such number of Shares as it may determine in accordance with the terms of the Share Option Scheme.

The basis of eligibility of any of the Eligible Participants to the grant of any Options shall be determined by the Directors from time to time on the basis of their contribution to the development and growth of the Group and any invested entity.

(2) Maximum Number of Shares Available for Exercise

(a) The maximum number of Shares to be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 30 per cent of the total number of Shares in issue from time to time.

(b) The total number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 200,000,000 Shares (the "**General Scheme Limit**"), representing 10 per cent of the Shares in issue as at the day of the passing of the relevant ordinary resolution.

(c) Subject to paragraph (a) above and without prejudice to paragraph (d) below, the Company may seek approval of the Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and any other share option schemes of the Company must not exceed 10 per cent of the Shares in issue as at the date of approval of the General Scheme Limit. For the purpose of calculating the General Scheme Limit, Options previously granted (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option schemes of the Company) will not be counted.

(d) Subject to paragraph (a) above and without prejudice to paragraph (c) above, the Company may issue a circular to the Shareholders and seek separate Shareholders' approval in general meeting to grant Options beyond the General Scheme Limit or, if applicable, the limit referred to in paragraph (c) above to the Eligible Participants specifically identified by the Company before such approval is sought.

(3) Maximum Entitlement of each Eligible Participant

The total number of Shares in issue and which may fall to be issued upon exercise of the Options granted under the Share Option Scheme and any other share option schemes of the Company (including exercised, cancelled and outstanding Options) to each Eligible Participant in any 12 month period shall not exceed 1 per cent of the total number of the relevant class of Shares (the "**Individual Limit**"). Any further grant of options in excess of the Individual Limit in any 12 month period up to and including the date of such further grant, shall be subject to the issue of a circular to the Shareholders and the Shareholders' approval in general meeting of the Company with such Eligible Participant and his associates abstaining from voting.

(4) Grant of Options to Connected Persons

(a) Any grant of Options under the Share Option Scheme to a Director, chief executive or Substantial Shareholder of the Company or any of their respective associates must comply with the requirements of Rule 17.04 of the Listing Rules and must be approved by independent non-executive Directors (excluding any independent non-executive Director who is the Grantee of the Options).

In the event of any change in the terms of Options granted to a Substantial Shareholder or an independent non-executive director of the Company; or where any grant of Options to a Substantial Shareholder or an independent non-executive Director, or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person in the 12 month period up to and including the date of such grant:

(i) representing in aggregate over 0.1 per cent of the total number of Shares in issue;

(ii) having an aggregate value on the closing price of the Shares at the date of each grant, in excess of HK$5 million;

such further grant of Options must be approved by the Shareholders. The Company must send a circular to the Shareholders. All connected persons of the Company must abstain from voting at such general meeting, except that any Connected Person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote take at the meeting to approve the grant of such options must be taken on a poll.

(5) Time of Acceptance and Exercise of an Option

An offer of grant of an Option may be accepted by an Eligible Participant within 28 days from the date of the offer of grant of the Option. A consideration of HK$1.00 is payable on acceptance of the offer of grant of an Option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each Grantee, which period may commence on the date on which the offer for the grant of Options is made but shall end in any event not later than 10 years from the date of grant of the Option subject to the provisions for early termination thereof and to the minimum period for which the Option has to be held before it can be exercised as the Directors may at their discretion determine ("**Option Period**"). No minimum period for which the Option has to be held before it can be exercised is specified in the Share Option Scheme.

(6) Performance Targets

Unless otherwise determined and stated by the Directors in the offer of the grant of Options to an Eligible Participant, an Eligible Participant is not required to achieve any performance targets before any Options granted under the Share Option Scheme can be exercised.

(7) Subscription Price for Shares

The subscription price for Shares under the Share Option Scheme shall be a price determined by the Directors, but shall not be less than the higher of (i) the closing price of Shares as stated in the Stock Exchange's daily quotation sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotation sheeting for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of a Share (if applicable). Without prejudice to the generality of the foregoing, the Directors may grant Options in respect of which the subscription price is fixed at different prices for different periods during the Option Period provided that the subscription price for Shares for each of the different periods shall not be less than the subscription price determined in the aforesaid manner.

(8) Restrictions on the Time of Grant of Options

A grant of Option under the Share Option Scheme shall not be made after inside information has come to the knowledge of the Company until the information has been announced. In particular, during the period commencing one month immediately preceding the earlier of (i) the date of the board meeting (as such is first notified to the Exchange in accordance with the Listing Rules) for approval of the Company's results for any year, half year, quarterly or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for the Company to publish an announcement of its results for any year or half year under the Listing Rules, or quarterly or any other interim period (whether or not under the Listing Rules), no Option should be granted.

The Directors may not grant any Option to an Eligible Participant who is a Director during the periods or times in which Directors are prohibited from dealing in shares pursuant to the Model Code for Securities Transactions by Directors of Listed Companies prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by the Company.

(9) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme becomes unconditional.

As at 31 December 2016, options to subscribe for 14,900,000 ordinary shares of the Company were outstanding, details of which are set out in note 28 to the consolidated financial statements and below:

Grantee	Date of grant	At 1 January 2016	Number of Share Options Granted	Exercised	Lapsed	At 31 December 2016	Exercise price per Share (HK$)	Exercise period
Directors								
WANG Di	19 September 2014	2,000,000	–	–	–	2,000,000	1.064	19/9/2016-18/9/2017
	25 August 2016 (Note 2)	–	5,000,000	–	–	5,000,000	0.73	25/8/2016-24/8/2021
SUN Xinhu	19 September 2014	1,000,000	–	–	–	1,000,000	1.064	19/9/2016-18/9/2017
	25 August 2016 (Note 2)	–	1,500,000	–	–	1,500,000	0.73	25/8/2016-24/8/2021
Employees (Note 1)	19 September 2014	333,334	–	–	(333,334)	–	1.064	19/9/2016-18/9/2017
	22 July 2016 (Note 2)	–	1,500,000	–	–	1,500,000	0.676	22/7/2016-21/7/2021
	25 August 2016 (Note 2)	–	3,900,000	–	–	3,900,000	0.73	25/8/2016-24/8/2021
		3,333,334	11,900,000	–	(333,334)	14,900,000		

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 Share immediately before the date on which the options were granted were (i) 21 July 2016: HK$0.67; and (ii) 24 August 2016: HK$0.71.

EQUITY-LINKED AGREEMENT

Save as disclosed in this annual report regarding Share Option Scheme, the Company has not entered into any equity-link agreement during the year ended 31 December 2016 and no equity-link agreement subsisted as at the end of the year.

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 39 to the consolidated financial statements. As at 31 December 2016, the reserves of the Company available for distribution, calculated in accordance with the provision of Section 290-306 of the Hong Kong Companies Ordinance, (Cap. 622) amounted to Nil.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's five largest suppliers accounted for approximately 43.2% (2015: 29.7%) of the Group's total cost of purchase for the Year. The largest supplier accounted for approximately 17.8% (2015: 10.1%) of the Group's total cost of purchase.

The Group's five largest customers accounted for approximately 24.2% (2015: 30.6%) of the Group's total revenue for the Year. The largest customer accounted for approximately 8.6% (2015: 7.2%) 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. ZHANG Jian *(Chief Executive Officer)*
Mr. SUN Xinhu
Ms. LI Hai Xia

Non-executive Directors
Mr. WANG Di *(Chairman)*
Mr. WANG Yong
Ms. LI Yiyi (resigned on 24 May 2016 due to personal career development)

Independent Non-executive Directors
Mr. LEUNG Shu Sun Sunny
Mr. YU Kou
Mr. LI Bangguang (appointed on 31 March 2016)
Mr. LIU Xiangming (resigned on 31 March 2016 due to personal career development)

Each of the executive Directors, non-executive Directors, and independent non-executive Directors has entered into a service agreement with the Company for a term of three years. 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.

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

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 35 to 38 of this annual report.

DIRECTORS OF SUBSIDIARIES

The directors of our subsidiaries during the Year and up to the date of this annual report were:

Company	Director
XIWANG METAL SCIENCE & TECHNOLOGY COMPANY LIMITED	Mr. WANG Yong, Mr. WANG Di, Mr. WANG Dong, Mr. WANG Liang, Mr. SUN Xinhu, Mr. ZHANG Jian
XIWANG SPECIAL STEEL COMPANY LTD.	Mr. WANG Yong, Mr. WANG Di, Mr. WANG Dong, Mr. WANG Liang, Mr. SUN Xinhu, Mr. ZHANG Jian
SHANDONG XIWANG METAL MATERIAL COMPANY LTD	Mr. WANG Yong, Mr. WANG Di, Mr. WANG Dong, Mr. WANG Liang, Mr. SUN Xinhu, Mr. ZHANG Jian
SHANDONG XIWANG RECYCLING RESOURCES COMPANY LTD	Mr. ZHANG Jian
XIWANG INTERNATIONAL TRADE (QINGDAO) CO, LTD	Mr. WANG Di, Mr. WANG Hong Yu, Ms. WANG Chun Ying
WIN GOAL TRADING LIMITED	Mr. WANG Di

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Saved as disclosed in the paragraph headed "Connected Transactions" below and in note 35 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.

PERMITTED INDEMNITY

Pursuant to the Company's Articles, every Director shall be indemnified out of the assets of the Company against all liabilities which he/she may incur in the execution and discharge of his/her duties or otherwise in relation thereto. The Company has kept in force insurance against the liability and costs associated with defending any proceedings which may be brought against directors of the Company.

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 2016, 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 2016
WANG Yong	Company	Interest of controlled corporations (Note 2)	1,500,000,000 ordinary shares (L) (Note 4)	74.75%
	Xiwang Investment	Interest of controlled corporations (Notes 2, 3)	3 shares (L)	100%
	Xiwang Holdings	Beneficial owner (Note 2)	6,738 shares (L)	3.37%
		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)	RMB1,383,000,000 (L)	69.15%
	Xiwang Property	Interest of controlled corporations (Note 3)	810,903,622 ordinary shares (L) (Note 3)	65.57%
			678,340,635 convertible preference shares (L) (Note 3)	99.81%

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 2016
WANG Di	Company	Beneficial owner	4,000,000 shares (L)	0.20%
	Company	Beneficial owner	7,000,000 share options (L)	0.35%
	Xiwang Holdings	Beneficial owner	177 shares (L)	0.09%
	Xiwang Group	Beneficial owner	RMB35,460,000 (L)	1.77%
	Xiwang Property	Beneficial owner	3,000,000 shares (L)	0.24%
SUN Xinhu	Company	Beneficial owner	400,000 shares (L)	0.02%
	Company	Beneficial owner	2,500,000 share options (L)	0.12%
	Xiwang Holdings	Beneficial owner	89 shares (L)	0.04%
	Xiwang Group	Beneficial owner	RMB35,460,000 (L)	1.77%
	Xiwang Property	Beneficial owner	3,000,000 shares (L)	0.24%

Notes:

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

(2) As at 31 December 2016, Xiwang Group is the ultimate holding company of the Company. Xiwang Group is owned as to 69.15% by Mr. WANG Yong and remaining 30.85% by 20 individuals. Further, these 20 individuals are accustomed to act in accordance with the directions of Mr. WANG Yong in respect of the exercise by such 20 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 22 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 2016, Xiwang Investment, where the entire issued shares are deemed to be interested by Mr. WANG Yong, held 65.57% of ordinary shares of Xiwang Property Holdings Company Limited ("**Xiwang Property**") and 99.81% 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 2016, 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 2016
Xiwang Investment	Beneficial owner	1,500,000,000 ordinary shares (L)	74.75%
Xiwang Holdings	Interest of a controlled corporation (Note 2)	1,500,000,000 ordinary shares (L)	74.75%
Xiwang Hong Kong	Interest of controlled corporations (Notes 2, 3)	1,500,000,000 ordinary shares (L)	74.75%
Xiwang Group	Interest of controlled corporations (Notes 2, 3)	1,500,000,000 ordinary shares (L)	74.75%
ZHANG Shufang	Interest of spouse (Note 4)	1,500,000,000 ordinary shares (L)	74.75%

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 22 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.

(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 2016, 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 35 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.

A. Continuing Connected Transactions in 2016

Save as (i) the supply of steam under the Steam Supply Agreement dated 11 November 2014 entered into between the Xiwang Metal Science and Xiwang Sugar; (ii) supply of steel under the Steel Delivery Service Agreement, supply of ore powder under the Ore Powder Delivery Service Agreement and leasing of certain vehicles under the Vehicle Leasing Agreement, all of which are dated 29 December 2015 and entered into between Shandong Xiwang Logistics Company Limited ("**Xiwang Logistics**") and Xiwang Metal Science; (iii) the provision of financial services under the Financial Services Agreement dated 29 December 2015 entered into between the Company and Xiwang Group Finance Company Limited ("**Xiwang Finance Company**"); (iv) the provision of guarantee services under the Guarantee Agreement dated 4 January 2016 entered into between the Company and Xiwang Group Company Limited ("**Xiwang Group**"); (v) the provision of finance leasing services under the Sale and Leaseback Agreement dated 20 October 2016 entered into between Xiwang Metal Science and Xiwang Finance Leasing Company Limited ("**Xiwang Leasing**"), which were conducted in compliance with the requirements on connected transactions under Chapter 14A of the Listing Rules, all such continuing connected transactions were exempt continuing connected transactions under Rule 14A.33 of the Listing Rules and were exempted from the reporting, annual review, announcement and independent shareholders' approval requirement under the Listing Rules.

(1) Sale of Steam to Xiwang Sugar

On 11 November 2014, Xiwang Metal Science, a wholly-owned subsidiary of the Company, entered into the steam supply agreement ("**Steam Supply Agreement**") with Xiwang Sugar, pursuant to which, the Group would supply steam to 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 Company Limited ("**Xiwang Investment**") is the controlling shareholder of the Company and indirectly holds the entire equity interest in Xiwang Sugar. As such, 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 Metal Science was responsible for laying or altering the steam pipe, installing the steam meter and supplying steam to 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 would 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.

On 14 December 2016, Xiwang Metal Science and Xiwang Sugar entered into the new steam supply agreement (the "**New Steam Supply Agreement**") to renew the terms of the Steam Supply Agreement, which was effective from 1 January 2017 to 31 December 2019. Similar to the Steam Supply Agreement, it was agreed in the New Steam Supply Agreement 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 would 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.

Under the Steam Supply Agreement, the maximum aggregate annual transaction amounts under the Steam Supply Agreement for each of the three years ended 31 December 2016 would be RMB34,668,000, RMB64,598,000 and RMB78,304,000, respectively. As of the year ended 31 December 2016, the actual aggregate annual transaction amount incurred was approximately RMB33,884,000. Pursuant to the New Steam Supply Agreement, it was expected that the maximum aggregate annual transaction amounts for each of the three years ending 31 December 2019 would be RMB60,000,000.

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 announcements of the Company dated 11 November 2014 and 14 December 2016.

(2) Provision of Delivery Service and Leasing of Vehicles from Xiwang Logistics

On 29 December 2015, Xiwang Metal Science and Xiwang Logistics entered into the steel delivery service agreement (the "**Steel Delivery Service Agreement**") in relation to the provision of steel delivery services to Xiwang Metal Science, the ore powder delivery service agreement (the "**Ore Powder Delivery Service Agreement**") in relation to the provision of ore powder delivery services to Xiwang Metal Science, and the vehicle leasing agreement (the "**Vehicle Leasing Agreement**") in relation to the leasing of 42 vehicles (the "**Vehicles**") by Xiwang Logistics to Xiwang Metal Science, all of which were effective from 1 January 2016 (or a date when the shareholders' approval is obtained) and ending 31 December 2018 (both dates inclusive).

Xiwang Metal Science is a wholly-owned subsidiary of the Company. Xiwang Investment is the controlling shareholder of the Company and is wholly owned by Xiwang Holdings Limited ("**Xiwang Holding**"). Xiwang Holdings is held as to 95% by Xiwang Hong Kong Company Limited ("**Xiwang Hong Kong**") and Xiwang Hong Kong is in turn wholly-owned by Xiwang Group. Xiwang Logistics is a wholly-owned subsidiary of Xiwang Group. Therefore, Xiwang Logistics is a connected person of the Company.

Pursuant to the Steel Delivery Service Agreement, Xiwang Logistics agreed to provide steel delivery service to Xiwang Metal Science to Linyi City, Qingdao City and other cities of Shandong Province, the PRC. It was agreed that the cost of delivery service should be determined according to the weight of steel for each delivery with reference to the prevailing market prices. By entering into the Steel Delivery Service Agreement, in the event the Company is required to bear the delivery cost due to change of delivery mode that the customers no longer collect the end products at the factory and bear the delivery cost, Xiwang Logistics has logistics capability, possesses adequate vehicles and can deliver the goods in a timely manner for the Company.

It was expected that the maximum aggregate annual transaction amount under the Steel Delivery Service Agreement for each of the three years ending 31 December 2018 would be RMB98,000,000, RMB104,000,000 and RMB111,000,000, respectively.

As of the year ended 31 December 2016, the actual aggregate annual transaction amount incurred was approximately RMB8,216,000. During the term of the agreement, the transaction amount did not exceed the annual cap as set out in the agreement.

Pursuant to the Ore Powder Delivery Service Agreement, Xiwang Logistics agreed to provide ore powder delivery service to Xiwang Metal Science from Qingdao City and other cities of Shandong Province, the PRC. It was agreed that the cost of delivery service should be determined according to the weight of ore powder for each delivery with reference to the prevailing market prices. By entering into the Ore Powder Delivery Service Agreement, in the event the Company is required to bear the delivery cost due to change of delivery mode that the suppliers no longer deliver the procured raw materials and bear the delivery cost, Xiwang Logistics has logistics capability, possesses adequate vehicles and can deliver the goods in a timely manner for the Company.

It was expected that the maximum aggregate annual transaction amount under the Ore Powder Delivery Service Agreement for each of the three years ending 31 December 2018 would be RMB208,000,000, RMB223,000,000 and RMB240,000,000, respectively.

As of the year ended 31 December 2016, the actual aggregate annual transaction amount incurred was approximately RMB74,566,000. During the term of the agreement, the transaction amount did not exceed the annual cap as set out in the agreement.

Pursuant to the Vehicle Leasing Agreement, Xiwang Logistics agreed to lease 42 vehicles in total to Xiwang Metal Science, who would be responsible for the management and fees incurred for using the Vehicles such as fuel fees and maintenance fees. It was agreed that the fee for renting the Vehicles would be determined with reference to the prevailing market prices. By entering into the Vehicle Leasing Agreement, the Company could greatly reduce the its transportation costs with respect to its products loading in the factory and delivery, as the Company does not possess enough vehicles and the cost to purchase vehicles is relatively high, and Xiwang Logistics possesses adequate vehicles.

It was expected that the maximum aggregate annual transaction amount under the Vehicle Leasing Agreement for each of the three years ending 31 December 2018 would be RMB6,800,000, RMB7,100,000 and RMB7,500,000, respectively.

As of the year ended 31 December 2016, the actual aggregate annual transaction amount incurred was approximately RMB1,602,000. 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 transactions, please refer to the announcement of the Company dated 29 December 2015 and the circular of the Company dated 19 February 2016.

(3) Provision of Financial Services from Xiwang Finance Company

On 29 December 2015, the Company and Xiwang Finance Company entered into the financial services agreement (the "Financial Services Agreement") in relation to the provision of deposit services, loan services, bill discounting services and other financial services, which was effective from 1 January 2016 to 31 December 2018.

Xiwang Group is the ultimate holding company of the Company. Xiwang Finance Company is a subsidiary of Xiwang Group and is owned as to 10% by the Company. As such, Xiwang Finance Company is a connected person of the Company under the Listing Rules.

Pursuant to the Financial Services Agreement, Xiwang Finance Company agreed to provide the Company and its certain subsidiaries with deposit services, loan services, bill discounting services and other financial services. It was agreed that the interest rates for deposit, loan and bill discounting services and service fees for other financial services charged by/offered by Xiwang Finance Company should not be less favourable than the interest rates and services fees charged by/offered by other independent commercial banks for comparable services. By entering into the Financial Services Agreement, the Company could, inter alia, have the benefit to centralise its control and management over the financial resources of the Company, improve the utilisation and efficiency of fund usage and mitigate its operating risks. It can also accelerate the turnover of funds and reduce transaction costs and expenses, thereby enhancing the amount and efficiency of fund utilisation.

The proposed caps in respect of the maximum daily deposit balance (including any interest accrued therefrom) with Xiwang Finance Company for each of the three years ending 31 December 2018 would be RMB1.2 billion, RMB1.5 billion and RMB1.8 billion, respectively. The proposed caps in respect of the amount of bill discounting provided by Xiwang Finance Company for each of the three years ending 31 December 2018 would be RMB0.5 billion, RMB0.8 billion and RMB1.0 billion, respectively. The loan services to be provided by Xiwang Finance Company were on normal commercial terms which were similar to or even more favourable than those offered by other major commercial banks in the PRC, and that no security over the assets of the Company would be granted in respect of the loan services. Other financial services provided under the Financial Services Agreement would be on normal commercial terms and on terms similar to or even more favourable than those offered by other independent commercial banks in the PRC.

On 20 October 2016, the Company and Xiwang Finance Company entered into the supplemental agreement (the "**Supplemental Agreement**") to (i) revise the annual caps in respect of the amount of bill discounting (including interest) for each of the three years ending 31 December 2018 to RMB3.0 billion, RMB7.0 billion and RMB8.0 billion, respectively; and (ii) to revise the extent of the existing financial services under the Financial Services Agreement to include bill acceptance with annual caps in respect of the amount of bill acceptance for each of the three years ending 31 December 2018 at RMB3.0 billion, RMB7.0 billion and RMB8.0 billion, respectively. By entering into the Supplemental Agreement, the loan services under the Financial Services Agreement were also revised that (i) the maximum loan amounts (including any accrued interest) for the three years ended 31 December 2018 were changed to RMB5 billion, RMB5.5 billion and RMB6 billion, respectively; (ii) the scope of other finance services would include the guarantee services, the limit of which should not exceed RMB1 billion. By entering into the Supplemental Agreement, the Company has the needs to increase the utilisation of the bill discounting services and to obtain bill acceptance services and guarantee services, so that the Company could take advantage of the capital leverage mechanism provided by Xiwang Finance Company to improve the cash flow and capital liquidity of the Company.

As of 31 December 2016, the maximum daily deposit balance (including any interest accrued therefrom) was approximately RMB600,000,000, the actual aggregate annual transaction amount of bill discounting was approximately RMB495,000,000, the actual aggregate annual transaction amount of bill acceptance was approximately RMB200,000,000 and the maximum loan amounts (including any accrued interest) was approximately RMB2,200,072,000. During the term of the agreement, the transaction amounts did not exceed the annual caps as set out in the agreement, and the fees payable by the Company to Xiwang Finance Company for the provision of other financial services under the Financial Services Agreement did not exceed the de-minims threshold as stipulated under Chapter 14A of the Listing Rules.

For details of the transaction, please refer to the announcements of the Company dated 29 December 2015 and dated 20 October 2016 and the circulars of the Company dated 19 February 2016 and 24 November 2016.

(4) Provision of Guarantee Service to Xiwang Group

On 4 January 2016, the Company and Xiwang Group entered into the guarantee agreement (the "**Guarantee Agreement**") in relation to the provision of guarantee services, which was effective from 4 January 2016 to 31 December 2018.

Xiwang Group is the ultimate holding company of the Company. Therefore, Xiwang Group is a connected person of the Company under the Listing Rules.

Pursuant to the Guarantee Agreement, the Company agreed to provide the Xiwang Group and its certain subsidiaries with guarantee services. It was agreed that the no guarantee fees should be paid by Xiwang Group to the Company for the provision of guarantee services, and any loan to be repaid by the Company for Xiwang Group and its certain subsidiaries pursuant to the Guarantee Agreement should be offset by the loans payable by the Company to Xiwang Group, or as other amounts payable by the Company to Xiwang Group or its certain subsidiaries.

As the Company has obtained a large amount of interest-free loan from Xiwang Group for business operation, entering into the Guarantee Agreement would enhance the financing capacity of Xiwang Group, which in turn promotes Xiwang Group to provide more financial supports to the Company in the form of loans or financing guarantee.

It was agreed that the caps in respect of the maximum guarantee amount for each of the three years ending 31 December 2018 would be RMB4 billion, RMB4 billion and RMB4 billion, respectively.

As of 31 December 2016, the maximum guarantee amount was approximately RMB1.48 billion. 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 4 January 2016 and the circular of the Company dated 19 February 2016.

(5) Provision of Finance Leasing Services from Xiwang Leasing

On 20 October 2016, Xiwang Metal Science and Xiwang Leasing entered into the sale and leaseback agreement (the "**Sale and Leaseback Agreement**") in relation to the provision of finance leasing services, which was effective on the date when the respective finance amount was paid by Xiwang Leasing to Xiwang Metal Science and ending on 30 November 2021.

Xiwang Group is the ultimate holding company of the Company. Xiwang Leasing is a subsidiary of Xiwang Group. Therefore, Xiwang Leasing is a connected person of the Company under the Listing Rules.

Pursuant to the Sale and Leaseback Agreement, Xiwang Leasing agreed to provide Xiwang Metal Science with finance leasing services in relation to certain machinery equipment. For the purpose of obtaining finance by adopting the sale and leaseback model, Xiwang Metal Science should sell to Xiwang Leasing its machinery equipment which should be leased back for use by Xiwang Metal Science. It was agreed that the leasing fee was the sum of the quarterly repayment of the principal amount and the interest calculated at 5.9% per annum accrued under the respective finance leasing transaction. Upon expiry of the lease term, Xiwang Metal Science should repurchase the leased assets in accordance with the terms of the Sale and Leaseback Agreement.

By entering into the Sale and Leaseback Agreement, the Company would be able to source funds from the sale of certain machinery equipment to Xiwang Leasing and to use the sale proceeds to repay by instalments the loans granted by Xiwang Group to the Group. By doing so, the Company would be able to (i) broaden and stabilise the financing channels, as the Company may not be unable to obtain refinance from other financial institution for the reason that the leased assets may not be easily regarded as acceptable security; and (ii) lower the finance cost. Also, the Company would be able to vitalise the inventory of fixed assets, and improve the asset utilization efficiency ratio of the Company.

It was agreed that the caps in respect of the maximum finance amount to Xiwang Leasing for each of the six year ending 30 November 2021 would be RMB0.51 billion, RMB1.6 billion, RMB2.7 billion, RMB3.2 billion, RMB3.2 billion and RMB1.6 billion, respectively.

As of 31 December 2016, the maximum finance amount was Nil. 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 20 October 2016 and the circular of the Company dated 24 November 2016.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors of the Company have reviewed the above continuing connected transactions and are of the opinion that the above continuing connected transactions 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 has followed the pricing policies and guidelines when determining the price and terms of the above transactions conducted during the year (please refer to the announcements relating to the respective transactions for details).

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 (Revised)"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 Group if the transactions involve provision of services by the Group;

(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 22 to 34 of this annual report.

AUDIT COMMITTEE

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

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, 30 March 2017

Independent Auditor's Report

EY 安永

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

OPINION

We have audited the consolidated financial statements of Xiwang Special Steel Company Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 67 to 141, which comprise the consolidated statement of financial position as at 31 December 2016, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 2.1 in the consolidated financial statements, which indicates that as of 31 December 2016, the Group's current liabilities exceeded its current assets by approximately RMB4,529.7 million. As stated in note 2.1, these conditions, along with other matters as set forth in note 2.1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

KEY AUDIT MATTERS (Continued)

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Changes in accounting estimates – estimated useful lives of buildings, machinery and equipment	
As further explained in note 4 to the consolidated financial statements, starting from 1 January 2016, the Group effected a change of accounting estimates about the useful lives of buildings, machinery and equipment. In the opinion of the directors, the new estimated useful lives reflect more reasonably the periods over which the buildings, machinery and equipment will bring future economic benefits to the Group. The determination of the useful lives involved significant judgement. Related disclosures are included in notes 3 and 4 to the consolidated financial statements.	We discussed with management about their new estimation of the economic useful lives of buildings, machinery and equipment. We performed physical inspection on selected buildings, machinery and equipment and considered their physical conditions. We collaborated management's explanations about their rationale for the changes. We selected representative public companies in similar industries located in the same jurisdiction and compared it to the management's newly estimated economic useful lives. We also assessed the adequacy of the related disclosures in the financial statements.
Impairment of property, plant and equipment	
The Group had property, plant and equipment amounting to RMB9,915 million as at 31 December 2016. The assessment of the recoverable amounts of these assets involves significant judgement in respect of factors such as future production levels, commodity prices, operating costs and economic assumptions such as discount rates and inflation rates. Related disclosures are included in note 3 significant accounting judgement and estimates.	We evaluated management's assumptions and estimates used to determine the recoverable amounts of the Group's assets, including those relating to production, cost, capital expenditure and discount rates. We performed our own sensitivity analysis to assess the range of acceptable valuations and we involved our internal valuation specialists to assist us in assessing the Group's impairment assessment model, discount rates and other key parameters. We also assessed the adequacy of the related disclosures in the notes to the financial statements.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Inventory provision	
The Group is principally engaged in the manufacture and sale of steel products. As disclosed in note 17 to the financial statements, inventories as at 31 December 2016 amounted to RMB1,051 million. It was a material balance for the Group and management judgement was required in assessing if it was lower than the net realisable value of the inventories on hand at the year end. The determination of provision for the Group's inventories required a high level of judgement and estimation, and related changes in the estimation might have a significant impact on the financial statements. Related disclosures are included in note 3 significant accounting judgement and estimates.	We evaluated the sales forecasts prepared by management for the purpose of identifying slow-moving and obsolete inventories by checking, on a sample basis, to the sales orders and agreements, and assessing the reasonableness of estimated sales taking into account the accuracy of previous estimation, evidence supporting underlying assumptions and current market conditions. We evaluated the assumptions used and checked, on a sample basis, the inputs used in the forecasts. We also tested on a sample basis the accuracy of the inventories aging report. We tested the carrying amount by comparing to the subsequent selling prices of the inventory items.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Law Kwok Kee.

Ernst & Young
Certified Public Accountants
Hong Kong
30 March 2017

Consolidated Statement of Profit or Loss

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	6	**7,566,781**	6,751,643
Cost of sales		**(6,498,392)**	(6,175,337)
Gross profit		**1,068,389**	576,306
Other income and gains	6	**22,173**	25,084
Selling and distribution expenses		**(20,535)**	(21,500)
Administrative expenses		**(52,356)**	(66,725)
Other expenses		**(1,794)**	(19,819)
Research and development costs		**(253,293)**	(210,464)
OPERATING PROFIT		**762,584**	282,882
Finance costs	8	**(336,060)**	(91,107)
PROFIT BEFORE TAX	7	**426,524**	191,775
Income tax expense	11	**(93,935)**	(22,551)
PROFIT FOR THE YEAR		**332,589**	169,224
Profit attributable to owners of the parent		**332,589**	169,224
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**RMB16.57 cents**	RMB8.46 cents
Diluted		**RMB16.57 cents**	RMB8.43 cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2016

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

Consolidated Statement of Financial Position

31 December 2016

	Notes	31 December 2016 RMB'000	31 December 2015 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	14	**9,915,086**	9,733,333
Prepaid land lease payments	15	**96,283**	98,504
Available-for-sale investment	16	**100,000**	100,000
Deferred tax assets	25	**5,171**	5,824
Total non-current assets		**10,116,540**	9,937,661
CURRENT ASSETS			
Inventories	17	**1,050,596**	659,367
Trade and bills receivables	18	**128,670**	61,089
Prepayments, deposits and other receivables	19	**193,550**	195,327
Derivative financial instruments	24	**3,584**	2,159
Income tax recoverable		**–**	50,388
Pledged deposits	20	**334,588**	462,167
Cash and cash equivalents	20	**102,459**	271,764
Total current assets		**1,813,447**	1,702,261
CURRENT LIABILITIES			
Trade and bills payables	21	**1,661,073**	1,484,540
Receipts in advance, other payables and accruals	22	**800,220**	1,671,192
Derivative financial instruments	24	**540**	–
Interest-bearing bank and other borrowings	23	**2,380,157**	593,550
Borrowings from the ultimate holding company	35(d)(ii)	**1,482,375**	2,186,480
Income tax payable		**18,750**	–
Total current liabilities		**6,343,115**	5,935,762
NET CURRENT LIABILITIES		**(4,529,668)**	(4,233,501)
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,586,872**	5,704,160

Consolidated Statement of Financial Position

31 December 2016

	Notes	**31 December 2016 RMB'000**	31 December 2015 RMB'000 (Restated)
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	23	**–**	420,836
Borrowings from the ultimate holding company	35(d)(ii)	**1,399,900**	1,158,916
Deferred tax liabilities	25	**3,640**	18,442
Other long term payable	26	**161,000**	161,000
Total non-current liabilities		**1,564,540**	1,759,194
Net assets		**4,022,332**	3,944,966
EQUITY			
Equity attributable to owners of the parent			
Share capital	27	**962,949**	962,949
Reserves	29	**3,059,383**	2,982,017
Total equity		**4,022,332**	3,944,966

WANG Di
Director

WANG Yong
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2016

	Attributable to owners of the parent									
	Share capital RMB'000 (note 27)	Contributed surplus RMB'000	Other reserve RMB'000	Statutory surplus reserve RMB'000 (note 29(a))	Warrant reserve RMB'000 (note 27)	Share option reserve RMB'000 (note 28)	Special reserve RMB'000 (note 29(b))	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 2015	955,833	78,938	297,069	449,571	1,189	777	119,570	3,825	1,904,626	3,811,398
Profit for the year	–	–	–	–	–	–	–	–	169,224	169,224
Other comprehensive loss for the year:										
Exchange differences related to foreign operations	–	–	–	–	–	–	–	(12,401)	–	(12,401)
Total comprehensive income for the year	–	–	–	–	–	–	–	(12,401)	169,224	156,823
Profit appropriated to reserves	–	–	–	9,614	–	–	38,427	–	(48,041)	–
Utilised special reserve	–	–	–	–	–	–	(1,642)	–	1,642	–
Final 2014 dividend declared	–	–	–	–	–	–	–	–	(30,000)	(30,000)
Share options exercised (note 28)	7,116	–	–	–	–	(1,104)	–	–	–	6,012
Lapse of warrants (note 27)	–	–	–	–	(1,189)	–	–	–	1,189	–
Equity-settled share option expense (note 28)	–	–	–	–	–	733	–	–	–	733
At 31 December 2015	962,949	78,938*	297,069*	459,185*	–*	406*	156,355*	(8,576)*	1,998,640*	3,944,966

	Attributable to owners of the parent								
	Share capital RMB'000 (note 27)	**Contributed surplus RMB'000**	**Other reserve RMB'000**	**Statutory surplus reserve RMB'000 (note 29(a))**	**Share option reserve RMB'000 (note 28)**	**Special reserve RMB'000 (note 29(b))**	**Exchange fluctuation reserve RMB'000**	**Retained profits RMB'000**	**Total equity RMB'000**
At 1 January 2016	**962,949**	**78,938**	**297,069**	**459,185**	**406**	**156,355**	**(8,576)**	**1,998,640**	**3,944,966**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**332,589**	**332,589**
Other comprehensive loss for the year:									
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**–**	**(15,724)**	**–**	**(15,724)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(15,724)**	**332,589**	**316,865**
Profit appropriated to reserves	**–**	**–**	**–**	**21,676**	**–**	**3,990**	**–**	**(25,666)**	**–**
Utilised special reserve	**–**	**–**	**–**	**–**	**–**	**(2,217)**	**–**	**2,217**	**–**
Reversal of capital contribution previously recognized	**–**	**–**	**(240,985)**	**–**	**–**	**–**	**–**	**–**	**(240,985)**
Equity-settled share option expense (note 28)	**–**	**–**	**–**	**–**	**1,486**	**–**	**–**	**–**	**1,486**
At 31 December 2016	**962,949**	**78,938***	**56,084***	**480,861***	**1,892***	**158,128***	**(24,300)***	**2,307,780***	**4,022,332**

* These reserve accounts comprise the consolidated reserves of RMB3,059,383,000 (2015: RMB2,982,017,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**426,524**	191,775
Adjustments for:			
Finance costs	8	**336,060**	91,107
Interest income	6	**(6,975)**	(14,824)
Exchange differences, net	6	**(770)**	5,956
Depreciation	7	**347,321**	480,055
Recognition of prepaid land lease payments	7	**2,221**	2,344
Equity-settled share option expense	7	**1,486**	733
Impairment of bills receivable	7	**–**	7,299
(Write back)/write-down of inventories to net realisable value	7	**(6,405)**	6,405
Fair value gain on derivative financial instruments	6	**(698)**	(2,526)
Gains on disposal of item of property, plant and equipment	6	**(77)**	–
		1,098,687	768,324
(Increase)/decrease in inventories		**(384,824)**	197,383
(Increase)/decrease in trade and bills receivables		**(67,996)**	234,739
Increase in prepayments, deposits and other receivables		**(10,176)**	(3,818)
Increase/(decrease) in trade and bills payables		**176,534**	(911,671)
Increase/(decrease) in receipts in advance, other payables and accruals		**32,363**	(735,104)
Cash generated from/(used in) operations		**844,588**	(450,147)
Interest received		**6,090**	18,182
Interest element of finance lease rental payments		**–**	(2,860)
Government grant received		**651**	–
PRC tax paid		**(38,947)**	(125,393)
Net cash flows from/(used in) operating activities		**812,382**	(560,218)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(577,541)**	(1,544,313)
Proceeds from disposal of items of property, plant and equipment		**1,360**	–
Purchase of available-for-sale investment		**–**	(100,000)
Receipt of government grants		**2,500**	4,901
Decrease in pledged time deposits		**127,579**	284,059
Net cash flows used in investing activities		**(446,102)**	(1,355,353)

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank and other borrowings		**3,551,674**	5,311,409
Increase in long term payable		**–**	161,000
(Decrease)/increase in borrowings from the ultimate holding company		**(463,121)**	2,186,480
Capital element of finance lease rental payments		**–**	(143,252)
Repayment of bank and other borrowings		**(3,266,181)**	(5,385,311)
Proceeds from share options exercised		**–**	6,012
Dividends paid		**–**	(30,000)
Interest paid		**(344,319)**	(29,400)
Net cash flows (used in)/from financing activities		**(521,947)**	2,076,938
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(155,667)**	161,367
Cash and cash equivalents at beginning of year		**271,764**	127,067
Effect of foreign exchange rate changes, net		**(13,638)**	(16,670)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**102,459**	271,764
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	20	**102,459**	271,764
Cash and cash equivalents as stated in the statement of cash flows		**102,459**	271,764

Notes to Financial Statements

31 December 2016

1. CORPORATE AND GROUP INFORMATION

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

In the opinion of the directors, the immediate holding company of the Company is Xiwang Investment Limited Company (西王投資有限公司) which is wholly owned by Xiwang Holdings Limited ("**Xiwang Holdings**") (**西王控股有限公司**). During the year ended 31 December 2016, the ultimate holding company of the Company was Xiwang Group Company Limited ("**Xiwang Group**") (**西王集團有限公司**).

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Company name	Place and date of incorporation/ registration and place of 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
Xiwang Special Steel Co., Ltd. formerly known as Shandong Xiwang Steel Co., Ltd (西王特鋼有限公司，原名：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
Xiwang Metal Science & Technology Co., Ltd. formerly known as Shandong Xiwang Special Steel Co., Ltd. (西王金屬科技有限公司，原名：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	RMB677,359,000	–	100	Purchase and sale of steel scrap

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments which have 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 2016, the Group's current liabilities exceeded its current assets by approximately RMB4,529.7 million (31 December 2015: RMB4,233.5 million). The directors of the Company have considered the following factors:

- the Group's expected cash inflows from operating activities in 2017;
- the directors of the Company are also confident that bank borrowings, which will expire during the next 12 months, could be renewed upon expiration based on the Group's past experience and credit standing; and
- other available sources of financing from banks and the ultimate shareholder given the Group's credit history.

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

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

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Group and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

(a) Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in HKAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.

(b) Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

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

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

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

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

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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[2]
HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[2]
HKFRS 16	*Leases*[3]
Amendments to HKAS 7	*Disclosure Initiative*[1]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date yet determined but available for adoption

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

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

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 is currently assessing the impact of the standard.

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

HKFRS 15 establishes a new five-step model to account for 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. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implement issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases – Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

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

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 previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for application now.

Amendments to HKAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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 is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Fair value measurement

The Group measures its derivative financial instruments 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);

(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); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

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.

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	2.5% – 3.3%
Machinery and equipment	5% – 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 are stated at cost less any impairment losses, and are 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement (Continued)

Financial assets at fair value through profit or loss (Continued)

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets 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.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

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

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Available-for-sale financial investments (Continued)

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is 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 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.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Available-for-sale financial investments (Continued)

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available-for-sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

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 instruments, an amount due to the immediate holding company, amounts 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

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

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 consolidated 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

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

Government grants

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

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments

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. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("**equity-settled transactions**").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 28 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met , no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute to the central pension scheme which are based on a certain percentage of the total salary of these employees. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

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 5% and 13% has been applied to the expenditure on the individual assets.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Foreign currencies

These financial statements are presented in RMB, which is the Group's functional 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 measured.

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 these entities are translated into the presentation currency of RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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 overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Derecognition of financial assets

Where the Group has transferred the right to receive cash flows arising from an asset but has not transferred or has retained substantially all risks and rewards associated with such asset, or has not transferred the controlling right in such asset, such asset shall be recognised and accounted for so long as the Group continues to be involved in such asset. If the Group has not transferred or has retained substantially all risks and rewards associated with the asset or transferred the controlling right in the asset, the exercise of significant judgement is often required, and estimations need to be made as to the extent of the Group's continued involvement in the asset.

Estimation uncertainty

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

Impairment of non-financial assets (other than goodwill)

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Useful lives and residual values of property, plant and equipment

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

Recognition of the deferred tax liability for withholding taxes arising from the distributions of dividends

Deferred tax liablities recognized for withholding taxes from the distribution of dividends from the subsidiaries in Mainland China according to the relevant tax jurisdictions is subject to estimation on the likely dividends declared in foreseeable future and the judgement on the applicable rate based on the tax treaty between mainland China and the jurisdiction of the foreign investors. A deferred tax liability is recognised for 5% withholding tax levied on 10% profits of the subsidiaries in Mainland China, where the Group considers that only about 10% profits of the subsidiaries in Mainland China will be distributed in the foreseeable future.

Impairment of available-for-sale financial assets

The Group classifies certain assets as available-for-sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the statement of profit or loss.

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.

4. CHANGES IN ACCOUNTING ESTIMATES

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

	Buildings	Machinery and equipment
Useful lives before changes (nubmer of years)	30	15
Useful lives after changes (nubmer of years)	40	20

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

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

5. OPERATING SEGMENT INFORMATION

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

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

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

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

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

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

Geographical information

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

5. OPERATING SEGMENT INFORMATION (Continued)

Information about major customers

For the years ended 31 December 2015 and 2016, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

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

	Ordinary steel RMB'000	Special steel RMB'000	Trading of commodities RMB'000	By-products RMB'000	Consolidated RMB'000
Year ended 31 December 2016					
Segment revenue:					
Sales to external customers	**4,156,353**	**1,809,967**	**1,323,979**	**276,482**	**7,566,781**
Cost of sales	**(3,378,050)**	**(1,547,900)**	**(1,303,982)**	**(268,460)**	**(6,498,392)**
Gross profit	**778,303**	**262,067**	**19,997**	**8,022**	**1,068,389**
Reconciliation:					
Other income and gains					**22,173**
Selling and distribution expenses					**(20,535)**
Administrative expenses					**(52,356)**
Research and development costs					**(253,293)**
Other expenses					**(1,794)**
Finance costs					**(336,060)**
Profit before tax					**426,524**

	Ordinary steel RMB'000	Special steel RMB'000	Trading of commodities RMB'000	By-products RMB'000	Consolidated RMB'000
Year ended 31 December 2015					
Segment revenue:					
Sales to external customers	3,505,398	2,043,883	959,671	242,691	6,751,643
Cost of sales	(3,151,096)	(1,842,094)	(955,114)	(227,033)	(6,175,337)
Gross profit	354,302	201,789	4,557	15,658	576,306
Reconciliation:					
Other income and gains					25,084
Selling and distribution expenses					(21,500)
Administrative expenses					(66,725)
Research and development costs					(210,464)
Other expenses					(19,819)
Finance costs					(91,107)
Profit before tax					191,775

6. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, net of value-added tax and government surcharges during the year.

An analysis of revenue, other income and gains are as follows:

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

7. PROFIT BEFORE TAX

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

	Notes	2016 RMB'000	2015 RMB'000
Cost of inventories sold		**6,498,392**	6,175,337
Depreciation	14	**347,321**	480,055
Minimum lease payments under operating leases		**2,584**	2,981
Amortisation of prepaid land lease payments	15	**2,221**	2,344
Research and development costs		**253,293**	210,464
Auditor's remuneration		**1,750**	1,750
Employee benefit expense (including directors' remuneration):			
Wages and salaries		**189,203**	189,441
Pension scheme contributions*		**12,520**	11,185
Equity-settled share option expenses	28	**1,486**	733
Staff welfare expenses		**7,180**	2,641
		210,389	204,000
Foreign exchange differences, net**	6	**(770)**	5,956
Impairment of bills receivable**		**–**	7,299
(Write-back)/write-down of inventories to net realisable value**	6	**(6,405)**	6,405
Gains on disposal of item of property, plant and equipment**	6	**(77)**	–
Fair value gains on derivative financial instruments**	6	**(698)**	(2,526)

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

** The foreign exchange differences, impairment of bills receivable and write-down of inventories to net realisable value are included in "Other expenses" in the consolidated statement of profit or loss.

8. FINANCE COSTS

An analysis of finance costs is as follows:

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

* The amount in 2015 represented notional interest of RMB48,976,000 on an amount due to the ultimate holding company (note 35(a)(ii)).

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2016 RMB'000	2015 RMB'000
Fees	**218**	185
Other emoluments:		
Salaries, allowances and benefits in kind	**427**	676
Equity-settled share option expense	**900**	811
Pension scheme contributions	**25**	18
	1,570	1,690

During the year, two directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 28 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

(a) Independent non-executive directors

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

	2016 RMB'000	2015 RMB'000
Mr. Leung Shu Sun Sunny	**130**	122
Mr. Yu Kou	**50**	50
Mr. Liu Xiangming*	**25**	13
Mr. Li Bangguang*	**13**	–
	218	185

* On 31 March 2016, Mr. Liu Xiangming resigned as an independent non-executive director; and Mr. Li Bangguang was appointed as an independent non-executive director.

There were no other emoluments payable to the independent non-executive directors during the year (2015: Nil).

9. DIRECTORS' REMUNERATION (Continued)

(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
2016					
Executive directors:					
Mr. Zhang Jian*	–	285	–	14	299
Ms. Li Haixia*	–	142	–	11	153
Mr. Sun Xinhu**	–	–	230	–	230
	–	427	230	25	682
Non-executive directors:					
Mr. Wang Yong	–	–	–	–	–
Mr. Wang Di	–	–	670	–	670
Ms. Li Yiyi**	–	–	–	–	–
	–	–	670	–	670
	–	427	900	25	1,352

9. DIRECTORS' REMUNERATION (Continued)

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

	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
2015					
Executive directors:					
Mr. Zhang Jian*	–	360	–	12	372
Ms. Li Haixia*	–	106	–	4	110
Mr. Sun Xinhu**	–	–	270	–	270
Mr. Wang Hui*	–	–	–	–	–
Mr. Jiang Changlin*	–	150	–	–	150
Mr. He Qingwen**	–	60	–	2	62
	–	676	270	18	964
Non-executive directors:					
Mr. Wang Yong	–	–	–	–	–
Mr. Wang Di	–	–	541	–	541
Ms. Li Yiyi**	–	–	–	–	–
	–	–	541	–	541
	–	676	811	18	1,505

* On 14 October 2015, Mr. Wang Hui and Mr. Jiang Changlin resigned as executive directors; and Mr. Zhang Jian and Ms. Li Haixia were appointed as executive directors.

** On 16 April 2015, Mr. He Qingwen resigned as an executive director; Mr. Sun Xinhu was re-designated from non-executive director to executive director; and Ms. Li Yiyi was appointed as a non-executive director. On 24 May 2016, Ms. Li Yiyi resigned as a non-executive director.

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director (2015: two directors (restated)), details of whose remuneration are set out in note 9(b) above. Details of the remuneration for the year of the remaining four (2015: three (restated)) non-director highest paid employees for the year are as follows:

	2016 **RMB'000**	2015 RMB'000 (Restated)
Salaries, allowances and benefits in kind	**2,083**	1,473
Performance-related bonuses	**240**	234
Equity-settled share option expense	**152**	23
Pension scheme contributions	**42**	90
	2,517	1,820

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

	Number of employees	
	2016	2015 (Restated)
Nil to RMB1,000,000	**3**	3
RMB1,000,001 to RMB1,500,000	**1**	–
	4	3

During the year, no share options were granted to the non-director and non-chief executive highest paid employees (2015: nil) in respect of their services to the Group.

11. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable in Mainland China have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof.

Pursuant to the PRC Corporate Income Tax Law effective on 1 January 2008, the PRC subsidiaries are subject to corporate income tax ("**CIT**") at a statutory rate of 25% on their respective taxable income for the year ended 31 December 2016.

	2016 **RMB'000**	2015 RMB'000
Current – Mainland China		
Charge for the year	**108,084**	21,515
Deferred (note 25)	**(14,149)**	1,036
Total tax charge for the year	**93,935**	22,551

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

11. INCOME TAX (Continued)

A reconciliation of the tax expense applicable to profit before tax at the applicable tax rate for the location in which the Company and the majority of 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:

	2016		2015	
	RMB'000	**%**	RMB'000	%
Profit before tax	**426,524**		191,775	
Tax at the statutory tax rate	**106,524**	**16.5-25**	47,944	16.5-25
Expenses not deductible for tax	**10,965**	**3**	15,815	8
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	**1,897**	**1**	949	1
Adjustments in respect of current tax of previous periods	**(8,690)**	**(2)**	(11,482)	(6)
Effect of super deduction of research expenses	**(21,694)**	**(5)**	(33,872)	(18)
Tax losses not recognised	**4,933**	**1**	3,197	2
Tax charge at the Group's effective tax rate	**93,935**	**22**	22,551	12

The Group has tax losses arising in Hong Kong of approximately RMB69,582,000 as at 31 December 2016 (31 December 2015: RMB73,236,000), that are available for offsetting against future taxable profits of the Company in which the loss arose. The Group also has tax losses arising in Mainland China of RMB20,705,000 as at 31 December 2016 (31 December 2015: Nil) that will expire in one to five years for offsetting against future taxable profits. 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.

12. DIVIDEND

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

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 calculations of basic and diluted earnings per share are based on:

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

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

14. PROPERTY, PLANT AND EQUIPMENT

	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 2016						
At 31 December 2015 and at 1 January 2016:						
Cost	4,843,378	4,925,911	34,184	72,401	1,273,980	11,149,854
Accumulated depreciation	(380,955)	(993,139)	(8,177)	(34,250)	–	(1,416,521)
Net carrying amount	4,462,423	3,932,772	26,007	38,151	1,273,980	9,733,333
At 1 January 2016, net of accumulated depreciation	4,462,423	3,932,772	26,007	38,151	1,273,980	9,733,333
Additions	16,225	19,237	5,858	2,493	486,544	530,357
Disposal	–	(1,111)	(108)	(64)	–	(1,283)
Depreciation provided during the year (note 7)	(115,757)	(214,825)	(5,392)	(11,347)	–	(347,321)
Transfers	125,724	(268,885)	2,148	1,392	139,621	–
At 31 December 2016, net of accumulated depreciation	4,488,615	3,467,188	28,513	30,625	1,900,145	9,915,086
At 31 December 2016:						
Cost	5,038,647	4,697,378	42,685	77,313	1,900,145	11,756,168
Accumulated depreciation	(550,032)	(1,230,190)	(14,172)	(46,688)	–	(1,841,082)
Net carrying amount	4,488,615	3,467,188	28,513	30,625	1,900,145	9,915,086

As at 31 December 2016, the Group has not yet obtained the building ownership certificates in respect of certain buildings with a net book value of RMB3,706,246,000 (2015: RMB3,638,778,000).

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

	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 2015						
At 31 December 2014 and at 1 January 2015:						
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
At 1 January 2015, net of accumulated depreciation	3,782,856	4,141,305	28,665	47,489	875,117	8,875,432
Additions	22,654	78,747	178	3,645	1,232,732	1,337,956
Depreciation provided during the year (note 7)	(142,894)	(320,390)	(3,710)	(13,061)	–	(480,055)
Transfers	799,807	33,110	874	78	(833,869)	–
At 31 December 2015, net of accumulated depreciation	4,462,423	3,932,772	26,007	38,151	1,273,980	9,733,333
At 31 December 2015:						
Cost	4,843,378	4,925,911	34,184	72,401	1,273,980	11,149,854
Accumulated depreciation	(380,955)	(993,139)	(8,177)	(34,250)	–	(1,416,521)
Net carrying amount	4,462,423	3,932,772	26,007	38,151	1,273,980	9,733,333

15. PREPAID LAND LEASE PAYMENTS

	2016 RMB'000	2015 RMB'000
Carrying amount at 1 January	**100,725**	103,069
Addition	**–**	–
Recognised during the year (note 7)	**(2,221)**	(2,344)
Carrying amount at 31 December	**98,504**	100,725
Current portion included in prepayments, deposits and other receivables (note 19)	**(2,221)**	(2,221)
Non-current portion	**96,283**	98,504

At 31 December 2016, certain of the Group's leasehold land with a carrying amount of approximately RMB55,397,000 (31 December 2015: RMB86,674,000) and nil (31 December 2015: RMB69,211,000) were pledged as security for the Group's bank borrowings and other borrowings (note 23) and bills payable (note 21), respectively.

16. AVAILABLE-FOR-SALE INVESTMENT

	2016 RMB'000	2015 RMB'000
Unlisted equity investment, at cost	**100,000**	100,000

As at 31 December 2016, the unlisted equity investment with a carrying amount of RMB100,000,000 represents a 10% equity interest in Xiwang Finance (31 December 2015: RMB100,000,000). The amount is stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of the investment in the near future.

17. INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials	**404,917**	222,998
Work in progress	**159,763**	62,297
Finished goods	**244,043**	228,017
Trading commodities	**241,873**	146,055
	1,050,596	659,367

18. TRADE AND BILLS RECEIVABLES

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

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

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

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

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

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

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

Included in the Group's trade receivables are amounts due from the Group's fellow subsidiaries of RMB14,942,000 as at 31 December 2016 (31 December 2015: Nil), which are repayable on credit terms similar to those offered to the other customers of the Group.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Prepayments	**161,082**	107,827
Bank interest receivables	**3,590**	2,706
VAT recoverable	**4,922**	42,720
Deposits and other receivables	**21,735**	39,853
Current portion of prepaid land lease payments (note 15)	**2,221**	2,221
	193,550	195,327

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

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

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Notes	2016 RMB'000	2015 RMB'000
Cash and bank balances		**102,459**	271,764
Time deposits		**334,588**	462,167
		437,047	733,931
Less: Pledged time deposits:			
Guarantee deposits for issuance of bills payable	21	**(304,338)**	(425,998)
Guarantee deposits for certain bank borrowings	23	**(30,250)**	(36,169)
Cash and cash equivalents		**102,459**	271,764

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB76,768,000 (31 December 2015: RMB204,164,000). 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.

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

Included in the Group's cash and bank balances are deposits of RMB64,729,000 (31 December 2015: Nil) placed with Xiwang Finance, which is a financial institution approved by the People's Bank of China. The effective interest rate for these deposits was 0.35% to 1.15% per annum, being the savings rate offered by the People's Bank of China.

21. TRADE AND BILLS PAYABLES

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

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

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

As at 31 December 2016, the Group's bills payable amounting to RMB1,157,386,000 (31 December 2015: RMB848,752,000) were secured by the pledged time deposits of RMB304,338,000 (31 December 2015: RMB425,998,000) (note 20).

The Group's bills payable amounting to RMB355,000,000 as at 31 December 2015 were secured by the prepaid land lease payment of RMB69,211,000 (note 15).

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

21. TRADE AND BILLS PAYABLES (Continued)

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

31 December 2016

Bills payable RMB'000	Notes	Guaranteed by:
182,517	35(b)(i)	Mr. Wang Yong, a non-executive director and Ms. Zhang Shufang (spouse of Mr. Wang Yong) jointly and severally Xiwang Group
290,159	35(b)(i)	Mr. Wang Yong, Mr. Wang Di and Xiwang Group jointly and severally

31 December 2015

Bills payable RMB'000	Notes	Guaranteed or secured by:
155,000	35(b)(i)	Mr. Wang Yong and Ms. Zhang Shufang jointly and severally Xiwang Group Certain leasehold land of Xiwang Logistics Company Limited ("Xiwang Logistics")（西王物流有限公司）, a wholly-owned subsidiary of Xiwang Group
200,000	35(b)(i)	Mr. Wang Yong An independent third party
293,752	35(b)(i)	Xiwang Group
311,284	35(b)(i)	Mr. Wang Yong, Mr. Wang Di and Xiwang Group jointly and severally

The trade payables are non-interest-bearing and are normally settled on term of six months.

22. RECEIPTS IN ADVANCE, OTHER PAYABLES AND ACCRUALS

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

22. RECEIPTS IN ADVANCE, OTHER PAYABLES AND ACCRUALS (Continued)

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

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

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

23. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2016			2015		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Interest-bearing bank borrowings – secured	**4.91 - 6.60**	**2017**	**419,894**	4.36~6.44	2016	483,550
Current portion of long term interest-bearing other borrowings – secured	**HIBOR +2.8, 9**	**2017**	**422,991**	9	2016	110,000
Borrowings from Xiwang Finance – unsecured	**4.65 - 6.60**	**2017**	**1,537,272**			–
			2,380,157			593,550
Non-current						
Long term interest-bearing bank borrowings – secured			**–**	HIBOR +2.8	2017	31,836
Long term interest-bearing other borrowings – secured			**–**	9	2017	389,000
			–			420,836
			2,380,157			1,014,386

	2016 RMB'000	2015 RMB'000
Analysed into:		
Bank and other borrowings repayable:		
Within one year	**2,380,157**	593,550
In the second year	**–**	420,836
	2,380,157	1,014,386

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

Notes:

(i) Certain of the Group's bank borrowings are secured by certain of the Group's leasehold land with a carrying amount of RMB55,397,000 as at 31 December 2016 (2015: RMB86,674,000) (note 15) and pledged time deposits of RMB30,250,000 (2015: RMB36,169,000) (note 20).

(ii) The Group's interest-bearing borrowings are guaranteed by certain related parties as follows:

31 December 2016

Borrowings RMB'000	**Notes**	**Guaranteed by:**
419,288	35(b)(i)	Xiwang Group Mr. Wang Yong and Ms. Zhang Shufang (spouse of Mr. Wang Yong) jointly and severally
100,000	35(b)(i)	Mr. Wang Yong An independent third party

31 December 2015

Borrowings RMB'000	**Notes**	**Guaranteed and secured by:**
100,000	35(b)(i)	Mr. Wang Yong An independent third party
27,000	35(b)(i)	Xiwang Group Mr. Wang Yong and Ms. Zhang Shufang (spouse of Mr. Wang Yong) jointly and severally Certain leasehold land of Xiwang Logistic
75,000	35(b)(i)	Mr. Wang Yong and Mr. Wang Di jointly and severally Xiwang Group An independent third party
42,768	35(b)(i)	Mr. Wang Yong, Mr. Wang Di and Xiwang Group jointly and severally
27,207	35(b)(i)	Xiwang Group
499,000	35(b)(i)	Xiwang Group Mr. Wang Yong and Ms. Zhang Shufang (spouse of Mr. Wang Yong) jointly and severally

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

24. DERIVATIVE FINANCIAL INSTRUMENTS

The Group has entered into some forward currency contracts to manage its exchange rate exposures. They are not designated for hedge purposes and are measured at fair value through profit or loss. The net unrealized gains on changes in the fair value of the forward currency contracts amount to RMB698,000 (2015: net unreaslised gains of RMB2,526,000), which were recognized in the consolidated statement of profit or loss during the year. The maturity dates of the derivative financial instruments are within one year.

25. DEFERRED TAX

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

Deferred tax assets

	2016 **RMB'000**	2015 RMB'000
At 1 January	**5,824**	5,911
Deferred tax credited to the statement of profit or loss during the year (note 11)	**(653)**	(87)
Gross deferred tax assets at the end of the year	**5,171**	5,824

For the year ended 31 December 2016, deferred tax assets were recognised in respect of the unrealized profit arising from intra-group sales.

25. DEFERRED TAX (Continued)

Deferred tax liabilities

	2016 Withholding tax on the distributable profits RMB'000	2015 Withholding tax on the distributable profits RMB'000
At 1 January	**18,442**	19,093
Deferred tax credited to the statement of profit or loss during the year (note 11)	**(14,802)**	(651)
Gross deferred tax liabilities at the end of the year	**3,640**	18,442

Pursuant to the New CIT Law effective on 1 January 2008, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. 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 2016, no deferred tax has been recognised for withholding taxes that would be payable on certain 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 a deferred tax liability has not been recognised totalled approximately RMB601,675,000 (31 December 2015: RMB302,345,000).

26. OTHER LONG TERM PAYABLE

On 23 December 2015, Xiwang Special Steel Co., Ltd., Xiwang Metal Science & Technology Co., Ltd. and Zouping Finance Bureau entered into an investment agreement with China Development Fund Co., Ltd. ("**CD Fund**") (國開發展基金有限公司). Pursuant to the investment agreement, CD Fund invested RMB161,000,000 in Xiwang Metal Science & Technology Co., Ltd. Based on the terms of the investment agreement, CD Fund has the right to request Zouping Finance Bureau to purchase the equity interest of Xiwang Special Steel Co., Ltd. ownd by CD Fund within 15 years. Xiwang Special Steel Co., Ltd. shall pay CD Fund quarterly dividends at an annual rate of return amounted to 1.2% of the capital investment. Based on the terms of the investment agreement, Xiwang Metal Science & Technology Co., Ltd. which is the shareholder of Xiwang Special Steel Co., Ltd. has contractual obligation to CD Fund in the event of uncertain future events such as liquidation, dissolution or termination of Xiwang Special Steel Co., Ltd. that are beyond the control of the Group. As Xiwang Metal Science & Technology Co., Ltd. does not have the unconditional right to avoid delivering cash, the capital investment of RMB161,000,000 made by CD Fund to Xiwang Special Steel Co., Ltd. was recorded as a financial liability.

27. SHARE CAPITAL

	2016 **RMB'000**	2015 RMB'000
Issued and fully paid:		
2,006,666,666 (2015: 2,006,666,666) ordinary shares	**962,949**	962,949

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	**Share capital** RMB'000	**Share premium account** RMB'000	**Total** RMB'000
At 1 January 2015	2,000,000,000	955,833	–	955,833
Share options exercised	6,666,666	7,116	–	7,116
At 31 December 2015	2,006,666,666	962,949	–	962,949
At 1 January 2016	2,006,666,666	962,949	–	962,949
At 31 December 2016	**2,006,666,666**	**962,949**	**–**	**962,949**

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 28 to the financial statements.

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 was 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.

The warrants lapsed on 18 June 2015, no warrants were exercised.

28. 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.

28. SHARE OPTION SCHEME (Continued)

As at 31 December 2016, the following share options were outstanding under the Scheme of the Company during the year:

	Number of share options					
Date of grant	As at 1 January 2016	Granted during the year	Exercised during the year	Lapsed during the year	As at 31 December 2016	Exercise price per share* HK$
16 September 2014	3,333,334		–	333,334	3,000,000	1.064
22 July 2016	–	1,500,000	–	–	1,500,000	0.676
25 August 2016	–	10,400,000	–	–	10,400,000	0.730
Total	3,333,334	11,900,000	–	333,334	14,900,000	–

No share options were exercised during the year of 2016. The weighted average share price at the date of exercise for share options exercised in 2015 was HK$0.338 per share.

The fair value of the share options granted in 2014 was HK$2,156,000, of which the Group recognised a share option expense of HK$243,000 (equivalent to RMB242,000) (31 December 2015: HK$902,000 (equivalent to RMB733,000)) during the year ended 31 December 2016.

The fair value of the share options granted on 22 July 2016 and 25 August 2016 was HK$313,000 and HK$2,456,000, of which the Group recognised a share option expense of HK$170,000 and HK$1,221,000 (equivalent to RMB152,000 and RMB1,092,000) respectively during the year ended 31 December 2016.

During the year, the following share options continued to be effective under the Scheme of the Company:

Date of Grant	Number of options*	Exercise price* HK$ per share	Exercise period
16 September 2014	3,000,000	1.064	19 September 2016 to 18 September 2017
22 July 2016	500,000	0.676	22 July 2016 to 21 July 2021
	500,000	0.676	22 July 2017 to 21 July 2021
	500,000	0.676	22 July 2018 to 21 July 2021
25 August 2016	3,466,666	0.730	25 August 2016 to 24 August 2021
	3,466,667	0.730	25 August 2017 to 24 August 2021
	3,466,667	0.730	25 August 2018 to 24 August 2021

28. SHARE OPTION SCHEME (Continued)

The fair value of equity-settled share options granted during the year 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:

Options granted on 22 July 2016:

Dividend yield (%)	1.72
Expected volatility (%)	47
Risk-free interest rate (%)	0.65
Expected life of options (years)	1.00 – 5.00

Options granted on 25 August 2016:

Dividend yield (%)	1.72
Expected volatility (%)	47
Risk-free interest rate (%)	0.59
Expected life of options (years)	1.00 – 5.00

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

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

The 6,666,666 share options exercised in 2015 resulted in the issue of 6,666,666 ordinary shares of the Company and new share capital of HK$8,494,000 (equivalent to RMB7,116,000).

At the end of the reporting period, the Company had 14,900,000 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 14,900,000 additional ordinary shares of the Company and additional share capital of HK$11,798,000 (equivalent to RMB10,553,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 14,900,000 share options outstanding under the Scheme, which represented approximately 0.74% of the Company's shares in issue as at that date.

29. RESERVES

(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 industries were required to accrue the safety production expenditures 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.

30. TRANSFERS OF FINANCIAL ASSETS

Transferred financial assets that are not derecognised in their entirety

Bills discounted

At 31 December 2016, certain bills receivable were discounted by two banks in Hong Kong and one bank in Mainland China (the "Discounted Bills") with a carrying amount of RMB100,159,000 and RMB200,000,000 (31 December 2015: RMB 211,284,000 and nil) respectively. In the opinion of the Directors, the Group has retained the substantial risks and rewards, which include default risks relating to the Discounted Bills, and accordingly, it continued to recognise the full carrying amounts of the Discounted Bills.

Financial assets that are derecognised in their entirety

Bills discounted

At 31 December 2016, certain bills receivable were discounted by two banks in Hong Kong with a carrying amount of RMB182,517,000 (31 December 2015: RMB120,568,000). In the opinion of the Directors, the Group has transferred substantially all risks and rewards relating to the Discounted Bills. Accordingly, it has derecognised the full carrying amounts of the Discounted Bills. The maximum exposure to loss from the Group's continuing involvement in the Discounted Bills and the undiscounted cash flows to repurchase these Discounted Bills are equal to their carrying amounts. In the opinion of the Directors, the fair values of the Group's continuing involvement in the Discounted Bills are not significant.

During the year ended 31 December 2016, no gains or losses was recognised on the date of transfer of the Discounted Bills (31 December 2015: Nil). No gains or losses were recognised from the continuing involvement, both during the year or cumulatively.

31. CONTINGENT LIABILITIES

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

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

As at 31 December 2016, contingent liabilities not provided for in the financial statements in respect of the Guarantee Amount were as follows:

	2016 **RMB'000**	2015 RMB'000
Guarantees given to banks in connection with facilities:		
Granted to the Xiwang Group	**180,000**	–
Granted to the Relevant Subsidiaries	**1,730,000**	–
	1,910,000	–

As at 31 December 2016, the banking facilities guaranteed by the Group to Xiwang Group and Relevant subsidiaries were utilized to the extent of approximately RMB180,000,000 and RMB1,300,000,000 respectively.

As at 31 December 2016, the Outstanding Amount was approximately RMB4,420,589,000.

32. PLEDGE OF ASSETS

Details of the pledge of the Group's assets in respect of bills payable and bank borrowings, are included in notes 15 and 20, respectively, to the financial statements.

33. OPERATING LEASE ARRANGEMENTS

The Group leases certain land from Xiwang Group and leases certain land and vehicles from 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	2016 RMB'000	2015 RMB'000
Within one year	1,058	7,550
In the second to fifth years, inclusive	3,928	16,754
After five years	10,482	11,464
	15,468	35,768

34. COMMITMENTS

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

	2016 RMB'000	2015 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	360,516	177,031

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 should pay RMB600,000 annually for the services to be provided by Luoyang Bearing Research Centre in 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:

	2016 RMB'000	2015 RMB'000
Contracted, but not provided for:		
Consulting services	1,500	2,100

35. 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:

	Notes	2016 RMB'000	2015 RMB'000
Rental expenses to Xiwang Group	35(a)(i)	**183**	338
Rental expenses to Xiwang Logistics	35(a)(i)		
– Lease of land		**799**	799
– Lease of vehicles		**1,602**	6,413
Delivery service fees to Xiwang Logistics	35(a)(i)		
– Delivery of steel		**8,216**	–
– Delivery of ore-powder		**74,566**	–
Interest expenses to Xiwang Group	35(a)(ii)	**204,748**	48,976
Interest expenses on borrowings from Xiwang Finance	35(a)(iii)	**60,800**	–
Interest on discounted bills paid to Xiwang Finance	35(a)(iii)	**16,447**	–
Interest income from Xiwang Finance	35(a)(iii)	**522**	–
Sale of steam to Xiwang Sugar Company Limited ("**Xiwang Sugar**") (西王糖業有限公司) (a fellow subsidiary)	35(a)(iv)	**33,884**	28,267

(i) The rental expenses to Xiwang Group and the rental expenses and delivery service fee to Xiwang Logistics were charged at rates based on mutual agreements between both parties.

(ii) The interest expenses to Xiwang Group for the year of 2016 amounted to RMB204,748,000 (2015: notional interest of RMB48,976,000).

(iii) Details of deposits with and the interest-bearing borrowings from Xiwang Finance are disclosed in notes 20 and 23 to the financial statement.

(iv) The selling price of steam sold to Xiwang Sugar was mutually agreed between both parties.

(b) Other related party transactions:

(i) Certain bills payable and interest-bearing borrowings of the Group were guaranteed by certain related parties of the Group and secured by certain leasehold lands of a related party, as further detailed in note 21 and note 23 to the financial statements.

(ii) The Group provided guarantee services to Xiwang Group and Relevant Subsidiaries during the year, details of which are included in note 31 to the financial statements..

(c) Commitments with related parties

The Group leases certain land from Xiwang Group and leases certain land and vehicles from Xiwang Logistics under operating lease arrangements. The amounts of total lease of land and lease of vehicles from Xiwang Logistics for the year are disclosed in note 35(a) to the financial statements. The related operating lease commitments are disclosed in note 33 to the financial statements.

35. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(d) Outstanding balances with related parties:

(i) The Group had short term interest-bearing borrowings from Xiwang Finance, a fellow subsidiary, as at 31 December 2016. Details of the interest-bearing borrowings from Xiwang Finance are disclosed in note 23 to the financial statements.

The Group had certain deposits place with Xiwang Finance, as at 31 December 2016. Details of the deposits in Xiwang Finance are disclosed in note 20.

(ii) The Group had current and non-current interest-bearing borrowings from its ultimate holding company at carrying amounts of RMB1,482,375,000 and RMB1,399,900,000 as at 31 December 2016 (31 December 2015: RMB2,186,480,000 and RMB1,158,916,000) respectively. The current balance of RMB1,482,375,000 is unsecured, bears interest at 6.6% per annum and has no fixed terms of repayment. The non-current balance of RMB1,399,900,000 is unsecured, interest bearing at 6.6% and will be mature in 2020. The current balance of 31 December 2015 was unsecured, interest-free and had no fixed terms of repayment. The non-current balance of 31 December 2015 was unsecured, interest-free and will mature in 2020.

(iii) Details of the Group's outstanding balances due from its fellow subsidiaries are included in note 18 and note 19 to the financial statements.

(iv) Details of the Group's outstanding balances due to its fellow subsidiaries are included in note 21 and note 22 to the financial statements.

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

	2016 **RMB'000**	2015 RMB'000
Employee benefit expenses	**4,554**	2,538
Equity-settled share option expense	**697**	360
Pension scheme contributions	**163**	68
Total compensation paid to key management personnel	**5,414**	2,966

Further details of directors' emoluments are included in note 9 to the financial statements.

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

36. 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:

2016
Financial assets

	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Total RMB'000
Trade and bills receivables	–	128,670	128,670
Financial assets included in prepayments, deposits and other receivables	–	25,325	25,325
Pledged deposits	–	334,588	334,588
Cash and cash equivalents	–	102,459	102,459
Derivative financial instruments	3,584	–	3,584
Total	3,584	591,042	594,626

2016
Financial liabilities

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	–	1,661,073	1,661,073
Financial liabilities included in receipts in advance, other payables and accruals	–	608,104	608,104
Borrowings from the ultimate holding company	–	2,882,275	2,882,275
Interest-bearing bank and other borrowings	–	2,380,157	2,380,157
Other long term payable	–	161,000	161,000
Derivative financial instruments	540	–	540
Total	540	7,692,609	7,693,149

36. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2015
Financial assets

	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Total RMB'000
Trade and bills receivables	–	61,089	61,089
Financial assets included in prepayments, deposits and other receivables	–	42,559	42,559
Pledged deposits	–	462,167	462,167
Cash and cash equivalents	–	271,764	271,764
Derivative financial instruments	2,159	–	2,159
Total	2,159	837,579	839,738

2015
Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	1,484,540
Financial liabilities included in receipts in advance, other payables and accruals	1,509,296
Borrowings from the ultimate holding company	3,345,396
Interest-bearing bank and other borrowings	1,014,386
Other long term payable	161,000
Total	7,514,618

37. 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 and bills receivables, financial assets included in prepayments, deposits and other receivables, trade and bills payables, financial liabilities included in receipts in advance, other payables and accruals, current portion of borrowings from the ultimate holding company and current portion of interest-bearing bank and other borrowings 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 the non-current portion of borrowings from the ultimate holding company, interest-bearing bank and other borrowings and other long term payable 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 borrowings from the ultimate holding company, interest-bearing bank and other borrowings and other long term payable as at 31 December 2016 was assessed to be insignificant.

As 31 December 2016, the unlisted available-for-sale equity investment of RMB100,000,000 (31 December 2015: RMB100,000,000) (note16) was stated at cost less impairment as the fair value cannot be measured reliably because the probabilities of the various estimates within the range of reasonable fair value estimates can not be reasonably assessed and used in estimating fair value.

The Group enters into derivative financial instruments with various counterparties. Derivative financial instruments mainly forward currency contracts are measured using valuation techniques similar to forward pricing, 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 amounts of forward currency contracts are the same as their fair values.

As at 31 December 2016, the marked to market value of the derivative asset position is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on financial instruments recognised at fair value.

As at 31 December 2016, the derivative financial instruments 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 (31 December 2015: Nil).

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank and other borrowings, other payables, borrowings from 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 and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables and financial liabilities included in receipts in advance, other payables and accruals which arise directly from its operations.

The Group also enters into derivative transaction of forward currency contract. The purpose is to manage the 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 rates and terms of repayment of the interest-bearing bank and other borrowings 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 99% (31 December 2015: 97%) of the Group's interest-bearing borrowings bore interest at fixed rates.

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

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** RMB'000	**Increase/ (decrease) in equity*** RMB'000
31 December 2016			
RMB	**100**	**(340)**	**–**
RMB	**(100)**	**340**	**–**
31 December 2015			
RMB	100	(318)	–
RMB	(100)	318	–

* Excluding retained profits

38. 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 borrowings denominated in Hong Kong dollars and United States dollars held by the Group.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the Hong Kong dollar and United States dollar exchange rates, 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
2016			
If the United States dollar weakens against the RMB	**(5%)**	**21,472**	**–**
If the United States dollar strengthens against the RMB	**5%**	**(21,472)**	**–**
If the Hong Kong dollar weakens against the RMB	**(5%)**	**–**	**–**
If the Hong Kong dollar strengthens against the RMB	**5%**	**–**	**–**
2015			
If the United States dollar weakens against the RMB	(5%)	15,160	–
If the United States dollar strengthens against the RMB	5%	(15,160)	–
If the Hong Kong dollar weakens against the RMB	(5%)	1,592	–
If the Hong Kong dollar strengthens against the RMB	5%	(1,592)	–

* Excluding retained profits.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

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

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

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, pledge deposits and financial assets included in prepayments, 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.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

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

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

	31 December 2016					
	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	–	273,779	2,106,378	–	–	2,380,157
Trade and bills payables	26,982	934,432	699,659	–	–	1,661,073
Borrowings from the ultimate holding company	1,482,375	–	–	1,399,900	–	2,882,275
Financial liabilities included in receipts in advance, other payables and accruals	34,853	525,465	47,786	–	–	608,104
Derivative financial instruments	–	540	–	–	–	540
Other long term payable	–	–	–	161,000	–	161,000
	1,544,210	1,734,216	2,853,823	1,560,900	–	7,693,149

	31 December 2015 (Restated)					
	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	–	110,000	483,550	420,836	–	1,014,386
Trade and bills payables	23,054	392,296	1,069,190	–	–	1,484,540
Borrowings from the ultimate holding company	2,186,480	–	–	1,158,916	–	3,345,396
Financial liabilities included in receipts in advance, other payables and accruals	26,613	1,389,363	93,320	–	–	1,509,296
Other long term payable	–	–	–	–	161,000	161,000
	2,236,147	1,891,659	1,646,060	1,579,752	161,000	7,514,618

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 31 December 2015.

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, borrowings from 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:

	Notes	**2016** **RMB'000**	2015 RMB'000 (Restated)
Interest-bearing bank and other borrowings	23	**2,380,157**	1,014,386
Borrowings from the ultimate holding company	35(d)(ii)	**2,882,275**	3,345,396
An amount due to an independent third party	22	**–**	837,138
Total debt		**5,262,432**	5,196,920
Total assets		**11,929,987**	11,639,922
Gearing ratio		**44.1%**	44.7%

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**960,348**	960,348
CURRENT ASSETS		
Derivative financial instruments	**3,584**	2,159
Prepayments and other receivables	**402,400**	390,753
Pledged deposits	**3,882**	–
Cash and cash equivalents	**2,466**	10,230
Total current assets	**412,332**	403,142
CURRENT LIABILITIES		
Other payables and accruals	**418,168**	384,331
Tax payable	**756**	154
Long term loan within one year	**33,991**	–
Total current liabilities	**452,915**	384,485
NET CURRENT (LIABILITIES)/ASSETS	**(40,583)**	18,657
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**–**	31,836
Total non-current liabilities	**–**	31,836
Net assets	**919,765**	947,169
EQUITY		
Share capital	**962,949**	962,949
Reserves (note)	**(43,184)**	(15,780)
Total equity	**919,765**	947,169

WANG Di
Director

WANG Yong
Director

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	Exchange reserve RMB'000	Share premium RMB'000	Warrant reserve RMB'000	Share option reserve RMB'000	Retained profits RMB'000	Total reserves RMB'000
Balance at 1 January 2015	5,749	–	1,189	777	30,093	37,808
Profit for the year	–	–	–	–	1,750	1,750
Final 2014 dividend declared	–	–	–	–	(30,000)	(30,000)
Share options exercised	–	–	–	(1,104)	–	(1,104)
Lapse of warrants	–	–	–	733	–	733
Equity-settled share option expense	–	–	(1,189)	–	1,189	–
Exchange differences on translation of foreign operations	(24,967)	–	–	–	–	(24,967)
At 31 December 2015	(19,218)	–	–	406	3,032	(15,780)
Loss for the year	–	–	–	–	(12,171)	(12,171)
Equity-settled share option expense	–	–	–	1,486	–	1,486
Exchange differences on translation of foreign operations	(16,719)	–	–	–	–	(16,719)
At 31 December 2016	(35,937)	–	–	1,892	(9,139)	(43,184)

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised.

40. COMPARATIVE AMOUNTS

Certain comparative amounts had been reclassified to conform with the current year's presentation.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2017.

Five-year Financial Summary

	2016	2015	2014	2013	2012
			(Restated)		
For the year (RMB million)					
Revenue	**7,567**	6,752	8,642	7,030	6,891
Gross profit	**1,068**	576	1,112	650	533
EBITDA[1]	**1,092**	760	1,152	822	633
Operating profit	**763**	283	740	635	492
Net profit	**333**	169	407	384	345
As at December 31 (RMB million)					
Current assets	**1,813**	1,702	2,254	2,494	2,844
Non-current assets	**10,117**	9,938	8,982	7,914	4,697
Total assets	**11,930**	11,640	11,236	10,408	7,541
Current liabilities	**6,343**	5,936	6,266	6,759	3,723
Non-current liabilities	**1,565**	1,759	1,159	516	1,034
Total liabilities	**7,908**	7,695	7,425	7,275	4,757
Total equity	**4,022**	3,945	3,811	3,134	2,784
Total liabilities and equity	**11,930**	11,640	11,236	10,409	7,541
Per share (RMB)					
Earnings per share					
Basic	**0.166**	0.085	0.203	0.192	0.178
Diluted	**0.166**	0.084	0.203	0.192	0.178
Dividends per share	**–**	–	0.015	0.015	0.015

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.

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