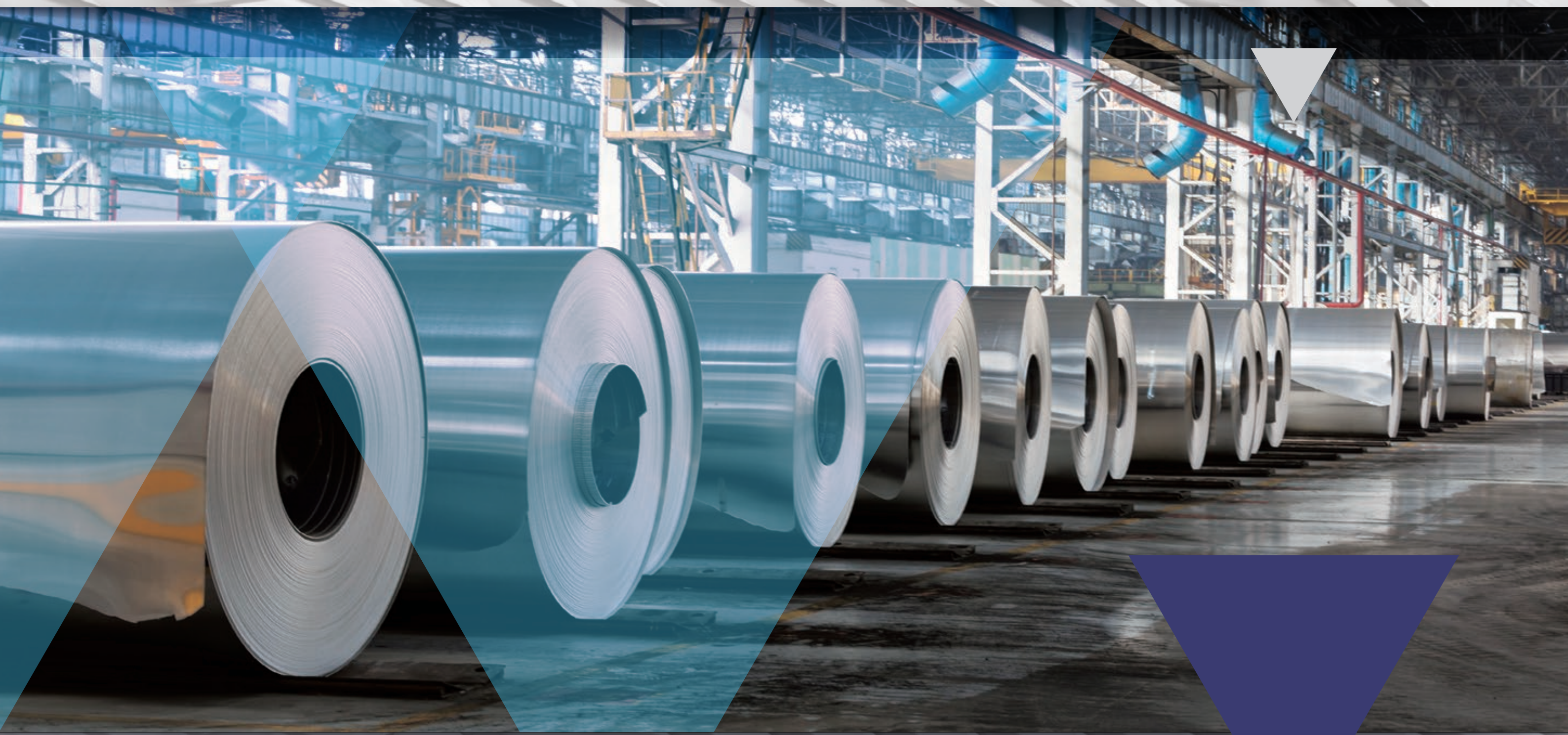
XIWANG SPECIAL STEEL COMPANY LIMITED
西王特鋼有限公司

(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



Annual Report
年報
2021

Information in this Annual Report

Unless otherwise stated or the context otherwise requires, this annual report was prepared based on the information available to the Company for the year ended 31 December 2021 or as at the date on which this annual report has been approved by the board of directors of the Company (the "**Board**") being 31 March 2022.

Subsequent to 31 March 2022 and before the latest practicable date prior to the printing of this annual report, the following changes to the company secretary and authorized representative of the Company have taken place on 1 April 2022:

(a) Mr. Yu Chi Kit resigned as the company secretary of the Company;

(b) Mr. Yu Chi Kit resigned as an authorized representative of the Company, upon which Mr. Zhang Jian, who is a current executive director of the Company, was appointed as an authorized representative of the Company to fill the vacancy.

For further details, please refer to the announcement of the Company published on 1 April 2022.

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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. The Group's production base is located in Xiwang Industrial Area, Zouping, Shandong Province of China. The Group operates an integrated production process from iron smelting and steel smelting to secondary metallurgy, die casting, continuous casting and steel rolling. The Group's products consist of ordinary steel that is primarily used in buildings and infrastructures, as well as special steel that is used in high-speed rail, automobile, vessels, wind power, bearing and petrochemical, machinery and equipment sectors.

The Group possesses two production models, which are (1) steel scraps as raw materials for steel production through electric arc furnaces; (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 model, as the Group could control its cost and product mix through the utilization of different raw materials.

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, bearing steel and ingots. Details are as follows:

1. ORDINARY STEEL

Rebar
Rebar is mainly used in building construction and infrastructure projects. The Group's rebar has cross sectional diameters ranging from 12 millimetres to 40 millimetres.

Wire rod
The Group produces ribbed and plain wire rods, both of which have cross sectional diameters ranging from 5.5 millimetres to 14 millimetres. The Group's wire rod is used in the construction and infrastructure sectors.

2. SPECIAL STEEL

Quality carbon structural steel
The Group's 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. The Group's alloy structural steel includes steel bars with cross sectional diameters ranging from 5.5 millimetres to 350 millimetres.

Bearing steel
The Group produces bearing steel bars and wires with cross sectional diameters ranging from 5.5 millimetres to 150 millimetres. They are used in manufacturing rollers or ball bearings for automobile industry. The Group's 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. The Group's 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 Di *(Chairman)*

Independent Non-executive Directors
Mr. LEUNG Shu Sun Sunny
Mr. YU Kou
Mr. LI Bangguang

COMMITTEES

Audit Committee
Mr. LEUNG Shu Sun Sunny *(Chairman)*
Mr. YU Kou
Mr. LI Bangguang

Remuneration Committee
Mr. LI Bangguang *(Chairman)*
Mr. WANG Di
Mr. YU Kou

Nomination Committee
Mr. LI Bangguang *(Chairman)*
Mr. WANG Di
Mr. YU Kou

COMPANY SECRETARY

Mr. YU Chi Kit[Note]

AUTHORIZED REPRESENTATIVES

Mr. WANG Di
Mr. YU Chi Kit[Note]
Mr. ZHANG Jian[Note]

REGISTERED OFFICE

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

HEADQUARTERS

Xiwang Industrial Area
Zouping
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

Note: Subsequent to 31 March 2022 and before the latest practicable date prior to the printing of this annual report, certain changes to the company secretary and authorized representative of the Company have taken place. Please refer to page 1 of this annual report.

PRINCIPAL BANKERS

Bank of China
Agricultural Bank of China
Bank of Communications
China Zheshang Bank
Bank of Rizhao

AUDITOR

HLB Hodgson Impey Cheng Limited
31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

HONG KONG LEGAL ADVISER

Eversheds Sutherland
37/F, One Taikoo Place
Tai Koo Place, 979 King's Road
Quarry Bay
Hong Kong

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Boardroom Share Registrars (HK) Limited
Room 2103B, 21/F, 148 Electric Road
North Point
Hong Kong

INVESTOR RELATIONS CONTACT

Ms. LI Tian Li
Tel: (852) 3107 3511
Email: tianli@xiwang.com.cn

WEBSITE

www.xiwangsteel.com

Financial Highlights

	Year ended 31 December	
	2021	2020
Sales volume of Steel (tonnes)	**2,964,119**	3,071,827
Revenue (RMB'000)		
Ordinary Steel – Rebar	**6,258,588**	5,144,095
Ordinary Steel – Wire Rod	**3,156,303**	2,095,615
Special Steel	**3,664,146**	2,662,448
Trading of commodities and sales of by-products	**6,037,084**	5,385,943
Total (RMB'000)	**19,116,121**	15,288,101
Gross profit (RMB'000)	**783,956**	468,807
Gross profit per tonne		
– Productions and sales of steel (RMB)	**239**	139
EBITDA[1] (RMB'000)	**946,358**	706,082
Profit attributable to owners (RMB'000)	**65,031**	18,368
Basic and diluted earnings per share (RMB)	**2.74 cents**	0.78 cents

The Board of Directors of the Company did not recommend the payment of a final dividend for the year ended 31 December 2021 (2020: Nil).

Note:

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

Chairman's Statement

The iron and steel industry has faced unprecedented opportunities and challenges since the beginning of the 14th Five-Year Plan. The development trend of the industry declined after a favorable start in the past year. Practitioners earnestly implemented the national policy requirements, actively responded to market changes, strengthened internal reform and management, and jointly responded to the risks and difficulties of the complex international environment, weakened downstream demand, strengthened environmental protection and low-carbon policies, high costs and declining benefits. Xiwang Special Steel Co., Ltd. (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") deeply understand the connotation of modern economic system under the new development situation, actively implement the new development concept, scientifically judge the external environment, combine with the reality of its own development, constantly improve the development strategy, speed up the implementation of the strategy, promote enterprise transformation, improve innovation ability, enhance the level of intelligence and digitalization, and vigorously save energy and reduce emissions to promote green and low-carbon development. The Group thoroughly implements refined management internally, expands the results of cost reduction and efficiency improvement. Through its own flexible production process, the Group adjusts the ratio of R&D, production and sales of ordinary steel, quality steel and special steel in a market-oriented manner, aiming at the highest profit.

The Group has deepened its strategic cooperation with the Chinese Academy of Sciences to research, develop and produce patented products with proprietary intellectual property rights. It includes the production of high-quality of fine building materials of new national standard that will be used in key projects in line with the national investment direction at low cost, as well as advanced rail transit steel, high-end bearing steel, oceanic engineering steel, steel for special fields and other new products with higher profit margins, in order to build a national high-end special steel new material support base, further enhance the technical barriers of the Group, and contribute to the development of national high-end equipment manufacturing.

The Group also makes full use of the technological innovation platform to carefully produce ingots, forged materials, rolled materials and building materials, forming a special steel boutique base and enhancing the competitiveness of enterprises. In terms of quality and cost-effectiveness, the Group reduced the cost of raw fuel consumed by controlling the quality of raw fuel from the source during the year, strictly managed the cost of ingredients to ensure controllable costs, optimized the production process and reduced the production cost by strengthening the technological control of the production process; made self-improvement through benchmarking with advanced steel enterprises and learned from others' strengths, solved problems in the production process, optimized production costs and improved economic efficiency.

The Ministry of Industry and Information Technology and other three ministries and commissions jointly issued the *Guiding Opinions on Promoting the High-quality Development of Iron and Steel Industry* (referred to as the *Opinions*) recently, which proposed that by 2025, the iron and steel industry will basically form a high-quality development pattern with reasonable layout structure, stable resource supply, advanced technology and equipment, outstanding quality brand, high intelligent level, strong global competitiveness, green, low-carbon and sustainable.

Looking forward to the future, the Group will pay special attention to the development of high-end special steel products, actively increase the proportion of special steel to reflect the competitiveness of the Group and enhance the long-term profitability of the Group, maintain a harmonious cooperative relationship with the Chinese Academy of Sciences to continuously enhance the Group's R&D and innovation capabilities in different steel products, strengthen the construction of talent echelon and advocate independent innovation, further saves energy and reduces emissions and develops circular economy, accelerate intelligent transformation and accelerate the transformation and upgrading of the enterprise, continuously expand sales channels and strengthens the value-added services provided by the Group to customers to improve its profitability, consolidate the Group's market position in Shandong Province, and continue to explore new markets at home and abroad to increase product exports. The Group will vigorously develop measures that are highly compatible with the requirements of the Opinions, and at the same time find gaps and fill shortcomings, so that the development of enterprises can keep pace with the times and reach a new level.

I would like to take this opportunity to thank shareholders, business partners, customers, the board of directors and employees for their contributions during the past year. Looking forward to the coming year, the Group will make every effort to improve its business and continue to strive for fruitful results.

WANG DI
Chairman

31 March 2022

I. BUSINESS REVIEW

The Group's principal source of revenue was steel production and sales during the year ended 31 December 2021 (the "**Year**"). The Group produces and sells ordinary steel products, including bars and wires, which are mainly used in construction and infrastructure projects. The Group's special steel products are used in machining and equipment manufacturing, alloy structural steel is used in machinery, bearing steel is used in automobile manufacturing, and ingots are used in transportation, offshore engineering and weapons and equipment production. Major customers of the Group have maintained long-term business relations with the Group. The Group's steel sales customers are willing to make advance payments for the Group's products. The Group has actively responded to the call of the state in recent years to promote the adjustment and upgrading of the iron and steel industry and carry out structural reform. It deepens the strategic cooperation with the Institute of Metallurgy, Chinese Academy of Sciences, steadily promotes the transformation and upgrading of enterprises, continuously improves innovation and R&D capabilities, effectively explores the special steel product market, improves environmental protection work, vigorously promotes ultra-low emission transformation, optimizes management and promotes cost reduction and efficiency increase.

2021 is a very extraordinary year for the steel industry. The national industrial policy has undergone major adjustments in that year, implementing the double control of "production capacity and output", canceling the steel export tax rebate, and launching the goal of "emission peak and carbon neutrality" for the first time. Furthermore, the ultra-low emission transformation, the "double control" assessment of energy consumption is strict, and it is difficult to guarantee production factors. Third, the market environment is complex, domestic and foreign markets fluctuate greatly, and commodity prices rise and fall sharply. The Group achieved stable production, cost reduction and efficiency improvement and balanced production and sales by strengthening internal management and upgrading benchmarking in the first half of 2021. Affected by the development of global novel coronavirus pneumonia and ultra-loose fiscal and monetary policies abroad, the prices of bulk commodities, especially iron ore, have been greatly pushed up by input factors, the upstream profits are difficult to transmit downward, and the production costs of steel enterprises are at a high level. Coal and coke prices have also increased significantly affected by environmental protection policies. Steel supply weakened in the fourth quarter. The price of raw fuel is rapidly adjusted back. The terminal price of steel dropped, the profitability of the Group was weakened in the second half of the year in addition to the weak demand for downstream real estate and the slowdown in investment in infrastructure and manufacturing, especially in the fourth quarter, and the cash flow was under pressure. Under this background, the management actively responded and overcome difficulties, striving for the smooth operation of the Group and safeguarding the interests of shareholders.

II. FINANCIAL REVIEW

1. Revenue

Revenue mainly represents production and sales of steel, trading of commodities and sales of by-products.

During the Year, revenue of the Group increased to RMB19,116,121,000 in 2021 from RMB15,288,101,000 in 2020. Revenue from production and sales of steel increased to RMB13,079,037,000 in 2021 from RMB9,902,158,000 in 2020. Revenue from trading of commodities increased to RMB5,372,183,000 in 2021 from RMB4,838,902,000 in 2020. Revenue from sales of by-products increased to RMB664,901,000 in 2021 from RMB547,041,000 in 2020.

Breakdown of revenue:

	2021		2020	
	Revenue RMB'000	**Average selling price (RMB/tonne)**	Revenue RMB'000	Average selling price (RMB/tonne)
Ordinary Steel				
Rebar	**6,258,588**	**4,291**	5,144,095	3,144
Wire rod	**3,156,303**	**4,578**	2,095,615	3,238
Subtotal/Average	**9,414,891**	**4,383**	7,239,710	3,171
Special Steel	**3,664,146**	**4,490**	2,662,448	3,377
Production and sales of steel	**13,079,037**	**4,412**	9,902,158	3,224
Trading of commodities#	**5,372,183**		4,838,902	
Sales of by-products##	**664,901**		547,041	
Total	**19,116,121**		15,288,101	

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

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

Breakdown of sales volume of steel:

	Sales volume			
	2021		2020	
	Tonnes	**Percentage**	Tonnes	Percentage
Ordinary steel				
Rebar	**1,458,657**	**49.2%**	1,636,134	53.3%
Wire rod	**689,395**	**23.3%**	647,266	21.1%
Subtotal	**2,148,052**	**72.5%**	2,283,399	74.3%
Special steel	**816,067**	**27.5%**	788,428	25.7%
Total	**2,964,119**	**100%**	3,071,827	100%

2. **Cost of sales**

Cost of sales mainly represents our cost incurred for iron ore powder, coke, scrap steel, coal, depreciation, electricity, staff costs, etc.

During the Year, the Group's cost of sales increased to RMB18,332,165,000 in 2021 from RMB14,819,294,000 in 2020. The increase was mainly attributable to the increase in raw materials prices.

3. **Gross profit**

During the Year, gross profit increased to RMB783,956,000 in 2021 from RMB468,807,000 in 2020. Gross profit margin of the Group increased to 4.1% in 2021 from 3.1% in 2020. Breakdown of the contribution of gross profit and gross profit margin by products and business:

	2021		2020	
	RMB'000	**Gross profit margin**	RMB'000	Gross profit/(loss) margin
Ordinary steel	**636,584**	**6.8%**	407,896	5.6%
Special steel#	**72,221**	**2.0%**	19,883	0.7%
Production and sales of steel	**708,805**	**5.4%**	427,779	4.3%
Trading of commodities	**47,296**	**0.9%**	8,276	0.2%
Sales of by-products	**27,855**	**4.2%**	32,752	6.0%
Total/Overall	**783,956**	**4.1%**	468,807	3.1%

4. **Other income and gains/(losses), net**

Other income and gains/(losses), net, amounted to RMB58,650,000 (2020: RMB65,373,000).

5. **Selling and distribution expenses**

Selling and distribution expenses increased to RMB13,123,000 in 2021 from RMB8,254,000 in 2020. The increase was in line with the increase in revenue of the Group in 2021.

6. **Administrative expenses**

Administrative expenses mainly include general office expenses, salaries of administrative staff, professional and legal fees and bank service charges. Administrative expenses increased to RMB90,314,000 in 2021 from RMB75,400,000 in 2020. The increase was in line with the increase in revenue of the Group.

Financial position

Liquidity and financial resources

As at 31 December 2021, the Group had RMB332,182,000 (2020: RMB 386,812,000) in cash and cash equivalents, and RMB419,272,000 (2020: RMB492,219,000) in pledged bank deposits. The Group had trade and bills payables of RMB2,254,123,000 (2020: RMB2,135,866,000), bank and other borrowings due within one year in the amount of RMB3,540,868,000 (2020: RMB 3,041,364,000), and bank and other borrowings due after one year in the amount of approximately RMB33,791,000 (2020: RMB1,187,927,000). As at 31 December 2021, the bank and other borrowings were denominated in Renminbi, Hong Kong dollar and United States dollar. All of the bank and other borrowings (excluding borrowing from Xiwang Group Finance Company Limited* (西王集團財務有限公司) ("**Xiwang Finance Company**")) were secured by non-current assets, restricted bank deposits and/or guarantee by Mr. WANG Yong (a controlling shareholder of the Company and the father of Mr. WANG Di, the Chairman and non-executive Director of the Company)("**Mr. WANG Yong**"), and/or Mr. WANG Yong and Ms. ZHANG Shufang (spouse of Mr. WANG Yong), Mr. WANG Di, and/or Mr. WANG Di and Ms. SU Xin (spouse of Mr. WANG Di), and/or Xiwang Group Company Limited ("**Xiwang Group**"). The Group mainly used its operating cash inflow to fund its working capital needs, while the capital requirement for acquiring additional production equipment was mainly satisfied by cash inflows from operating and financing activities.

Capital structure

As at 31 December 2021, the Group's total assets was RMB16,168,870,000 (2020: RMB15,369,929,000), which was funded by the followings: (1) share capital of RMB1,369,681,000 (2020: RMB1,369,681,000), (2) reserves of RMB4,415,057,000 (2020: RMB4,361,205,000) and (3) total liabilities of RMB10,384,132,000 (2020: RMB9,639,043,000).

Gearing ratio

As at 31 December 2021, the Group's gearing ratio was 22.9% (2020: 28.4%).

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 controlling shareholder (2020: ultimate holding company), lease liabilities and other long term payable.

Funding and treasury policies and objectives

The Group adopts a prudent funding and treasury policy. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Currencies in which borrowings are made of and in which cash equivalents are held

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.

Extent to which borrowings are at fixed interest rates

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 Group has not used any interest swaps to hedge its exposure to interest rate risk. At the end of the Year, all of the Group's interest-bearing borrowings bore interest at fixed rates.

Use of financial instruments for hedging purposes
The Group currently does not use any financial instruments for hedging purposes.

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

As at 31 December 2021, the Company was interested in an unlisted equity investment represented a 5% equity interest in Xiwang Finance Company, a company established in the PRC with limited liability, with a carrying amount of RMB66,096,000 (2020: RMB75,498,000). The amount is irrevocably designated at fair value through other comprehensive income as the Group considers this investment to be strategic in nature. The business of Xiwang Finance Company mainly involves the provision of financial services to the member companies of Xiwang Group, including but not limited to the members of the Group, with professional financial services and to minimize financial risks and enhance the general competitiveness of Xiwang Group. The Group does not intend to dispose of the investment in the near future. Save as disclosed in this annual report, the Group did not have any other significant investment, acquisition or disposal of subsidiaries during the Year.

On 16 August 2021, Xiwang Special Steel Company Limited* (西王特鋼有限公司), a company incorporated in the PRC with limited liability and an indirectly non-wholly owned subsidiary of the Company, ("the **PRC Subsidiary**") entered into the Capital Contribution Agreement with the Institute of Metal Research, the Chinese Academy of Sciences (中國科學院金屬研究所) ("**IMR**") and the 10 PRC Individuals ("**Technical Personnel**") in relation to the capital injection into the Zhongke Xiwang Special Steel Company Limited* (中科西王特鋼有限公司) (the "**JV Company**"), pursuant to which (i) the PRC Subsidiary agreed to provide a capital commitment by injecting certain machinery, equipment and facilities (including construction-in-progress) with a fair value of approximately RMB656 million (based on a preliminary value appraised by an independent valuer as at 31 May 2021) to the JV Company; and (ii) IMR and the Technical Personnel together agreed to provide a capital commitment by injecting certain intellectual properties with a fair value of RMB353 million (based on a preliminary value appraised by an independent valuer as at 31 May 2021) to the JV Company. Please refer to the Company's announcement dated 16 August 2021 and circular dated 25 August 2021 for the details.

Saved as disclosed above and in note 1 and note 38 to the consolidated financial statements, there were no other acquisition and disposal of subsidiary by the Group during the Year.

Pledge of assets

As at 31 December 2021, RMB5,011,519,000 (2020: RMB5,353,374,000) of building, machinery and equipment, RMB86,605,000 (2020: RMB88,805,000) of leasehold land and pledged deposits of RMB406,558,000 (2020: RMB488,949,000) were pledged as security for interest-bearing bank and other borrowings of the Group and fellow subsidiaries and bills payable, and pledged deposits of Nil were pledged for counter guarantee.

* For identification purpose only

Pledge of shares by controlling shareholders

On 22 November 2019, the Company entered into a subscription agreement with, among others, the guarantors (being Mr. WANG Yong, Mr. WANG Di, Xiwang Group, Xiwang Hong Kong Company Limited ("**Xiwang Hong Kong**") ,Xiwang Holdings Limited ("**Xiwang Holdings**") and Xiwang Investment Company Limited ("**Xiwang Investment**")) and the bond subscribers, pursuant to which the bond subscribers conditionally agreed to subscribe for, and the Company conditionally agreed to issue the bonds in an aggregate principal amount of US$30.0 million (the "**Bonds**"). As part of the security for the obligations of the Company under the subscription agreement of the Bonds, (i) Xiwang Group agreed to pledge its 100% shareholding interest in Xiwang Hong Kong; (ii) Xiwang Hong Kong agreed to pledge its 95% shareholding interest in Xiwang Holdings; and (iii) Xiwang Holdings agrees to pledge its 100% shareholding interest in Xiwang Investment, all in favour of the subscribers of the Bonds. Pursuant to the subscription agreement of the Bonds, each of the guarantors also agreed to provide personal or corporate guarantees in favour of the subscribers of the Bonds in respect of the obligations of the Company under the subscription agreement and the bond instrument. For further details of this transaction, please refer to the announcement of the Company dated 24 November 2019.

Specific performance obligations of the controlling shareholders

Pursuant to the terms of the bond instrument of the Bonds, a relevant event occurs if, among others, (i) Mr. WANG Yong ceases to own, directly or indirectly, 50% or more of the voting rights of the issued share capital of the Company; or (ii) Mr. WANG Yong breaches his undertaking to remain as the single largest direct or indirect holder of the total issued shares of the Company. Occurrence of any of these events will constitute an event of default under the bond instrument whereby the Bonds shall immediately become due and payable by the Company at the mandatory redemption amount, which is calculated with reference to the outstanding principal amount multiplied by a multiplier and the interest rate, together with, among others, default interest (if applicable). For further details of this transaction, please refer to the announcement of the Company dated 24 November 2019.

Capital commitments and contingent liabilities

As at 31 December 2021, the capital commitment of the Group for property, plant and equipment was RMB577,209,000 (2020：RMB782,522,000).

On 19 January 2021, the Company (and its subsidiaries) and Xiwang Group (and its certain subsidiaries) entered into a guarantee agreement (the "**Guarantee Agreement**"). Pursuant to the Guarantee Agreement, the Group agreed to provide Xiwang Group and its certain subsidiaries with guarantee services for the period from 1 January 2021 to 31 December 2023, with a proposed annual cap of RMB5.0 billion for each year during the term. For details of the Guarantee Agreement and relevant approvals, please refer to the announcements at the Company dated 19 January 2021 and 19 March 2021 respectively and the circular of the Company dated 26 February 2021.

As at 31 December 2021, the banking facilities guaranteed by the Group to Xiwang Group and the Relevant Subsidiaries were utilized to the extent of approximately RMB1,400,000,000 (2020: RMB1,400,000,000) and RMB2,790,000,000 (2020: RMB2,754,960,000), respectively.

Equity fund raising activities

The Group did not have any material equity fund raising activities during the Year.

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 2021, the Group was mainly exposed to risks related to its net liabilities denominated in US dollar amounted to RMB214,947,000 (2020: RMB34,582,000).

Employees and remuneration

As at 31 December 2021, the Group had a total of 3,459 (2020: 3,712) employees. Staff-related costs incurred during the Year were RMB290,649,000 (2020: RMB283,136,000). 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 based on their performance.

III. BUSINESS OUTLOOK

In 2021, in terms of macroeconomics, China's GDP reached RMB114.4 trillion, representing an increase of 8.1% over last year, with the novel coronavirus pneumonia epidemic, the complicated international situation and the arduous internal reform and development tasks. However, the Central Economic Work Conference in 2021 also pointed out that China's current economic development is facing triple pressures of "demand contraction, supply shock and expected weakening", indicating that in 2022, economic work should take the lead in stabilizing the macroeconomy, and all parties should actively introduce policies conducive to economic stability, and the policy efforts should be properly advanced. The meeting put forward a more active fiscal policy, implementing a new deployment of a more active "ensuring fiscal expenditure intensity", and new arrangements of "accelerating expenditure progress" and "developing infrastructure investment moderately ahead of schedule". It is expected that key areas and weak links such as new infrastructure, old renovation and infrastructure construction in major areas will be the main starting point for follow-up investment. Shandong Province, where the Group's main business is located, announced a total investment of RMB3.1 trillion for 2000 major projects in 2022. As for road work projects, the constructions of 13 major railways are expected to be commenced, with an investment of RMB300 billion planned during the year.

In terms of industry, the Ministry of Industry and Information Technology and other three sectors recently issued the *Guiding Opinions on Promoting the High-quality Development of Iron and Steel Industry* (referred to as the *Opinions*), positioning the iron and steel industry to a new height of "important support for building a modern power". It is proposed that by 2025, the iron and steel industry will basically form a high-quality development pattern with a reasonable layout structure, stable resource supply, advanced technology and equipment, outstanding quality brand, high intelligent level, strong global competitiveness, green, low-carbon and sustainable. The *Opinions* clearly stated that it is necessary to continuously optimize the industrial structure and vigorously cultivate specialized and advantageous enterprises in various fields such as special steel and stainless steel. The *Opinions* require that by 2025, the whole industry should strive to build a resource recycling system with inter-industry coupling development, complete ultra-low emission transformation of more than 80% of steel production capacity, reduce comprehensive energy consumption per ton of steel by more than 2%, and reduce water resources consumption intensity by more than 10%, so as to ensure that carbon peaks before 2030. The *Opinions* put forward to vigorously develop intelligent manufacturing in the steel industry, enhance the innovation capability of the industry, and promote the intelligent upgrading of the whole industry.

Looking forward to 2022, macroeconomic policy regulation and the *Opinions* have created a good external environment and opportunities for the future development of the Group, and at the same time put forward higher requirements facing the downward pressure of economy and the dual-carbon target and dual-control of energy consumption constraining the supply of steel industry. From 2022, the Company will seize the opportunities brought by policies in favor of downstream demands, solidifying our relationships with customers, expanding new channels for sales, seizing opportunities to improve our results of operations. We will deepen our strategic co-operation with IMR, with both parties facing the urgent demand for high-quality special steel in fields such as national key projects and major equipment. Through the enhancement of co-operation, the Company and IMR will build a national secured base for new high-end special steel materials. The Company will improve its development strategy, intensified innovation, accelerated transformation and upgrading, implement the development of energy conservation and emission reduction in low-carbon life, improve its intelligence level, vigorously promote cost reduction and efficiency improvement, seized market opportunities, and promote the stable and healthy development of enterprises.

The Group has always been emphasizing on technology development. We have deepened our co-operation with Institute of Metal Research of Chinese Academy of Sciences, through jointly establishing of the joint venture. Facing the urgent demand for high-quality special steel in national key projects, major equipment and other fields, the Group developed various typical categories of special steel, namely the high-end rare-earth bearing steel, rare-earth die steel, rare-earth gear steel, rare-earth spring steel, rare-earth shaft steel, rare-earth heat-resistant steel, rare-earth high-strength steel and rare-earth welding steel, for the purpose of realising the industrialisation of high-quality special steel and providing robust support to the independent and controlled manufacture of basic components such as bearings, gears, moulds and spindles, and as a result establishing a unique and ingenious brand of Chinese rare-earth metal special steel and offering leadership for the transformation and upgrading of steel industry.

IMPACT OF COVID-19 OUTBREAK ON THE GROUP'S PERFORMANCE

Effect of the COVID-19 pandemic on its operations

Ever since being declared a pandemic in March 2020, the COVID-19 outbreak, after going through ups and downs, had shown multiple rounds of widespread and rebound all over the world in 2021. With the emergence of Delta variant, which is of higher transmissibility, more pathogenic and is more capable in escaping immunity, as well as the Omicron variant, the one with more mutations and is more contagious, the pandemic had breached the lines of defense of numerous countries and has spread rapidly, causing a surge in number of confirmed cases and death toll. In the midst of the pandemic, the uncertainty in worldwide economic recovery arises, and with the influences of factors such as adjustment of global monetary policies and ensuring securities in supply and prices, causing the wrestling between the long and short in the black product market, amplifying the magnitude of fluctuation of the industry. With additional factors such as environmental protection, the prices of iron ore, coke and alloy maintain at high levels, where the demands starts to decline. Despite the drop in price of iron ore during the fourth quarter, the extent of decrease has failed to compensate the extents in increase of prices of coke and alloy, thus resulting in impacts on profits.

Starting from March 2022, the pandemic has dispersed to various places in China. The number of newly-infected local cases remains at a relatively high level, and the outbreak has reached a wider scope of places and cities. Under its development stage, the pandemic has not only affected consumption and service industry, but also imposed its influence on the manufacturing and construction industries through logistics and real-estate sales. It is estimated that the current wave of pandemic would cause the decrease of 0.3 to 0.8 percentage points in GDP growth rate for a quarter. China has been insisting on the "dynamic clearing" policy to fight the pandemic, resulting in hindrance in logistics for certain regions and impact on productivity, bringing challenges to the procurement of raw materials and the distribution of finished goods, and at the same time, to a certain level, resulting in impact on commodity and postponement in expected timing of realization in demand. All of the above would affect the operation of the Company, and require better capabilities in seizing market opportunities and discovering targets from us.

Risks or uncertainties that will materially affect our future performance

The outbreak of the COVID-19 epidemic adversely affected our business, results of operations and financial performance. If the outbreak of the COVID19 epidemic continues, it may further affect the sales of the Group's products, the Group's financial performance and the Group's expansion plan. The outbreak may also affect the operations of the Group's customers and suppliers. In response to the severity of the COVID-19 epidemic, a number of countries issued travel advisories recommending that persons travelling to certain affected areas, including certain areas of the PRC, for instance, all but essential travel were postponed, and entry of persons having been to the affected areas were denied by certain countries. The COVID-19 epidemic may cause damage to the trading industries as well as the overall economy. Any economic downturn as a result of the COVID-19 epidemic may have an adverse effect on the Group's business, results of operations and financial performance.

Assessments of the liquidity positions and working capital sufficiency

The Company's financial performance deteriorated in terms of (i) financing; and (ii) operation. Firstly, due to the adverse effects of the epidemic, the Group was facing difficulties in soliciting new source of funds, including additional banking facilities with PRC financial institutions to further support the Group's funding needs. Also, the credit market in the PRC remained challenging as a result of tightened credit measures by the PRC government. Secondly, apart from the higher iron ore prices which had led to reduction of supply, the coke market had been in a state of tight supply as a result of the implementation of the elimination of excess production capacity, which had led to an increase in coke price and greatly pushed up our production costs. As a result of the above, the cash paid for purchasing costs of raw materials for production increased significantly.

Measures such as cost control, funding and adjustments to business plans taken or to be taken to manage the impact of the COVID-19 pandemic

The Group is in the process of implementing the following actions to manage the impact of the COVID-19 pandemic: – (i) Cost control measures: The management of the Group had benchmarked the latest price level in the steel product market, together with rigorous cost control measures over its production, to formulate a forecast which is expected to generate enhanced positive operating cash flows. The procurement system proactively predicts the market, optimizes the procurement model, carries out technological transformation and innovation in the technical system, and promotes cost reduction and efficiency enhancement through technical means, with remarkable results; (ii) Soliciting different sources of funds: The Group had made progress in obtaining financing and had signed credit agreements with a few banks and financial institutions, which have maintained a good and stable relationship with the Group in recent years, and have adopted a cyclical continuation model after the relevant facilities expired; (iii) Close monitoring of the downstream demand: With the effective control of the COVID-19 outbreak, and the gradual resumption of work and production in the PRC, the downstream demand for the Group's products is expected to increase. The Group will continue to closely monitor the downstream demand for the Group's products in order to optimize the sales price and production volume; (iv) Speeding up of cash collection: The Group will continue to speed up cash collection, increase sales volume to the Group's core customers, improve the volume and frequency of procurement and sales to further improve liquidity. Upon the gradual recovery of economic situation in the PRC, management of the Company had benchmarked to latest price level in the steel product market, together with rigorous cost control measures over its production, to formulate a forecast which is expected to generate enhanced positive operating cash flows. On the other hand, the Group is currently soliciting different source of funds, including, but not limited to, additional banking facilities with the PRC financial institutions and strategic institutional investors, to further support the Group's funding needs. With the effective control of the COVID-19 epidemic, and the gradual resumption of work and production and recovery of economic activities in the PRC, the downstream demands for the Group's products are expected to increase. The management will continue to speed up cash collection, increase the sales volume to the Group's core customers, improve the volume and frequency of procurement and sales, and to further improve operations. The sales system reform and incentive policy adjustment implemented by the Group had further optimized the structure of the sales team, stimulated the sales team's incentive and promoted the linkage of production and sales; (v) Exploring new financing channels: As a result of the Board's continuing efforts to explore new sources of financing, the Group had recently obtained a new and secured credit line from a bank which will offer deposits, loans, settlement, bill discounting, trade financing and international businesses services to the Group. The Company intends to utilize the new credit line for the purchase of goods and services to support the Group's operating activities in view of the difficult business environment and manage the impact of the COVID 19 epidemic; (vi) Securing existing financing sources: The Group had been successful in renewing all credit lines from the PRC banks and financial institutions. Many of these financial institutions have maintained a good and stable relationship with the Group in recent years and have adopted a cyclical continuation model after the relevant facilities expired, which also reflects their commitment to support the Group's production, operations and development; (vii) Cost control and efficiency enhancement measures: The Group implemented new management method throughout the Group and carried out technological innovation, energy conservation and consumption reduction, with a view to reducing costs and boosting efficiency on one hand, and strengthening product quality and market competitiveness in the high-end special steel field on the other hand.

Against the backdrop of nation-wide adjustment and upgrade initiatives and the structural reform of the iron and steel industry, the Group continued to adhere to the national policy and engaged in steady transformation and upgrading according to corporate needs. Nonetheless, the external environmental uncertainties caused by the COVID-19 pandemic had an enormous impact on the Group's strategic layout and production operation.

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 review of the revised 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 three executive Directors, one non-executive Director 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 Director
Mr. WANG Di *(Chairman)*

Independent Non-executive Directors
Mr. LEUNG Shu Sun Sunny
Mr. YU Kou
Mr. LI Bangguang

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 Board Diversity Policy and review the same as appropriate.

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.

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 accordance with the article 74.1 of the Articles, Mr. ZHANG Jian and Mr. LI Bangguang will retire at the forthcoming 2022 annual general meeting of the Company and, being eligible, offer themselves for re-election.

(iii) Continuous appointment of independent non-executive Directors who have served for more than nine years

Pursuant to the code provision set out in paragraph B.2.3 of Appendix 14 of the Listing Rules, any further appointment of independent non-executive Director serving more than nine years should be subject to a separate resolution to be approved by shareholders.

As at the date of this annual report, each of Mr. LEUNG Shu Sun Sunny and Mr. YU Kou has served as an independent non-executive Director for more than nine years.

Notwithstanding that each of Mr. LEUNG Shu Sun Sunny and Mr. YU Kou has served as independent non-executive Director for more than nine years, (i) the Board has assessed and reviewed the annual confirmations of independence based on the criteria set out in Rule 3.13 of the Listing Rules and affirmed that each of Mr. LEUNG Shu Sun Sunny and Mr. YU Kou remains independent; (ii) the Nomination Committee has assessed and is satisfied of the independence of each of Mr. LEUNG Shu Sun Sunny and Mr. YU Kou; and (iii) the Board considers that each of Mr. LEUNG Shu Sun Sunny and Mr. YU Kou remains independent of management and free of any relationship which could materially interfere with the exercise of their independent judgment. In view of the aforesaid factors and the fact that the skills, expertise, background, qualifications, experience and knowledge of the relevant individuals, the Board is of the opinion that such independent non-executive Directors will continue to bring benefits to the Group and would recommend Mr. LEUNG Shu Sun Sunny and Mr. YU Kou for re-election at the AGM.

A separate resolution to be approved by shareholders will be proposed to appoint Mr. YU Kou and Mr. LEUNG Shu Sun Sunny as independent non-executive Directors of the Company.

Biographical details of Mr. LEUNG Shu Sun Sunny and Mr. YU Kou are set out in the section headed “Directors and Senior Management” in this annual report.

(iv) 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 and reports of the Company. The senior management are responsible for 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.

(v) **Financial reporting**

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2021, 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 2021 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 2021. The statements of the external auditor of the Company with regard to their reporting responsibilities on the financial statements of the Company are set out in the Independent Auditor's Report on pages 62 to 63 of this annual report.

(vi) **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 former non-executive Director of the Company (resigned on 5 July 2019). Save 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 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.

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

Induction materials of comprehensive guidance on directors' duties and liabilities are provided to Directors once they join 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 latest corporate governance rules and Board of Directors and Directors' guide. All Directors have confirmed they have studied the materials provided by the Company.

C. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

As at the date of this report, Mr. WANG Di is the chairman of the Company who is principally responsible for formulation of plans and policies of the Group and Mr. ZHANG Jian is the chief executive officer of the Company. The chairman, Mr. WANG Di, 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, Mr. ZHANG Jian, is responsible for the supervision for the execution of the plans and policies determined by the Board.

D. BOARD COMMITTEES

The Group has established the following board committees in compliance with the CG Code. Independent non-executive Directors constitute majority of members of these committees appointed by the Board. The terms of reference of these committees based on the CG Code are posted on the websites of the Company and the Stock Exchange. 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 are 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 auditor from time to time may not act as a member of the Audit Committee for a period of at least two years 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. As of 31 December 2021, 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 auditor. 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 auditor of the Company and to provide recommendations to the Board for the appointment and renewal of external auditor. The terms of reference of the Audit Committee are available on the Company's website and the website of the Stock Exchange. Three meetings were held by the Audit Committee during the Year, including 2 meetings with external auditor for audit planning. 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 2020 and the unaudited accounts and interim results announcement for the six months ended 30 June 2021. It has also reviewed and recommended the Board for the re-appointment of external auditor. The Audit Committee has reviewed the Company's audited annual results for the year ended 31 December 2021 at the meeting held on 31 March 2022.

(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 are 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. As of 31 December 2021, 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. Two meetings were held by the Remuneration Committee during the Year, to review and recommend to the Board the remuneration packages of the Directors.

(iii) Nomination Committee

In accordance with the written terms of reference of the Nomination Committee, majority of members of the Nomination Committee are 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. As of 31 December 2021, 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, and in respect of the nomination of any proposed independent non-executive Directors, by reference to their eligibility, the perspective, skills and experience that the proposed independent non-executive Director can bring to the Board, and his/her contribution to diversity of the Board and ability to devote sufficient time to the Board and Board committees.

The Nomination Committee is also responsible for developing and maintaining a policy for the nomination of Board members which includes the nomination procedures and the process and criteria adopted by the Nomination Committee or the Company to identify, select and recommend candidates for directorship during the Year, and reviewing periodically and disclosing the policy or a summary of the policy in the Company's corporate governance report and the progress made towards achieving the objectives as set out in the policy. The Nomination Committee is also responsible for ensuring that the selection process is transparent and fair, and that it considers a broad range of candidates who are outside the Board's circle of contacts and in accordance with the Company's diversity policy. Nomination Committee is also responsible for for developing and maintaining a policy concerning diversity of Board members, reviewing periodically and disclose the policy on diversity or a summary of the policy in the Company's corporate governance report and monitoring the implementation of the Board Diversity Policy and review the same as appropriate. The Board has also adopted a Board Diversity Policy. Below is a summary of the policy:

"The Board recognizes that board diversity is an essential element contributing to the sustainable development of the Company and enhances Board effectiveness and corporate governance. In determining the optimum composition of the Board, all Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, with due regard for the benefits of diversity on the Board. The Board aims to maintain a board which has an appropriate mix of diversity, skills, experience and expertise, as well as a balanced composition of executive and non-executive directors (including independent non-executive directors) so that there is also independent element on the Board." The Board's policy or a summary of the policy on board diversity, including any measurable objectives that it has set for implementing the policy, and progress on achieving those objectives, as required under Para J(a), Appendix 14 of the Listing Rules, are as follows:

The Group has followed the Board Diversity Policy, which highlights the benefits of diversity with respect to the Board's effectiveness and decision-making process, its succession planning and development, and attainment of the Group's strategic objectives. It also sets out the Board's commitment to gender diversity and other diversity aspects, with the ultimate goal of achieving gender parity on the Board. The Group currently has one female Director, and the Board will take opportunities to increase the proportion of female members over time as and when suitable candidates are identified.

Two meetings were 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)*	12/12	N/A	N/A	N/A	3/3
Mr. SUN Xinhu	12/12	N/A	N/A	N/A	3/3
Ms. LI Hai Xia	12/12	N/A	N/A	N/A	3/3
Non-executive Directors:					
Mr. WANG Di *(Chairman)*	12/12	N/A	2/2	2/2	3/3
Independent Non-executive Directors:					
Mr. LEUNG Shu Sun Sunny	12/12	3/3	N/A	N/A	3/3
Mr. YU Kou	12/12	3/3	2/2	2/2	3/3
Mr. LI Bangguang	12/12	3/3	2/2	2/2	3/3

Besides the above Board meetings, the Chairman of the Board, Mr. Wang Di held one Directors' meeting with the independent non-executive Directors without the presence of other Directors during the Year.

E. REMUNERATION OF SENIOR MANAGEMENT

The number of non-director senior management (whose biographical details are set out in the section headed "Directors and Senior Management" in this annual report) whose remuneration fell within the following bands is as follows:

	Number of senior management
Nil to RMB1,000,000	3

F. AUDITOR'S REMUNERATION

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

	For the year ended 31 December 2021 (RMB'000)
Service rendered	
Annual audit services	1,500
Non-audit services	130

The Audit Committee reflected their views to the Board that the remuneration paid/payable to the Company's external auditor was reasonable and fair in all circumstances and there had been no major disagreement between the external auditor and the management of the Company during the Year.

In respect of each significant non-audit service assignment, details of the nature of the services and the fees paid, as required under Para I, Appendix 14 of the Listing Rules, included the preparation of the comfort letters in connection with the working capital sufficiency and statement of indebtedness for preparing the circular of the Company.

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 has 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.

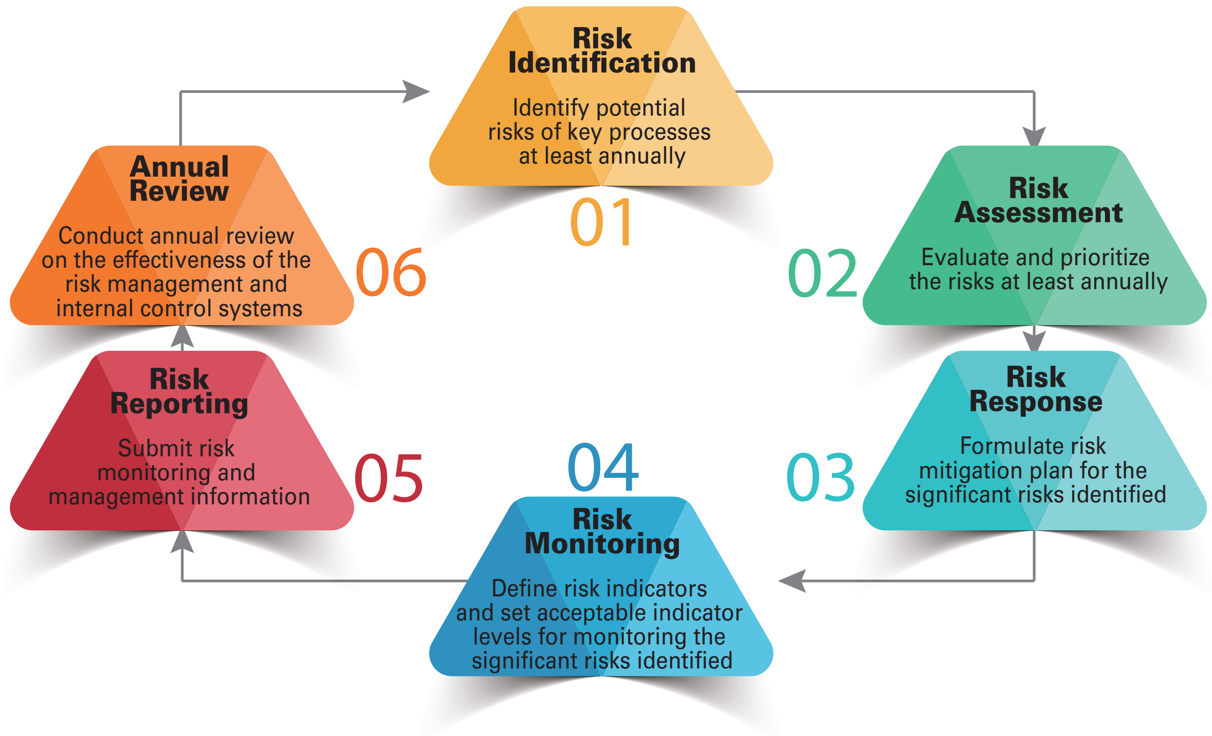
Risk Management Framework

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 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, prioritizing, 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 its 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 sale and marketing process and material storage. 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 meets 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 2021. 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 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 recognize their obligations to maintain confidentiality. In communicating with external parties, only designated officers are authorized 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 of the Company, is a full-time employee of the Group and has day-to-day knowledge of the Company's affairs. 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 has appointed Mr. YU Chi Kit ("**Mr. YU**") as the Company Secretary on 1 November 2019[Note]. Mr. YU 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.

Note: On 1 April 2022, Mr. YU Chi Kit has tendered his resignation as the company secretary with effect from 1 April 2022 due to his personal career development. The Company is in the process of identifying a suitable candidate to fill the vacancy of company secretary, and will publish further announcement as and when appropriate.

K DIVIDEND POLICY

The Company adopted the Dividend Policy on 23 November 2017. It aims to manage its capital efficiently and generate long-term sustainable value for shareholders, while balancing operational, regulatory, rating agency and policyholder requirements. It also aims to grow its dividends in line with its business growth and to share the benefits of its success with its shareholders.

The Company intends to share its profits with shareholders in the form of annual dividend in an amount that is expected to be of 30% of the Group's annual consolidated net profit attributable to the owners of the Company, subject to the criteria set out below:

The declaration and payment of dividends shall remain to be determined at the sole discretion of the Board and subject to any restrictions under the Laws of Hong Kong and the Articles.

In proposing any dividend payout, the Board shall take into account of the following factors, inter alia:

- the general financial condition of the Group;
- the Group's current and future operations;
- liquidity position and capital requirement of the Group;
- dividends received from the Company's subsidiaries; and
- any other factors that the Board deems appropriate.

Any final dividends declared by the Company must be approved by an ordinary resolution of the shareholders at an annual general meeting and must not exceed the amount recommended by the Board. No assurance that a dividend will be proposed or declared in any given period.

L. 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 chairman 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. Save as disclosed in this corporate governance report, the Board considers that the Company was in compliance with all applicable code provisions set out in the CG Code throughout the Year.

During the Year, pursuant to article 50.2 of the Articles and section 566 of the Companies Ordinance (Cap. 622 of the Laws of Hong Kong), shareholders holding not less than 5% of the total voting rights of all the members having a right to vote 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 one half of the total voting rights of all of them, may themselves convene an extraordinary general meeting, but any extraordinary general meeting so convened shall not be held after the expiration of 3 months from the date of deposit of the written request.

The investor relations and corporate communication department of the Company maintains regular communication and dialogue with shareholders, investors and analysts. It can be accessed during normal business hour by phone (Telephone: 86 543 813 8066/852 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.

The procedures for proposing a candidate for election as a Director are available on the website of the Company.

M. 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.

N. MATERIAL UNCERTAINTY RELATED TO GOING CONCERN ("GOING CONCERN UNCERTAINTY")

Details of the Going Concern Uncertainty

As at 31 December 2021, the Group had net current liabilities of approximately RMB6,114,958,000 (2020: RMB5,038,200,000). Accordingly, HLB Hodgson Impey Cheng Limited ("**HLB**"), the Company's external auditor, considered that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. HLB's opinion is not modified in respect of this matter.

Measures to address the Going Concern Uncertainty and the removal of the disclosure of the Going Concern Uncertainty

The Directors have taken a series of measures in order to improve the Group's short-term liquidity and cash flows in order for the Group to sustain as a going concern. For details of such measures, please refer to the paragraphs headed "Basis of preparation – Going concern" under note 2.1 of the notes to the consolidated financial statements for the year ended 31 December 2021.

The Directors are of the view that the proposed actions mentioned above, if successful, could improve the Group's liquidity and therefore could help to address the Going Concern Uncertainty. However, as the Directors' assessment of the Group's ability to continue as a going concern for the purposes of preparing the Group's consolidated financial statements for the year ended 31 December 2021 has to take into consideration of the then conditions and circumstances and could only be made at the end of the relevant reporting period, neither the Directors nor HLB is able to ascertain at this moment whether the Going Concern Uncertainty disclosure can be removed in the next financial year purely based on the Company's measures above.

Preparation of the Group's financial statements on a going concern basis

The Directors have critically evaluated the practical realisation of those measures that being not yet happened, together with the management of the Company. Taking into account their evaluation and other measures abovementioned, the Directors are of the opinion that the Group will have sufficient funds from the Group's existing cash resources, available facilities from banks and other parties and cash flows to be generated from its operations to finance its future operations and enable it to meet its financial obligations when they fall due in the next twelve months from 31 December 2021. As such, the Directors are of the opinion that it is appropriate to prepare the consolidated financial statements of the Company on a going concern basis.

Impact of the Going Concern Uncertainty on the Company's financial position

Should the use of going concern basis in the preparation of the consolidated financial statements be inappropriate, adjustments may have to be made to write down the values of the assets to their recoverable amounts, to provide for any further liabilities that may 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.

Audit Committee's view on the Going Concern Uncertainty

The Audit Committee has reviewed the measures stated above. The Audit Committee and the Board have confidence in the Group's measures as referred above are feasible and achievable.

The Audit Committee also concurs with the Directors' view as to the preparation of the consolidated financial statements of the Company on a going concern basis.

The Audit Committee is also of the view that the Board should continue its efforts in implementing the measures set out above with the intention of mitigating the Group's liquidity pressure and removing the Going Concern Uncertainty disclosure.

On behalf of the Board

WANG Di
Chairman

Hong Kong, 31 March 2022

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. ZHANG Jian (張健)

Mr. ZHANG, aged 40, was appointed as an executive Director and the Chief Executive Officer of the Company on 14 October 2015. He was appointed as an authorised representative of the Company with effect from 1 April 2022. 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 Industry 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 Shandong 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 Limited* (西王金屬科技有限公司) ("**Xiwang Metal Science**") (previously named Shandong 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 48, 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 ("**Xiwang Property**") (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 in 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 40, 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 Di (王棣)

Mr. WANG, aged 39, 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 a 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 59, 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 (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 (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 74, 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 general manager of the Shougang Company and the vice general manager of the sales company 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 49, 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 Health Products Company (鄒平保健品有限公司) from June 1994 to October 2000 and as staff attorney at Zouping Cheng Zhong Legal Services Office (鄒平城中法律服務所) 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 44, 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, and obtained a master's degree in materials engineering from Qilu University of Technology in June 2017.

Mr. LI Dian Zhong (李殿中)

Mr. LI, aged 53, was appointed as the technical director of the Group commencing from 16 April 2015. He 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 mainly engages 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. WANG Jianxiang (王建翔)

Mr. WANG, aged 38, graduated from The University of Newcastle, Australia with a master's degree in international trade. Mr. Wang was appointed as the investor relations director of the Group in 2017. Mr. Wang was a business manager of Xiwang International Trade Co., Ltd from September 2009 to October 2010, and served in the investment department of Xiwang Group Company Limited since October 2010. From October 2013 to June 2017, he served as the securities affairs representative of Xiwang Foodstuffs Company Limited.

Directors' Report

The Board is pleased to present its annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES

The Group is a leading high-end special steel manufacturer located in Shandong Province of China. The Group's products consist of ordinary steel products that are primarily used in 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 engages in commodities trading business, mainly iron ore trading.

DIVIDEND

The Board does not recommend any payment of final dividend for the year ended 31 December 2021 (2020: Nil).

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 18 of this annual report. An analysis of the Group's performance using financial key performance indicators is provided in the Management Discussion and Analysis on pages 10 to 11 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 supply of raw materials has a material impact on the price of iron and steel, and the 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 external financing. Increase of loan interest rate will cause burden of increased financial cost to be borne by the Group. Some businesses of the Group involve foreign currency, so adverse fluctuation of currency rate will cause exchange loss to be borne by us. The Group has proactively communicated with some financial institutions which have fixed the exchange rates for some businesses.

C. Risk of New Product

The Group is proactively carrying out industrial upgrade and transformation, and gradually increasing the ratio of special steel products with relatively high profit. Therefore the Group may face increased capital input and production cost while the Group is unable to secure 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. The Group discharges 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 environmentally-friendly enterprise by investing large amount of funds to install environmental protection facilities and proactively designing recycle and reuse of wastes. The Group has completed the design and implementation of related plans together with Zouping Xiwang Power Co., Ltd (鄒平市西王動力有限公司) in 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 energy. Meanwhile, the Group also urges and encourages employees on duty to save energy 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 PRC while the Company itself was incorporated in Hong Kong and is listed on the Stock Exchange. The Group's establishment and operations accordingly shall comply with relevant laws and regulations in the PRC and Hong Kong and the Listing Rules. During the year ended 31 December 2021 and up to the date of this report, to the knowledge of the Company, save as disclosed in this annual report, the Group has complied with all the relevant laws and regulations in the PRC 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 resources 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 relies on the constant patronage of its major customers for regular income. Many customers are distributors who sell its 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, the Group is also proactively soliciting 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. The Group also pays 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, the Group still needs 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 relationships and solve problems in order to provide effective safeguard for the planned production schedule. The Group holds annual meeting(s) every year, and distributes questionnaires to share its 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 13 to the financial statements of this annual report.

BORROWINGS

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

SHARE CAPITAL

Details of movements in the Company's share capital for the year ended 31 December 2021 are set out in note 26 to the 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 152 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**"). The Share Option Scheme became effective on 3 September 2014, no share options were exercised during the year ended 31 December 2021.

(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 date 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 HKD5 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 taken 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 HKD1.00 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 2021, options to subscribe for 3,966,667 ordinary shares of the Company were outstanding, details of which are set out in note 27 to the financial statements and below:

Grantee	Date of grant	At 1 January 2021	Number of Share Options Granted	Exercised	Lapsed	At 31 December 2021	Exercise price per Share (HKD)	Exercise period
Directors								
WANG Di	25 August 2016 (Note 2)	1,666,667	–	–	(1,666,667)	–	0.73	25/8/2018-24/8/2021
SUN Xinhu	25 August 2016 (Note 2)	500,000	–	–	(500,000)	–	0.73	25/8/2017-24/8/2021
Employees (Note 1)	25 August 2016 (Note 2)	100,000	–	–	(100,000)	–	0.73	25/8/2016-24/8/2021
	25 August 2016 (Note 2)	1,500,000	–	–	(1,500,000)	–	0.73	25/8/2018-24/8/2021
	12 April 2017 (Note 2)	200,000	–	–	–	200,000	1.38	12/4/2019-11/4/2022
		3,966,667	–	–	(3,766,667)	200,000		

Notes:

1. Employees include employees 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) 24 August 2016: HKD0.71 and (ii) 11 April 2017: HKD1.39.

EQUITY-LINKED AGREEMENT

Save as disclosed in this annual report regarding the Share Option Scheme, the Company has not entered into any equity-link agreement during the year ended 31 December 2021 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 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 and/or its subsidiaries during the Year.

SHARES AND DEBENTURE ISSUED DURING THE YEAR

No shares or debenture was issued during the Year.

DISTRIBUTABLE RESERVE OF THE COMPANY

Details of movements in the reserves of the Company during the Year are set out in note 39 to the financial statements. As at 31 December 2021, the reserves of the Company available for distribution (i.e. retained profits), calculated in accordance with the provision of sections 291, 297 and 299 of the Hong Kong Companies Ordinance, (Cap. 622) amounted to approximately RMB116,677,000 (2020: RMB 96,918,000).

MAJOR CUSTOMERS AND SUPPLIERS

The Group's five largest suppliers accounted for approximately 74% (2020: 75%) of the Group's total cost of purchase for the Year. The largest supplier accounted for approximately 48% (2020: 43%) of the Group's total cost of purchase. The Group's five largest customers accounted for approximately 84% (2020: 85%) of the Group's total revenue for the Year. The largest customer accounted for approximately 65% (2020: 60%) 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.

DONATIONS

During the Year, the Group did not make charitable and other donations (2020: Nil).

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 Director
Mr. WANG Di *(Chairman)*

Independent Non-executive Directors
Mr. LEUNG Shu Sun Sunny
Mr. YU Kou
Mr. LI Bangguang

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 34 to 37 of this annual report.

DIRECTORS OF SUBSIDIARIES

The directors of the Company's 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, Ms. GUO Zhenjing
XIWANG SPECIAL STEEL COMPANY LTD.	Mr. WANG Yong, Mr. WANG Di, Mr. WANG Dong, Mr. WANG Liang, Mr. SUN Xinhu, Mr. ZHANG Jian, Mr. ZHANG Qing Sheng
SHANDONG XIWANG RECYCLING RESOURCES COMPANY LTD	Mr. WANG Hong Xiang
XIWANG INTERNATIONAL TRADE (QINGDAO) CO, LTD	Mr. WANG Wei, Ms. WANG Dan, Mr. WANG Jiu Di
WIN GOAL TRADING LIMITED	Mr. WANG Di
XIWANG SPECIAL STEEL ECONOMIC AND TRADE CO., LTD.	Mr. WANG Di
ZHONGKE XIWANG SPECIAL STEEL COMPANY LIMITED	Mr. WANG Di, Mr. LI Dianzhong, Mr. SUN Xinhu, Mr. WANG Liang, Mr. ZHANG Jian

CONTRACT OF SIGNIFICANCE

Saved as disclosed in the paragraph headed "Connected Transactions" below and in note 34 to the financial statements, there was no contract of significance between the Company or one of its subsidiaries on the one hand, and a controlling shareholder or any of its subsidiaries on the other, subsisting during or at the end of the year ended 31 December 2021. Saved as disclosed in the paragraph headed "Connected Transactions" below and in note 34 to the financial statements, there was also no other contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries during or at the end of the Year.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Saved as disclosed in the paragraph headed "Connected Transactions" below and in note 34 to the 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 the Group's business which competes or is likely to compete, either directly or indirectly, with the 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 2021, 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 2021
WANG Di	Company	Beneficial owner	9,333,333 shares (L)	0.39%
	Xiwang Holdings	Beneficial owner	177 shares (L)	0.09%
	Xiwang Group	Beneficial owner	RMB35,460,000 (L)	1.44%
	Xiwang Property	Beneficial owner	3,000,000 share options (L)	0.21%
SUN Xinhu	Xiwang Holdings	Beneficial owner	89 shares (L)	0.04%
	Xiwang Group	Beneficial owner	RMB35,460,000 (L)	1.44%
	Xiwang Property	Beneficial owner	3,000,000 share options (L)	0.21%

Notes:

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

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 2021, so far as it is known to the Directors, 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 2021** (Note 9)
Xiwang Investment	Beneficial owner	868,093,000 ordinary shares (L)	36.64%
Xiwang Holdings	Interest of a controlled corporation (Note 2)	868,093,000 ordinary shares (L)	36.64%
Xiwang Hong Kong	Interest of controlled corporations (Note 2)	868,093,000 ordinary shares (L)	36.64%
Xiwang Group	Interest of controlled corporations (Note 2)	868,093,000 ordinary shares (L)	36.64%
Mr. WANG Yong	Interest of controlled corporations (Note 2)	868,093,000 ordinary shares (L)	36.64%
Ms. ZHANG Shufang	Interest of spouse (Note 3)	868,093,000 ordinary shares (L)	36.64%
Haitong International Finance Company Limited ("**Haitong International Finance**")	Other (Note 4)	849,875,000 ordinary shares (L)	35.87%
Haitong International Securities Group Limited ("**Haitong International Securities**")	Interest of a controlled corporation (Note 5)	849,875,000 ordinary shares (L)	35.87%
Haitong International Holdings Limited ("**Haitong International Holdings**")	Interest of a controlled corporation (Note 5)	849,875,000 ordinary shares (L)	35.87%
Haitong Securities Co., Ltd. ("**Haitong Securities**")	Interest of a controlled corporation (Note 5)	849,875,000 ordinary shares (L) 221,000 ordinary shares (S)	35.87%

Notes:

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

(2) As at 31 December 2021, Xiwang Investment was directly wholly-owned by Xiwang Holdings, which in turn was directly held as to 95% by Xiwang Hong Kong and as to 5% by Mr. WANG Yong and 22 individuals respectively. Xiwang Hong Kong is in turn wholly-owned by Xiwang Group. As at 31 December 2021, Xiwang Group was owned as to 25.24% by Mr. WANG Yong, 32.33% by 20 individuals (including Mr. WANG Di and Mr. Sun Xinhu, each a Director) and the remaining 42.43% by other shareholders. Further, the 20 individuals are accustomed to act in accordance with the directions of Mr. WANG Yong in respect of the exercise of their voting rights held as shareholders of Xiwang Group. Therefore, Mr. WANG Yong, Xiwang Group, Xiwang Hong Kong and Xiwang Holdings are deemed to be interested in the number of shares of the Company held by Xiwang Investment.

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

(4) Based on the Disclosure of Interests notice filed by Haitong International Investment Solutions Limited ("**Haitong International Investment Solutions**") on 30 April 2021, the substantial shareholder of the Company entered into a security agreement and pledged the shares of the Company to Haitong International Investment Solutions. Upon occurrence of event of default, Haitong International Investment Solutions exercised the right to dispose of pledged shares partially (i.e. forced liquidation) on 27 April 2021. To the best knowledge of the Directors, such shares of the Company held by Haitong International Investment Solutions have been assigned to Haitong International Finance.

(5) Based on the Disclosure of Interests notices filed by Haitong Securities, Haitong International Holdings, Haitong International Securities and Haitong International Finance on 13 September 2021, Haitong International Finance is a wholly-owned subsidiary of Haitong International Securities, which in turn is 64.4% owned by Haitong International Holdings, which in turn is wholly-owned by Haitong Securities. Therefore, Haitong Securities, Haitong International Holdings and Haitong International Securities are deemed to be interested in the number of shares in the Company held by Haitong International Finance.

(6) These percentages are calculated based on 2,369,110,999 listed shares in issue as at 31 December 2021.

(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 2021, to the knowledge of the Directors, 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

Details of the related party transactions of the Company undertaken in the normal course of business are disclosed under note 31 and note 34 to the consolidated financial statements. Save for the continuing connected transactions as disclosed below, none of these related party transactions constitute discloseable connected/ continuing connected transactions as defined under Chapter 14A of the Listing Rules.

Continuing Connected Transactions

Save as (i) the supply of steam under the Zouping Steam Supply Agreement (as defined below) dated 31 December 2019 entered into between Xiwang Metal Science and Zouping Power Branch* (鄒平動力分公司) of Xiwang Group (as defined below) ("**Zouping Power Branch**"); (ii) supply of steel under the Steel Delivery Service Agreement (as defined below) dated 18 October 2018 and the New Steel Delivery Service Agreement (as defined below) dated 4 November 2021 and the supply of ore powder under the Ore Powder Delivery Service Agreement (as defined below) dated 18 October 2018 and the New Ore Powder Delivery Service Agreement (as defined below) dated 4 November 2021 entered into between Shandong Xiwang Logistics Company Limited* (山東西王物流有限公司) ("**Xiwang Logistics**") and the Company; (iii) the provision of financial services under the Financial Services Agreement (as defined below) dated 18 October 2018 and the New Financial Services Agreement (as defined below) dated 4 November 2021 entered into between the Company and Xiwang Finance Company; (iv) the provision of guarantee services under the Guarantee Agreement (as defined below) dated 19 January 2021 entered into between the Group (and its subsidiaries) and Xiwang Group and its certain subsidiaries; (v) the provision of finance leasing services under the Sale and Leaseback Agreement (as defined below) dated 20 October 2016 entered into between Xiwang Metal Science and Xiwang Finance Leasing Company Limited* (西王融資租賃有限公司) ("**Xiwang Leasing**"); (vi) the provision of heat energy and cooling energy services to Zouping Xiwang Power Company Limited* (鄒平縣西王動力有限公司) ("**Xiwang Power**") under the Heat Energy Supply Agreement (as defined below) dated 4 October 2017 and Cooling Energy Supply Agreement (as defined below) dated 4 October 2017; and (vii) the provision of agency services in relation to the purchase of electricity under the Electricity Purchase Agency Agreement (as defined below) dated 21 August 2020 entered into between Zouping Power Branch and Xiwang Metal Science (for and on behalf of the Group). All of the continuing connected transactions were conducted in compliance with the requirements on continuing connected transactions under Chapter 14A of the Listing Rules.

(1) Sale of Steam to Xiwang Sugar

On 14 December 2016, Xiwang Metal Science and Xiwang Sugar entered into the steam supply agreement (the "**2016 Steam Supply Agreement**"), which was effective from 1 January 2017 to 31 December 2019. It was agreed in the 2016 Steam Supply Agreement that if the coal price in the Zouping Country market reached RMB0.15 per kcal (tax-inclusive), the corresponding price for steam would 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.

The 2016 Steam Supply Agreement expired on 31 December 2019. Due to the cancellation of the steam supply agreement dated 16 December 2019 entered into between Xiwang Metal Science and Xiwang Sugar by reason of the centralized management of Xiwang Group (the "**New Steam Supply Agreement**") and in order to continue the supply of steam to Xiwang Group after the expiry of the 2016 Steam Supply Agreement, Xiwang Metal Science and Zouping Power Branch entered into the steam supply agreement (the "**Zouping Steam Supply Agreement**") on 31 December 2019 for the supply of steam for a period of three years commencing on 1 January 2020 and ending on 31 December 2022. The major terms of the Zouping Steam Supply Agreement are substantially the same as those contained in the New Steam Supply Agreement.

Xiwang Group is the controlling shareholder of the Company and Zouping Power Branch is a branch company of Xiwang Group. Therefore, both Xiwang Group and Zouping Power Branch are connected persons of the Company and the transactions contemplated under the Zouping Steam Supply Agreement constitute continuing connected transactions of the Company under the Listing Rules.

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 Zouping 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.

Pursuant to the Zouping Steam Supply Agreement, it was expected that the maximum aggregate annual transaction amounts under the Zouping Steam Supply Agreement for each of the three years ending 31 December 2020, 2021 and 2022 would be RMB30.0 million per annum. For the year ended 31 December 2021, the actual aggregate annual transaction amount incurred was approximately RMB24.11 million. During the Year, the transaction amount did not exceed the relevant annual cap.

For details of the aforesaid 2016 Steam Supply Agreement, New Steam Supply Agreement and Zouping Steam Supply Agreement, please refer to the announcements of the Company dated 14 December 2016, 16 December 2019 and 31 December 2019, respectively.

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

On 18 October 2018, 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 and 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, both were effective from 1 January 2019 and ending on 31 December 2021 (both dates inclusive). On 4 November 2021, Xiwang Metal Science and Xiwang Logistics entered into the steel delivery service agreement (the "**New Steel Delivery Service Agreement**") in relation to the provision of steel delivery services to Xiwang Metal Science and the ore powder delivery service agreement (the "**New Ore Powder Delivery Service Agreement**") in relation to the provision of ore powder delivery services to Xiwang Metal Science, both were effective from 1 January 2022 and ending on 31 December 2024 (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. Xiwang Holdings is held as to 95% by Xiwang Hong Kong and Xiwang Hong Kong is in turn wholly-owned by Xiwang Group. Xiwang Logistics is a non-wholly owned subsidiary of Xiwang Group. Therefore, Xiwang Logistics is a connected person of the Company.

Steel Delivery Service Agreement

On 18 October 2018, the Company entered into the Steel Delivery Service Agreement with Xiwang Logistics, pursuant to which Xiwang Logistics agreed to provide delivery service to the Company for the delivery of the Group's steel to Shandong Province and other provinces in the PRC, for a term of three years commencing on 1 January 2019 and ending on 31 December 2021. The consideration of delivery service shall be determined according to the weight of steel for each delivery with reference to prevailing market prices. Settlement shall be made by the Company after the receipt of the value-added tax invoice from Xiwang Logistics.

The annual caps in respect of the maximum aggregate annual transaction amounts under the Steel Delivery Service Agreement for each of the three years ending 31 December 2021 were RMB124 million, RMB143 million and RMB165 million, respectively. For the year ended 31 December 2021, the actual aggregate annual transaction amount incurred was approximately RMB3.13 million. During the Year, the transaction amount did not exceed the relevant annual cap.

Ore Powder Delivery Service Agreement

On 18 October 2018, the Company entered into the Ore Powder Delivery Service Agreement with Xiwang Logistics, pursuant to which Xiwang Logistics agreed to provide delivery service to the Company for the delivery of the Group's ore powder from Shandong Province and other provinces in the PRC to the Company, for a term of three years commencing on 1 January 2019 and ending on 31 December 2021. The consideration of delivery service shall be determined according to the weight of ore powder for each delivery with reference to prevailing market prices. Settlement shall be made by the Company after the receipt of the value-added tax invoice from Xiwang Logistics.

The annual caps in respect of the maximum aggregate annual transaction amounts under the Ore Powder Delivery Service Agreement for each of the three years ending 31 December 2021 were RMB236 million, RMB273 million and RMB315 million, respectively. For the year ended 31 December 2021 the actual aggregate annual transaction amount incurred was approximately RMB5.57 million. During the Year, the transaction amount did not exceed the relevant annual cap.

For details of the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement and relevant approvals, please refer to the announcements of the Company respectively dated 18 October 2018 and 31 December 2018 and the circular of the Company dated 7 December 2018.

New Steel Delivery Service Agreement

On 4 November 2021, the Company entered into the New Steel Delivery Service Agreement with Xiwang Logistics, pursuant to which Xiwang Logistics agreed to provide delivery service to Xiwang Metal for the delivery of the Group's steel to Shandong Province and other provinces in the PRC, for a term of three years commencing on 1 January 2022 and ending on 31 December 2024.

The annual caps in respect of the maximum aggregate annual transaction amounts under the New Steel Delivery Service Agreement for each of the three years ending 31 December 2024 are RMB118 million, RMB160 million and RMB196 million, respectively.

New Ore Powder Delivery Service Agreement

On 4 November 2021, the Company entered into the New Ore Powder Delivery Service Agreement with Xiwang Logistics, pursuant to which Xiwang Logistics agreed to provide delivery service to Xiwang Metal for the delivery of the Group's ore powder from Shandong Province and other provinces in the PRC to the Company, for a term of three years commencing on 1 January 2022 and ending on 31 December 2024.

The annual caps in respect of the maximum aggregate annual transaction amounts under the New Ore Powder Delivery Service Agreement for each of the three years ending 31 December 2024 are RMB299 million, RMB365 million and RMB402 million, respectively

For details of the New Steel Delivery Service Agreement and the New Ore Powder Delivery Service Agreement and relevant approvals, please refer to the announcements of the Company respectively dated 4 November 2021 and 31 December 2021 and the circular of the Company dated 30 November 2021.

(3) Provision of Financial Services from Xiwang Finance Company

On 18 October 2018, 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, bill acceptance services and other financial services, which was effective from 1 January 2019 to 31 December 2021. Xiwang Group executed a guarantee (the "**Guarantee**") in favour of the Company to secure the performance of obligations of Xiwang Finance under the Financial Services Agreement.

Xiwang Group is the controlling shareholder of the Company. Xiwang Finance Company is a subsidiary of Xiwang Group and is owned as to 5% 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 qualified 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, the fee for bill acceptance services, and the 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 would, inter alia, be able 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 could also accelerate the turnover of funds and reduce transaction costs and expenses, thereby enhancing the amount and efficiency of fund utilisation.

On 4 November 2021, the Company entered into the Financial Services Agreement with Xiwang Finance Company (the "**New Financial Services Agreement**"), pursuant to which Xiwang Finance Company agreed to provide the Company and the qualified subsidiaries with deposit services, loan services, bill discounting services, bill acceptance services and other financial services for a term of three years commencing on 1 January 2022 and ending on 31 December 2024; and Xiwang Group Company executed a guarantee (the "**New Guarantee**") in favour of the Company to secure the performance of obligations of Xiwang Finance Company under the New Financial Services Agreement.

Financial Services Agreement

On 18 October 2018, the Company entered into the Financial Services Agreement with Xiwang Finance Company, pursuant to which Xiwang Finance Company agreed to provide the Company and the qualified subsidiaries with deposit services, loan services, bill discounting services, bill acceptance services and other financial services. On 18 October 2018, Xiwang Group Company also executed the Guarantee in favour of the Company to secure the performance of obligations of Xiwang Finance Company under the Financial Services Agreement. The Guarantee became effective from the date on which the Financial Services Agreement became effective. No fees were charged by Xiwang Group Company for the provision of the Guarantee.

The proposed annual caps in respect of the maximum daily deposit balance (including any interest accrued therefrom) with Xiwang Finance Company were RMB2,100 million, RMB2,300 million and RMB2,500 million for each of the three years ending 31 December 2021, respectively. The proposed annual caps in respect of the amount of bill discounting provided by Xiwang Finance Company were RMB5,500 million, RMB6,000 million and RMB6,600 million for each of the three years ending 31 December 2021, respectively. The proposed annual caps in respect of the amount of bill acceptance provided by Xiwang Finance Company were RMB5,500 million, RMB6,000 million and RMB6,600 million for each of the three years ending 31 December 2021, respectively. The loan services provided by Xiwang Finance Company under the Financial Services Agreement would be on normal commercial terms 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. 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-minimis threshold as stipulated under Chapter 14A of the Listing Rules.

For the year ended 31 December 2021, the maximum daily deposit balance (including any interest accrued therefrom) was approximately RMB371 million, the actual aggregate annual transaction amount of bill discounting was Nil, the actual aggregate annual transaction amount of bill acceptance was approximately RMB578.80 million and the maximum loan amounts (including any accrued interest) was approximately RMB38.88 million. During the Year, the transaction amounts did not exceed the relevant annual caps.

For details of the Financial Services Agreement and relevant approval, please refer to the announcements of the Company dated 18 October 2018 and 31 December 2018 and the circular of the Company dated 7 December 2018.

New Financial Services Agreement

On 4 November 2021, the Company entered into the New Financial Services Agreement with Xiwang Finance Company, pursuant to which Xiwang Finance Company agreed to provide the Company and the qualified subsidiaries with deposit services, loan services, bill discounting services, bill acceptance services and other financial services for a term of three years commencing on 1 January 2022 and ending on 31 December 2024; and Xiwang Group Company executed the New Guarantee in favour of the Company to secure the performance of obligations of Xiwang Finance Company under the New Financial Services Agreement.

The proposed annual caps in respect of the maximum daily deposit balance (including any interest accrued therefrom) with Xiwang Finance Company are RMB2,100 million, RMB2,300 million and RMB2,500 million for each of the three years ending 31 December 2024, respectively. The proposed annual caps in respect of the amount of bill discounting provided by Xiwang Finance Company are RMB2,000 million, RMB2,000 million and RMB2,000 million for each of the three years ending 31 December 2024, respectively. The proposed annual caps in respect of the amount of bill acceptance provided by Xiwang Finance Company are RMB2,000 million, RMB2,000 million and RMB2,000 million for each of the three years ending 31 December 2024, respectively. The loan services to be provided by Xiwang Finance Company under the Financial Services Agreement would be on normal commercial terms 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.

For details of the New Financial Services Agreement and relevant approval, please refer to the announcements of the Company respectively dated 4 November 2021 and 31 December 2021 and the circular of the Company dated 30 November 2021.

(4) Provision of Guarantee Services to Xiwang Group

On 19 January 2021, the Company (and its subsidiaries) and Xiwang Group and its certain subsidiaries entered into the guarantee agreement (the "**Guarantee Agreement**") in relation to the provision of guarantee services, which was effective from 1 January 2021 to 31 December 2023.

Xiwang Group is the cotrolling shareholder of the Company. Therefore, Xiwang Group is a connected person of the Company under the Listing Rules.

Pursuant to the Guarantee Agreement, the Group agreed to provide Xiwang Group and its certain subsidiaries with guarantee services under which the Group shall undertake to guarantee and bear any obligations and liabilities of Xiwang Group and its certain subsidiaries under the loan agreements to be entered between the lenders and Xiwang Group and/or its certain subsidiaries, in accordance with the terms of the specific guarantee agreements to be entered between the lenders and the Group. It was agreed that any loans repaid by the Group for and on behalf of Xiwang Group (and its certain subsidiaries) pursuant to the Guarantee Agreement shall be deemed to be a repayment of (i) the loans payable by the Group to Xiwang Group or its certain subsidiaries; or (ii) other amounts payable by the Group to Xiwang Group or its certain subsidiaries. It was also agreed that if the guarantee amount to be provided by the Group to Xiwang Group and its certain subsidiaries under the Guarantee Agreement exceeds the aggregate outstanding amount due from the Group to Xiwang Group, (i) the Group reserves the right to unilaterally terminate the specific guarantee(s) for an amount no less than the amount exceeding the aggregate outstanding amount due from the Group to Xiwang Group; and (ii) a guarantee fee of 0.5% per annum on the aggregate outstanding amount due from the Group to Xiwang Group shall be payable by Xiwang Group and/or its certain subsidiaries to the Group for the amount exceeding the aggregate outstanding amount due from the Group to Xiwang Group. Xiwang Group also undertook that it shall always continue to provide guarantees and loans to the Group and cannot unilaterally terminate any one of them without the Group's consent.

As the Group has obtained a significant amount of loans from Xiwang Group for business operation, the provision of guarantee services to Xiwang Group by entering into the Guarantee Agreement would enhance the financing capacity of Xiwang Group, which in turn would promote Xiwang Group to provide more financial supports to the Group in the form of loans or financing guarantees.

It was agreed under the Guarantee Agreement that the guarantee amount to be provided by the Group to Xiwang Group and its certain subsidiaries under the Guarantee Agreement shall not exceed the aggregate outstanding amount due from the Group to Xiwang Group and shall be subject to a maximum cap of RMB5.0 billion for each of the three years ending 31 December 2021, 2022 and 2023. As of 31 December 2021, the actual guarantee amount was approximately RMB4.2 billion. During the Year, the transaction amount did not exceed the relevant annual cap. For details of the Guarantee Agreement and relevant approvals, please refer to the announcements of the Company respectively dated 19 January 2021 and 19 March 2021 and the circular of the Company dated 26 February 2021.

(5) Provision of Finance Leasing Services from Xiwang Leasing

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

Xiwang Group is the controlling shareholder 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 might not be unable to obtain refinance from other financial institution for the reason that the leased assets might 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 proposed caps in respect of the maximum finance amount to Xiwang Leasing for each of the six years 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 2021, the maximum finance amount was approximately RMBNil. During the Year, the transaction amount did not exceed the relevant annual cap.

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.

(6) Provision of Agency Services from Zouping Power Branch

On 21 August 2020, Zouping Power Branch and Xiwang Metal Science entered into the electricity purchase agency agreement (the "**Electricity Purchase Agency Agreement**"), pursuant to which Xiwang Metal Science contracted Zouping Power Branch to provide agency services in relation to the purchase of electricity from State Grid Shandong Electric Power Company Binzhou Power Supply Company* (國網山東省電力公司濱州供電公司) ("**Binzhou Power**") through Xiwang Power, Zouping Power Branch and/or their associate(s) ("**Electricity Purchase**") for three years commencing from 1 January 2020 and ending on 31 December 2022.

Xiwang Group is the controlling shareholder of the Company and Zouping Power is a branch company established by Xiwang Group. Therefore, Zouping Power is a connected person of the Company under the Listing Rules.

Pursuant to the Electricity Purchase Agency Agreement, it was agreed that Zouping Power Branch will act as an agent of the Group to purchase electricity from Binzhou Power for and on behalf of the Group. Xiwang Metal Science undertook to bear and enjoy all the obligations and rights relating to the use of the electricity as prescribed by Binzhou Power. It was also agreed that Zouping Power will charge Xiwang Metal Science for the electricity supplied to the Group at the original price charged by Binzhou Power, and the price must not be increased in any other way, and should not charge Xiwang Metal Science any service fees, commission or agency fee (except for any charges to be paid to Binzhou Power and/or other independent third parties). According to the requirements of Binzhou Power, Xiwang Group and its affiliated companies are required to settle the electricity bills together. During the course of Electricity Purchase, Xiwang Metal Science will also pay Zouping Power a certain amount of prepaid electricity charge for Zouping Power to pay to Binzhou Power.

The Group consumed a significant amount of electricity in the production process of its steel products. Zouping Power Branch acted as an agent of several companies (which are also connected persons of the Company) in purchasing electricity from Binzhou Power. The Group joined such arrangement, and has been purchasing electricity from Binzhou Power (which is an independent third party of the Company) through Xiwang Power (and its associate(s), which includes Zouping Power Branch), as an agent of the Group. Zouping Power Branch (and its associate(s)) did not and will not charge any service fee nor add any mark-up on top of the electricity charge.

It was agreed that the maximum annual consideration (being the aggregate of the purchase price of Electricity Purchase) paid/to be paid through Zouping Power Branch to Binzhou Power under the Electricity Purchase Agency Agreement for each of the three years ending 31 December 2020, 2021 and 2022 would be RMB1,204 million, RMB1,467 million and RMB1,661 million, respectively, and that the maximum amount of prepaid electricity charge prepaid by the Group to Zouping Power Branch, but not yet paid to Binzhou Power (or due from Zouping Power Branch to the Group) under the agreement at anytime during the term of the agreement for each of the aforesaid three years would be RMB268 million, RMB298 million and RMB328 million, respectively. For the year ending 31 December 2021, the actual annual consideration and the actual amount of prepaid electricity charge were approximately RMB969.16 million and RMB78.69 million, respectively. During the Year, (i) the actual consideration for the electricity purchased paid through Zouping Power Branch to Binzhou Power did not exceed the relevant annual caps and (ii) the electricity purchased through Zouping Power Branch and the balances of the prepaid electricity charge at any time did not exceed the relevant annual cap.

For details of the Electricity Purchase Agency Agreement and relevant approvals, please refer to the announcements of the Company respectively dated 21 August 2020 and 20 November 2020 and the circular of the Company dated 23 October 2020.

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 and circulars 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 for transactions involving the provision of goods or services by the Group;

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

(iv) have exceeded the annual cap as set by the Company.

A copy of the auditor's 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 19 to 33 of this annual report.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") comprises 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 auditor 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.

For the Audit Committee's view on the financial statement's disclosure about material uncertainty related to going concern, please refer to the section headed "Corporate governance report – N. Material uncertainty related to going concern" in this annual report.

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.

AUDITOR

The Company ceased to engage Ernst & Young on 30 September 2020, and appointed HLB Hodgson Impey Cheng Limited on the same day, details of which were disclosed in the announcements of the Company respectively dated 3 September 2020, 19 September 2020 and 30 September 2020 and the circular of the Company dated 7 September 2020.

The financial statements for the Year have been audited by HLB Hodgson Impey Cheng Limited. A resolution will be proposed at the forthcoming AGM of the Company to re-appoint HLB Hodgson Impey Cheng Limited as auditor of the Company.

On behalf of the Board

WANG Di
Chairman

Hong Kong, 31 March 2022

Independent Auditors' Report

國衛會計師事務所有限公司
HODGSON IMPEY CHENG LIMITED

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

To the Shareholders 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 (collectively referred to as the "Group") set out on pages 64 to 151, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other 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 2021, 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 Auditors' 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 at 31 December 2021, the Group's current liabilities exceeded its current assets by approximately RMB6,114,958,000. 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 judgment, 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. In addition to the matter described in the "Material Uncertainly Related to Going Concern" section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Preparation of the consolidated financial statements on a going concern basis *Refer to Note 2.1 to the consolidated financial statements.*	
As at 31 December 2021, the Group's current liabilities exceeded its current assets by approximately RMB6,114,958,000. To support the going concern basis in preparing the consolidated financial statements, management of the Group has prepared a cash flow projections of the Group covering a period of not less than twelve months from 31 December 2021 and concluded that there would be sufficient funds from the Group's existing cash resources, available facilities from banks and other parties and cash flows to be generated from its operations to finance its future operations and enable it to meet its financial obligations and when the fall due in the next twelve months from 31 December 2021. The cash flow projections involved key assumptions such as revenue growth, gross profit margin, planned capital expenditures, and availability of facilities to the Group.	Our procedures in relation to the preparation of the consolidated financial statements on a going concern basis included, but were not limited to: – assessing the appropriateness of the key assumptions in the cash flow projections, including revenue growth, gross profit margin and planned capital expenditures by referencing to actual historical performance of the Group and making reference to the Group's future development plan, and testing the mathematical accuracy of the projections; – confirming the cash resources and available facilities from banks and other parties as at year end by circularisation of confirmations and assessing the probability of banking facilities renewal during the projection period by examining historical records of renewal pattern; and – evaluating the sensitivity of the projected available cash by considering downside scenarios through applying reasonably plausible changes to the key assumptions, including revenue growth and gross profit margin. We have also considered the appropriateness of the relevant disclosures. We found the use of going concern basis of accounting to be supportable by the available evidence.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon (the "**Other Information**"). 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 AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors 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 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITORS' 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 auditors' report that includes our opinion. This 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 judgment and maintain professional skepticism 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.

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

- 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 auditors' 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 auditors' 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.

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, actions taken to eliminate threats or safeguards applied.

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 auditors' 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 director on the audit resulting in this independent auditors' report is Kwok Tsz Chun.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Kwok Tsz Chun
Practising Certificate Number: P06901
Hong Kong, 31 March 2022

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Notes	2021 RMB'000	2020 RMB'000
REVENUE	5	**19,116,121**	15,288,101
Cost of sales		**(18,332,165)**	(14,819,294)
Gross profit		**783,956**	468,807
Other income and gains/(losses), net	5	**58,650**	65,373
Selling and distribution expenses		**(13,123)**	(8,254)
Administrative expenses		**(90,314)**	(75,400)
Impairment losses on financial assets, net		**(5,373)**	(949)
Research and development costs		**(387,076)**	(197,069)
Finance costs	7	**(289,473)**	(236,811)
PROFIT BEFORE TAX	6	**57,247**	15,697
Income tax credit	10	**7,784**	2,671
PROFIT FOR THE YEAR		**65,031**	18,368
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
Basic and diluted		**RMB2.74 cents**	RMB0.78 cents

	2021 RMB'000	2020 RMB'000
PROFIT FOR THE YEAR	**65,031**	18,368
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**(3,778)**	(6,388)
Bills receivable at fair value through other comprehensive income:		
Changes in fair value	**–**	5,024
Income tax effect	**–**	(652)
Release on disposal of debt instruments at fair value through other comprehensive income	**591**	–
	591	4,372
	(3,187)	(2,016)
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	**(9,402)**	(7,784)
Income tax effect	**1,410**	1,168
	(7,992)	(6,616)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(11,179)**	(8,632)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY	**53,852**	9,736

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

	Notes	31 December 2021 RMB'000	31 December 2020 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**11,218,379**	11,361,733
Right-of-use assets	14	**87,834**	90,668
Prepayments for long term assets	19	**198,361**	319,083
Other intangible assets	15	**477,917**	257,168
Equity investment designated at fair value through other comprehensive income	16	**66,096**	75,498
Deferred tax assets	24	**48,469**	16,653
Total non-current assets		**12,097,056**	12,120,803
CURRENT ASSETS			
Inventories	17	**1,387,544**	800,121
Trade and bills receivables	18	**57,505**	91,005
Prepayments, other receivables and other assets	19	**1,875,311**	1,478,969
Pledged deposits	20	**419,272**	492,219
Cash and cash equivalents	20	**332,182**	386,812
Total current assets		**4,071,814**	3,249,126
CURRENT LIABILITIES			
Trade and bills payables	21	**2,254,123**	2,135,866
Other payables and accruals	22	**660,789**	526,990
Contract liabilities	22	**3,389,324**	2,256,367
Dividend payables		**290,369**	290,369
Lease liabilities	14	**479**	613
Interest-bearing bank and other borrowings	23	**3,540,868**	3,041,364
Borrowings from the ultimate holding company	34(d)(ii)	**447**	447
Income tax payable		**50,373**	35,310
Total current liabilities		**10,186,772**	8,287,326
NET CURRENT LIABILITIES		**(6,114,958)**	(5,038,200)
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,982,098**	7,082,603

	Notes	**31 December 2021 RMB'000**	31 December 2020 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	23	**33,791**	1,187,927
Lease liabilities	14	**–**	462
Deferred tax liabilities	24	**33,569**	33,328
Other long term payable	25	**130,000**	130,000
Total non-current liabilities		**197,360**	1,351,717
Net assets		**5,784,738**	5,730,886
CAPITAL AND RESERVES			
Share capital	26	**1,369,681**	1,369,681
Reserves	28	**4,415,057**	4,361,205
Total equity		**5,784,738**	5,730,886

The consolidated financial statements on pages 64 to 151 were approved and authorised for issue by the board of directors on 31 March 2022 and are signed on its behalf by:

Wang Di
Director

Sun Xinhu
Director

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

	Attributable to owners of the parent									
	Share capital RMB'000 (note 26)	Contributed surplus RMB'000	Other reserve RMB'000 (note 28(c))	Fair value reserve RMB'000	Statutory surplus reserve RMB'000 (note 28(a))	Share option reserve RMB'000 (note 27)	Special reserve RMB'000 (note 28(b))	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 2020	1,369,681	78,938*	56,084*	(19,173)*	682,959*	1,051*	164,099*	9,666*	3,377,845*	5,721,150
Profit for the year	–	–	–	–	–	–	–	–	18,368	18,368
Other comprehensive income/(loss) for the year:										
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	–	–	–	(6,616)	–	–	–	–	–	(6,616)
Changes in fair value of bills receivable at fair value through other comprehensive income, net of tax	–	–	–	4,372	–	–	–	–	–	4,372
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	(6,388)	–	(6,388)
Total comprehensive income/(loss) for the year	–	–	–	(2,244)	–	–	–	(6,388)	18,368	9,736
Profit appropriated to reserves	–	–	–	–	4,241	–	34,007	–	(38,248)	–
Utilised special reserve	–	–	–	–	–	–	(34,283)	–	34,283	–
At 31 December 2020	1,369,681	78,938*	56,084*	(21,417)*	687,200*	1,051*	163,823*	3,278*	3,392,248*	5,730,886
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**65,031**	**65,031**
Other comprehensive income/(loss) for the year:										
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	**–**	**–**	**–**	**(7,992)**	**–**	**–**	**–**	**–**	**–**	**(7,992)**
Release on disposal of debt instruments at fair value through other comprehensive income	**–**	**–**	**–**	**591**	**–**	**–**	**–**	**–**	**–**	**591**
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,778)**	**–**	**(3,778)**
Total comprehensive income/(loss) for the year	**–**	**–**	**–**	**(7,401)**	**–**	**–**	**–**	**(3,778)**	**65,031**	**53,852**
Transfer of share option reserve upon the lapse of share options	**–**	**–**	**–**	**–**	**–**	**(759)**	**–**	**–**	**759**	**–**
Disposal of a subsidiary	**–**	**–**	**–**	**–**	**(76)**	**–**	**–**	**–**	**76**	**–**
Profit appropriated to reserves	**–**	**–**	**–**	**–**	**7,908**	**–**	**22,416**	**–**	**(30,324)**	**–**
Utilised special reserve	**–**	**–**	**–**	**–**	**–**	**–**	**(22,416)**	**–**	**22,416**	**–**
At 31 December 2021	**1,369,681**	**78,938***	**56,084***	**(28,818)***	**695,032***	**292***	**163,823***	**(500)***	**3,450,206***	**5,784,738**

* These reserve accounts comprise the consolidated reserves of RMB4,415,057,000 (2020: RMB4,361,205,000) in the consolidated statement of financial position.

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Notes	2021 RMB'000	2020 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**57,247**	15,697
Adjustments for:			
Interest income	5	**(8,593)**	(16,616)
Loss on derecognition of financial assets measured at fair value through other comprehensive income	5	**–**	5,811
Depreciation of property, plant and equipment	6	**561,226**	435,362
Depreciation of right-of-use assets	6	**2,820**	3,022
Amortisation of other intangible assets	6	**35,592**	15,190
Foreign exchange differences, net	5	**(30,060)**	(35,972)
Impairment of trade receivables and other receivables	6	**5,373**	949
Reversal of write-down of inventories	6	**–**	(17,096)
Gain on disposal of a subsidiary	38	**(9,165)**	–
Loss on disposal of items of property, plant and equipment	5	**2,353**	850
Written-off of trade receivables	5	**1,618**	–
Finance costs	7	**289,473**	236,811
		907,884	644,008
Increase in inventories		**(609,294)**	(436,287)
Decrease in trade and bills receivables		**13,982**	445,003
Increase in prepayments, other receivables and other assets		**(416,754)**	(542,523)
Increase in trade and bills payables		**129,036**	612,933
Increase/(decrease) in other payables and accruals		**225,340**	(224,538)
Increase in contract liabilities		**1,171,341**	1,076,606
Cash generated from operations		**1,421,535**	1,575,202
Interest received		**8,593**	12,737
PRC tax (paid)/refund		**(13,496)**	7,515
Net cash flows generated from operating activities		**1,416,632**	1,595,454
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds on disposal of property, plant and equipment		**–**	11,567
Purchases of property, plant and equipment		**(421,166)**	(1,899,359)
Purchase of other intangible assets	15	**(253,818)**	(198,677)
Decrease in pledged time deposits		**72,947**	409,279
Net cash outflow from disposal of a subsidiary	38	**(6)**	–
Net cash flows used in investing activities		**(602,043)**	(1,677,190)

	Notes	2021 RMB'000	2020 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from bank and other borrowings		**465,919**	2,721,807
Proceeds from borrowings from the ultimate holding company		**–**	146
Repayments of borrowings to the ultimate holding company		**–**	(1,293)
Repayment of other long term payable	25	**–**	(31,000)
Principal portion of lease payments		**(621)**	(847)
Repayment of bank and other borrowings		**(1,093,694)**	(2,198,923)
Interest paid		**(241,175)**	(215,821)
Net cash flows (used in)/generated from financing activities		**(869,571)**	274,069
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(54,982)**	192,333
Cash and cash equivalents at beginning of year		**386,812**	193,849
Effect of foreign exchange rate changes, net		**352**	630
CASH AND CASH EQUIVALENTS AT END OF YEAR	20	**332,182**	386,812

The accompanying notes form an integral part of these consolidated financial statements.

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, trading of commodities and sale of by-products mainly 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 ("**Xiwang Investment**") (西王投資有限公司), which is wholly owned by Xiwang Holdings Limited (西王控股有限公司). During the year ended 31 December 2021, the ultimate holding company of the Company was Xiwang Group Company Limited ("**Xiwang Group**") (西王集團有限公司), which is incorporated in Zouping, Shandong Province, the PRC.

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Company name	Notes	Place and date of incorporation/ registration and place of business	Issued ordinary/ registered share capital	Percentage of ownership interest and voting power held by the Company				Principal activities
				Direct		Indirect		
				2021 %	2020 %	**2021** %	2020 %	
Win Goal Trading Limited		Hong Kong 9 November 2012	USD28,500,000	**100**	100	**–**	–	Trading of commodities
Xiwang International Trade (Qingdao) Company Limited (西王國際貿易(青島)有限公司)	(i)	PRC 24 June 2013	USD16,380,000	**100**	100	**–**	–	Trading of commodities
Xiwang Special Steel Trading Company Limited (西王特鋼經貿有限公司)	(i)	PRC 18 May 2018	RMB100,000,000	**–**	–	**100**	100	Trading of commodities
Xiwang Special Steel Company Limited (西王特鋼有限公司)	(i) & (iii)	PRC 31 December 2003	RMB704,823,000	**–**	–	**100**	100	Production and sale of steel products
Zhongke Xiwang Special Steel Company Limited (中科西王特鋼有限公司)	(i)	PRC 29 June 2020	RMB650,000,000	**–**	–	**100**	100	Production and sale of steel products

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Company name	Notes	Place and date of incorporation/ registration and place of business	Issued ordinary/ registered share capital	Percentage of ownership interest and voting power held by the Company				Principal activities
				Direct		Indirect		
				2021 %	2020 %	2021 %	2020 %	
Xiwang Metal Science & Technology Company Limited ("**Xiwang Metal Science & Technology**") (西王金屬科技有限公司)	(i) & (iv)	PRC 29 December 2007	USD171,800,000	**100**	100	**–**	–	Production and sale of steel products
Shandong Xiwang Recycling Resources Company Limited (山東西王再生資源有限公司)	(i) & (ii)	PRC 7 May 2009	RMB677,359,000	**–**	–	**100**	100	Purchase and sale of steel scrap
Xiwang Special Steel International Trade (Binzhou) Company Limited (西王特鋼國際貿易(濱州)有限公司) *	(i)	PRC 5 July 2019	RMB100,000,000	**–**	100	**–**	–	Trading of commodities

* The company was disposed during the year ended 31 December 2021.

(i) Companies registered as limited liability companies under PRC law.

(ii) As at 31 December 2021, 100% (2020: 100%) equity interests of the subsidiary, Shandong Xiwang Recycling Resources Company Limited, have been pledged for the Group's other borrowings of RMB382,000,000 (2020: RMB382,000,000) (note 23).

(iii) As at 31 December 2021, 99.10% (2020: 88.48%) equity interests of the subsidiary, Xiwang Special Steel Company Limited, have been pledged for other borrowings of fellow subsidiaries of RMB804,000.000 (2020: RMB675,000,000) (note 34).

(iv) As at 31 December 2021, 100% (2020: 100%) equity interests of the subsidiary, Xiwang Metal Science & Technology, have been pledged for other borrowings of the ultimate holding company of RMB1,400,000,000 (2020: RMB1,400,000,000) (note 34).

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**"). For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**") and by the Hong Kong Companies Ordinance. They have been prepared under the historical cost basis, except for financial instruments that are measured at fair value. These financial statements are presented in Renminbi ("**RMB**") which is different from the functional currency of the Company of Hong Kong dollars ("**HK$**"). The directors of the Company adopted RMB as presentation currency as most of Group's transactions are denominated and settled in RMB and this presentation is more useful for its current and potential investors. All values are rounded to the nearest thousand except when otherwise indicated.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with HKFRS 16 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Going concern

As at 31 December 2021, Group's current liabilities exceed its current assets by approximately RMB6,114,958,000 (2020: RMB5,038,200,000), while its cash and cash equivalents amounted to approximately RMB332,182,000 (2020: RMB386,812,000) as at 31 December 2021. As at year end date, the Group had outstanding bank and other borrowings with aggregate amount of approximately RMB3,540,868,000 (2020: RMB3,041,364,000) which were due for repayment in the next twelve months from 31 December 2021.

2.1 BASIS OF PREPARATION (Continued)

Going concern (Continued)

These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability as a going concern, in particular the ability to discharge its liabilities due within the twelve months period in the normal course of business. In such circumstance, the Directors have taken the below measures in order to improve the Group's short-term liquidity and cash flows in order for the Group to sustain as a going concern and adopted the going concern basis in the preparation of consolidated financial statements.

- Upon the gradual stabilisation of economic situation in PRC, management has benchmarked to latest price level in the steel product market, together with rigorous cost control measures over its production, to formulate a forecast which will generate enhanced positive operating cash flows.

- The Group has requested for extending the repayment of the outstanding bank and other borrowings for another twelve months upon their maturity during the coming year, of which were included in the Group's current liabilities as at 31 December 2021. Despite that the directors of the Company are confident in further extending the repayment of the principals of the bank and other borrowings, the terms were not finalised as at the date of approval of these consolidated financial statements.

- The Group has received a written confirmation dated 31 March 2022 from Xiwang Group, the ultimate holding company and the controlling shareholder, that it will provide continuing financial support to the Group to enable the Group to meet its financial obligations as and when they fall due for the foreseeable future, and agreed not to demand repayment of any of the amounts due to Xiwang Group by the Group in the next twelve months from the date of approval for issue of these consolidated financial statements.

- The Group is currently soliciting different source of funds, including additional banking facilities with PRC financial institutions and strategic institutional investor, to further support the Group's funding needs should the aforesaid operating cash inflows turned out to be less than forecasted.

The Directors have critically evaluated the practical realisation of those measures that being not yet happened, together with the management of the Company. Taking into account their evaluation and other measures above, the Directors expect that the Group would improve its working capital in order to finance its operations and meet its financial obligations as and when they fall due in foreseeable future. As such, they are of the opinion that it is appropriate to prepare the consolidated financial statements of the Company on a going concern basis.

Should the going concern assumption be inappropriate, adjustments may have to be made to write down the values of the assets to their recoverable amounts, to provide for any further liabilities that may 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.

The Audit Committee of the board of Directors ("the **Board**") has confirmed that it has objectively and critically reviewed the measures stated above. The Audit Committee of the Board and the Board have confidence in the Group's business plan as referred above is feasible and achievable.

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company 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 Company the current ability to direct the relevant activities of the investee).

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 listed above.

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.

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 *Financial Instruments* ("HKFRS 9") or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

2.2 APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountant ("**HKICPA**") for the first time for their annual reporting period commencing on or after 1 January 2021:

Amendment to HKFRS 16	*Covid-19-Related Rent Concessions*
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform – Phase 2*

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts and the related Amendments[3]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021[1]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[3]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[3]
Amendments to HKAS 8	Definition of Accounting Estimates[3]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[2]
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020[2]

1 Effective for annual periods beginning on or after 1 April 2021.
2 Effective for annual periods beginning on or after 1 January 2022.
3 Effective for annual periods beginning on or after 1 January 2023.
4 Effective for annual periods beginning on or after a date to be determined.

The directors of the Company anticipate that the application of all new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's chief operating decision maker for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or to provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group which qualifies as business combination, except for those acquisitions which qualify as a common control combination and are therefore accounted for using the merger accounting.

Under the purchase method of accounting, subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange and, all acquisition-related costs are expensed. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statements of profit or loss and other comprehensive income.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

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.

(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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

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.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to 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 and office equipment and fixtures 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.

Other intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of the reporting period.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses/revalued amounts, being their fair value at the date of the revaluation less subsequent accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Intellectual properties

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

Software

Software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 10 years.

Research and development costs

All research and developments costs are charged to profit or loss as incurred.

Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the Cash Generating Units ("**CGU**") to which the asset belongs.

In testing a CGU for impairment, corporate assets are allocated to the relevant CGU when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the CGU or group of CGUs to which the corporate asset belongs, and is compared with the carrying amount of the relevant CGU or group of CGUs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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 (or a CGU) for which the estimates of future cash flows have not been adjusted.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill (Continued)

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a CGU, the Group compares the carrying amount of a group of CGUs, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of CGUs, with the recoverable amount of the group of CGUs. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of CGUs. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of CGUs. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU or a group of CGUs) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU or a group of CGUs) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of machinery and equipment, that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets to leases of office equipment and laptop computers that are considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)
The Group as a lessee (Continued)
Right-of-use assets
The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Leasehold lands and buildings

Leasehold lands	50 years
Buildings	21 months – 2 years

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as a lessee (Continued)

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as a lessee (Continued)

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income ("**FVTOCI**"), and fair value through profit or loss ("**FVTPL**").

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at FVTPL, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or FVTOCI, it needs to give rise to cash flows that are solely payments of principal and interest ("**SPPI**") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at FVTPL, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at FVTOCI are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at FVTPL.

All regular way purchases and sales of financial assets are recognised and derecognised on the trade date basis. 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 amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at FVTOCI (debt instruments)

For bills receivable at FVTOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to profit or loss.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement (Continued)

Financial assets designated at FVTOCI (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at FVTOCI when they meet the definition of equity under HKAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as "other income and gains/(losses), net" in the consolidated statement of profit or loss and other comprehensive income when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case such gains are recorded in other comprehensive income. Equity investments designated at FVTOCI are not subject to impairment assessment.

Financial assets at FVTPL

Financial assets at FVTPL are measured at fair value with net changes in fair value recognised in profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at FVTOCI. Dividends on equity investments classified as financial assets at FVTPL are also recognised as "other income and gains/(losses), net" in the consolidated statement of profit or loss and other comprehensive income when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at FVTPL. Embedded derivatives are measured at fair value with changes in fair value recognised in 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 FVTPL category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at FVTPL.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the FVTOCI reserve is reclassified to profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the FVTOCI reserve is not reclassified to profit or loss, but is transferred to retained profits.

Impairment of financial assets

The Group performs impairment assessment under expected credit losses ("**ECLs**") model for all debt instruments not held at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

General approach (Continued)

For bills receivable at FVTOCI, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the bills receivable are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the bills receivable. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than three months past due.

The Group considers a financial asset in default when contractual payments are six months past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Bills receivable at FVTOCI and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables without significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities at amortised cost

Financial liabilities (including trade and bills payables, other payables and accruals, dividend payables, interest-bearing bank and other borrowings, borrowings from the ultimate holding company and lease liabilities) are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Except for changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform in which the Group applies the practical expedient, when the contractual terms of a financial liability are modified, the Group assess whether the revised terms result in a substantial modification from original terms taking into account all relevant facts and circumstances including qualitative factors. If qualitative assessment is not conclusive, the Group considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received, and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from loss before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under “other income and gains/(losses), net”.

Revenue recognition

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Sale of industrial products

Revenue from the sale of steel products, trading of commodities and sales of by-products is recognised at point in time when control of the asset is transferred to the customer, generally on delivery of the industrial products, the customer has accepted the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

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.

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 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

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.

When share options are exercised, the amount previously recognised in share option reserve will be transferred to share capital.

When shares granted are vested, the amount previously recognised in share option reserve will be transferred to retained profits.

Other employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in PRC 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.

Mandatory Provident Fund

The Company's subsidiaries incorporated in Hong Kong operate a defined contribution Mandatory Provident Fund retirement benefit scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The employer contributions vest fully with the employees when contributed into the MPF Scheme except for the employer voluntary contributions, which are refunded to the Company's subsidiaries which are incorporated in Hong Kong when an employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF 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.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange fluctuation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

Exchange differences relating to the retranslation of the Group's net assets in Hong Kong dollars to the Group's presentation currency (i.e. RMB) are recognised directly in other comprehensive income and accumulated in exchange fluctuation reserve. Such exchange differences accumulated in the exchange fluctuation reserve are not reclassified to profit or loss subsequently.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the application of the Group's accounting policies, which are described in note 2, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of 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.

Write-down of inventories to net realisable value

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

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 16 to the consolidated financial statements. The valuation requires the Group to determine the comparable public companies (peers) and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity and size differences. The Group classifies the fair value of these investments as Level 3. The fair value of the unlisted equity investments at 31 December 2021 was RMB66,096,000 (2020: RMB75,498,000). Further details are included in note 16 to the financial statements.

Deferred tax assets

As at 31 December 2021, a deferred tax asset of RMB45,165,000 (2020: RMB11,007,000) in relation to unused tax losses for certain operating subsidiaries has been recognised in the consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses for non-operating subsidiaries due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future taxable profits generated are less or more than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place.

Provision of ECL for trade receivable, deposits and other receivables

The Group's management determines the provision of ECL for trade receivables based on the ECL which uses a lifetime expected loss allowance for all trade receivables. For deposits and other receivables, the provision of ECL is based on 12-month ECL ("**12m ECL**"), unless there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period. Management reassesses the provision at each reporting date. The provision of ECL is sensitive to changes in estimates. The information about the ECL for trade receivables, deposits and other receivables are disclosed in Note 37.

4. OPERATING SEGMENT INFORMATION

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("**CODM**"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors that makes strategic decisions.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

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 resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 2. Segment profit/(loss) represents the profit earned/(losses) suffered by each segment without allocation of other income and gains/(losses), net, selling and distribution expenses, administrative expenses, impairment loss on financial assets, net, other expenses, research and development and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

The CODM makes decisions according to operating results of each segment. No analysis of segment asset and segment liability is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

4. OPERATING SEGMENT INFORMATION (Continued)

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

	Ordinary steel RMB'000	Special steel RMB'000	Trading of commodities RMB'000	By-products RMB'000	Consolidated RMB'000
Year ended 31 December 2021					
Segment revenue (note 5):					
Sales to external customers	9,414,891	3,664,146	5,372,183	664,901	19,116,121
Intersegment sales	8,486,909	2,846,689	2,005,311	1,439,148	14,778,057
	17,901,800	6,510,835	7,377,494	2,104,049	33,894,178
Cost of sales	(8,778,307)	(3,591,925)	(5,324,887)	(637,046)	(18,332,165)
Gross profit	636,584	72,221	47,296	27,855	783,956
Reconciliation:					
Other income and gains/(losses), net					58,650
Selling and distribution expenses					(13,123)
Administrative expenses					(90,314)
Impairment loss on financial assets, net					(5,373)
Research and development costs					(387,076)
Finance costs					(289,473)
Profit before tax					57,247

4. OPERATING SEGMENT INFORMATION (Continued)

	Ordinary steel RMB'000	Special steel RMB'000	Trading of commodities RMB'000	By-products RMB'000	Consolidated RMB'000
Year ended 31 December 2020					
Segment revenue (note 5):					
Sales to external customers	7,239,710	2,662,448	4,838,902	547,041	15,288,101
Intersegment sales	6,300,891	2,311,314	3,313,527	1,201,495	13,127,227
	13,540,601	4,973,762	8,152,429	1,748,536	28,415,328
Cost of sales	(6,831,813)	(2,642,566)	(4,830,627)	(514,288)	(14,819,294)
Gross profit	407,897	19,882	8,275	32,753	468,807
Reconciliation:					
Other income and gains/(losses), net					65,373
Selling and distribution expenses					(8,254)
Administrative expenses					(75,400)
Impairment loss on financial assets, net					(949)
Research and development costs					(197,069)
Finance costs					(236,811)
Profit before tax					15,697

Geographical information

	2021 RMB'000	2010 RMB'000
PRC	**19,116,121**	15,288,101

The revenue information above is based on the locations of the customers.

The principal non-current assets and capital expenditure of the Group were located and incurred in PRC. Accordingly, no further geographical information is presented.

Information about major customers

For the year ended 31 December 2021, revenue from transactions with a single external customer amounted to 64.6% (2020: 59.8%) of the Group's total revenue which are from sale of ordinary steel and special steel.

5. REVENUE, OTHER INCOME AND GAINS/(LOSSES), NET

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2021

Segments	Sale of ordinary steel RMB'000	Sale of special steel RMB'000	Trading of commodities RMB'000	Sale of by-products RMB'000	Total RMB'000
Type of goods					
Sale of industrial products	9,414,891	3,664,146	5,372,183	664,901	19,116,121
Geographical markets					
PRC	9,414,891	3,664,146	5,372,183	664,901	19,116,121
Timing of revenue recognition					
A point in time	9,414,891	3,664,146	5,372,183	664,901	19,116,121

5. REVENUE, OTHER INCOME AND GAINS/(LOSSES), NET (Continued)

Revenue from contracts with customers (Continued)

(i) Disaggregated revenue information (Continued)

For the year ended 31 December 2020

Segments	Sale of ordinary steel RMB'000	Sale of special steel RMB'000	Trading of commodities RMB'000	Sale of by-products RMB'000	Total RMB'000
Type of goods					
Sale of industrial products	7,239,710	2,662,448	4,838,902	547,041	15,288,101
Geographical markets					
PRC	7,239,710	2,662,448	4,838,902	547,041	15,288,101
Timing of revenue recognition					
A point in time	7,239,710	2,662,448	4,838,902	547,041	15,288,101

All revenue contracts are for period of one year or less, as permitted by practical expedient under HKFRS 15, the transaction price allocated to these unsatisified contracts is not disclosed.

5. REVENUE, OTHER INCOME AND GAINS/(LOSSES), NET (Continued)

(ii) Other income and gains/(losses), net

	2021 RMB'000	2020 RMB'000
Gain on disposal of a subsidiary	**9,165**	–
Bank interest income	**5,661**	7,699
Interest income from Xiwang Finance	**2,932**	8,917
Rental income (note 14)	**895**	895
Government grants (note)	**17,667**	26,477
Foreign exchange differences, net	**30,060**	35,972
Late charge for late payment of tax	**(233)**	(5,504)
Loss on disposal of property, plant and equipment	**(2,353)**	(850)
Loss on derecognition of financial assets measured at fair value through other comprehensive income	**–**	(5,811)
Written-off of trade receivables	**(1,618)**	–
Others	**(3,526)**	(2,422)
	58,650	65,373

Note: During the year ended 31 December 2021, government grants were mainly granted to the Group as subsidies to support the operation of the PRC subsidiaries. During the year ended 31 December 2020, government grants were mainly granted to the Group as (i) subsidies to support the operation of the PRC subsidiaries, and (ii) Covid-19-related subsidies which is related to Employment Support Scheme provided by the Hong Kong government. The government grant had no conditions or contingencies attracted to them and they were non-recurring in nature.

6. PROFIT BEFORE TAX

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

	Notes	**2021 RMB'000**	2020 RMB'000
Cost of inventories sold		**17,687,861**	14,201,001
Depreciation of property, plant and equipment	13	**561,226**	435,362
Depreciation of right-of-use assets	14(a)	**2,820**	3,022
Amortisation of other intangible assets	15	**35,592**	15,190
Research and development costs		**387,076**	197,069
Lease payments not included in the measurement of lease liabilities		**5,116**	4,902
Auditor's remuneration			
– audit service		**1,500**	1,500
– non-audit service		**130**	130
Employee benefit expense (including directors' remuneration):			
Wages and salaries		**265,153**	256,798
Pension scheme and MPF Scheme contributions*		**20,973**	20,568
Equity-settled share option expenses	27	**–**	–
Staff welfare expenses		**4,523**	5,770
		290,649	283,136
Impairment losses of financial assets under expected credit loss model:			
Trade receivables	18	**(785)**	924
Other receivables	19	**6,158**	25
		5,373	949
Reversal of write-down of inventories	17	**–**	(17,096)

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

7. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	2021 **RMB'000**	2020 RMB'000
Interest on bank and other borrowings	**321,645**	219,940
Finance costs on bills discounted	**41,540**	82,873
Interest on borrowings from the ultimate holding company (note 34(a)(ii))	**4**	4
Interest on borrowings from Xiwang Group Finance Company Limited ("**Xiwang Finance**") (西王集團財務有限公司) (note 34(a)(iii))	**2,067**	2,933
Interest on lease liabilities (note 30(b))	**40**	61
Total interest expense on financial liabilities not at FVTPL	**365,296**	305,811
Less: Interest capitalised (note)	**(75,823)**	(69,000)
	289,473	236,811

Note: Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging between 7.8% and 10.37% (2020: 7.8% and 10.37%) has been applied to the expenditure on the individual assets.

8. 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:

	2021 **RMB'000**	2020 RMB'000
Fees	**224**	230
Other emoluments:		
Salaries, allowances and benefits in kind	**1,304**	975
Equity-settled share option expenses	**–**	–
Discretionary bonus	**–**	–
Pension scheme contributions	**41**	31
	1,569	1,236

No directors (2020: Nil) 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 27 to the consolidated financial statements.

8. DIRECTORS' REMUNERATION (Continued)

(a) Independent non-executive directors

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

	2021 RMB'000	2020 RMB'000
Mr. Leung Shu Sun Sunny	**124**	130
Mr. Yu Kou	**50**	50
Mr. Li Bangguang	**50**	50
	224	230

(b) Executive directors and non-executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expenses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2021					
Chief executive director:					
Mr. Zhang Jian	–	500	–	15	515
Executive directors:					
Ms. Li Haixia	–	248	–	11	259
Mr. Sun Xinhu	–	556	–	15	571
	–	804	–	26	830
Non-executive director:					
Mr. Wang Di	–	–	–	–	–
	–	–	–	–	–
	–	1,304	–	41	1,345

During the year ended 31 December 2021, no emolument have been paid by the Group to any of the directors and the chief executive officer as an inducement to join or upon joining the Group as compensation for loss of office (2020: Nil).

8. 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 expenses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2020					
Chief executive director:					
Mr. Zhang Jian	–	437	–	11	448
Executive directors:					
Ms. Li Haixia	–	172	–	9	181
Mr. Sun Xinhu	–	366	–	11	377
	–	538	–	20	558
Non-executive director:					
Mr. Wang Di	–	–	–	–	–
	–	–	–	–	–
	–	975	–	31	1,006

During the years ended 31 December 2021 and 2020, there were no amounts paid or payable by the Group to the directors or any of the highest paid individuals set out in note 9 as an inducement to join or upon joining the Group or as compensation for loss of office.

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year include two directors (2020: Nil). Details of the remuneration of the three (2020: five) highest paid employees which are not directors are as follows:

	2021 RMB'000	2020 RMB'000
Salaries, allowances and benefits in kind	**1,458**	2,597
Performance-related bonuses	**418**	656
Pension scheme contributions	**27**	33
	1,903	3,286

9. FIVE HIGHEST PAID EMPLOYEES (Continued)

The number of highest paid employees which are not directors whose remuneration fell within the following bands is as follows:

	Number of employees	
	2021	2020
Nil to HK$1,000,000	**3**	5

10. INCOME TAX CREDIT

Hong Kong profits tax has been provided at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable in PRC have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof.

Pursuant to PRC Corporate Income Tax Law effective on 1 January 2008, PRC subsidiaries except for Xiwang Metal Science & Technology are subject to corporate income tax ("**CIT**") at a statutory rate of 25% on their respective taxable income for the years ended 31 December 2021 and 2020. Xiwang Metal Science & Technology is subject to CIT at a rate of 15% on its respective taxable income for the years ended 31 December 2021 and 2020 as a national-grade high-tech enterprise.

	2021 RMB'000	2020 RMB'000
Current – PRC		
Charge for the year	**28,559**	12,508
Over-provision in respect of prior years	**–**	(12,678)
	28,559	(170)
Deferred		
Credit for the year (note 24)	**(36,343)**	(2,501)
Total tax credit for the year	**(7,784)**	(2,671)

10. INCOME TAX CREDIT (Continued)

A reconciliation of the tax credit 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 credit at the effective tax rate are as follows:

	2021 RMB'000	2020 RMB'000
Profit before tax	**57,247**	15,697
Tax at the statutory tax rate	**14,503**	1,755
High and new technology enterprise tax preferential treatment	**(14,604)**	(2,831)
Income not taxable for tax	**(10,280)**	(12,349)
Expenses not deductible for tax	**13,561**	15,408
Effect of withholding tax	**286**	451
Effect of super deduction of research expenses	**(11,677)**	(4,105)
Over-provision in respect of prior years	**–**	(12,678)
Tax losses utilised from previous periods	**–**	(746)
Tax losses not recognised	**427**	1,917
Recognition of tax losses previously not recognised	**–**	11,007
Tax effect of utilisation of temporary differences previously not recognised	**–**	(500)
Tax credit	**(7,784)**	(2,671)

11. DIVIDEND

No final dividend is proposed for the year ended 31 December 2021 (2020: Nil).

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company and the weighted average number of ordinary shares in issue during the year.

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

	2021 **RMB'000**	2020 RMB'000
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share	**65,031**	18,368

	2021	2020
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share (in thousands)	**2,369,111**	2,369,111

For the years ended 31 December 2021 and 2020, the basic loss per share is the same as the diluted loss per share. The computation of diluted earnings per share does not assume the exercise of the Company's share options because the exercise price of those share options was higher than the average market price for the shares.

13. 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
At 31 December 2021						
At 1 January 2021:						
Cost	6,403,380	7,425,476	53,042	184,404	750,198	14,816,500
Accumulated depreciation	(1,116,519)	(2,202,491)	(29,962)	(105,795)	–	(3,454,767)
Net carrying amount	5,286,861	5,222,985	23,080	78,609	750,198	11,361,733
At 1 January 2021, net of accumulated depreciation	5,286,861	5,222,985	23,080	78,609	750,198	11,361,733
Additions	–	67,469	15,401	17,119	320,236	420,225
Disposal	–	(1,675)	(77)	(601)	–	(2,353)
Depreciation provided during the year (note 6)	(150,202)	(386,134)	(5,683)	(19,207)	–	(561,226)
Transfers	11,927	11,682	–	683	(24,292)	–
At 31 December 2021, net of accumulated depreciation	5,148,586	4,914,327	32,721	76,603	1,046,142	11,218,379
At 31 December 2021:						
Cost	6,415,307	7,448,132	67,042	192,720	1,046,142	15,169,343
Accumulated depreciation	(1,266,721)	(2,533,805)	(34,321)	(116,117)	–	(3,950,964)
Net carrying amount	5,148,586	4,914,327	32,721	76,603	1,046,142	11,218,379

13. 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
At 31 December 2020						
At 1 January 2020:						
Cost	6,400,273	5,723,593	55,171	173,345	606,733	12,959,115
Accumulated depreciation	(966,502)	(1,951,324)	(29,124)	(91,655)	–	(3,038,605)
Net carrying amount	5,433,771	3,772,269	26,047	81,690	606,733	9,920,510
At 1 January 2020, net of accumulated depreciation	5,433,771	3,772,269	26,047	81,690	606,733	9,920,510
Additions	–	1,710,761	5,401	8,491	164,349	1,889,002
Disposal	–	(9,715)	(2,092)	(610)	–	(12,417)
Depreciation provided during the year (note 6)	(150,017)	(261,887)	(6,276)	(17,182)	–	(435,362)
Transfers	3,107	11,557	–	6,220	(20,884)	–
At 31 December 2020, net of accumulated depreciation	5,286,861	5,222,985	23,080	78,609	750,198	11,361,733
At 31 December 2020:						
Cost	6,403,380	7,425,476	53,042	184,404	750,198	14,816,500
Accumulated depreciation	(1,116,519)	(2,202,491)	(29,962)	(105,795)	–	(3,454,767)
Net carrying amount	5,286,861	5,222,985	23,080	78,609	750,198	11,361,733

As at 31 December 2021, the Group has not yet obtained the building ownership certificates in respect of certain buildings with a net book value of RMB3,275,827,000 (2020: RMB3,322,125,000).

At 31 December 2021, certain of the Group's machinery and equipment, motor vehicles and office equipment and fixtures with net carrying amounts of approximately RMB3,336,594,000 (2020: RMB3,600,057,000) were pledged to secure other borrowings of the Group (note 23). At 31 December 2021, certain of the Group's buildings and machinery and equipments with net carrying amounts of approximately RMB1,317,709,000 (2020: RMB1,357,845,000) and RMB357,216,000 (2020: RMB395,473,000) were pledged to secure other borrowings of fellow subsidiaries (note 34(b)(iv)).

14. LEASES

The Group as a lessee

The Group has lease contracts for various items of building used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of buildings generally have lease terms between 21 months and 2 years. Other equipment generally has lease terms of 12 months or less and/or is individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Leasehold lands RMB'000	**Buildings** RMB'000	**Total** RMB'000
At 1 January 2020	91,841	814	92,655
Additions (Note)	–	1,094	1,094
Depreciation provided during the year	(2,221)	(801)	(3,022)
Foreign exchange translation	–	(59)	(59)
At 31 December 2020	89,620	1,048	90,668
Depreciation provided during the year	**(2,221)**	**(599)**	**(2,820)**
Foreign exchange translation	**–**	**(14)**	**(14)**
At 31 December 2021	**87,399**	**435**	**87,834**

Note: Addition includes right-of-use assets resulting from new leases entered.

At 31 December 2021, certain of the Group's leasehold land with a carrying amount of approximately RMB86,605,000 (2020: RMB88,805,000) were pledged to secure other borrowings of fellow subsidiaries (note 34b(iv)).

14. LEASES (Continued)

The Group as a lessee (Continued)

(b) Lease liabilities

Lease liabilities payable:

	Present value of minimum lease payment		Total minimum lease payment	
	2021 RMB'000	2020 RMB'000	**2021 RMB'000**	2020 RMB'000
– Within one year	**479**	613	**505**	688
– More than one year but not later than two years	**–**	462	**–**	489
	479	1,075	**505**	1,177
Less: Future finance charges			**(26)**	(102)
Present value of lease liabilities			**479**	1,075

The weighted average incremental borrowing rates applied to lease liabilities is 7.39% (2020: 7.39% to 7.50%).

(c) The total cash outflow for leases are disclosed in note 30(c) to the consolidated financial statements.

The Group as a lessor

The Group leases parts of its land and one industrial building in PRC under operating lease arrangements. Rental income recognised by the Group during the year was RMB895,000 (2020: RMB895,000).

15. OTHER INTANGIBLE ASSETS

	Intellectual properties RMB'000 (Note)	Software RMB'000	Total RMB'000
Cost at 1 January 2021, net of accumulated amortisation	**228,997**	**28,171**	**257,168**
Additions during the year	**253,818**	**–**	**253,818**
Amortisation provided during the year	**(31,418)**	**(4,174)**	**(35,592)**
Exchange realignment	**2,523**	**–**	**2,523**
At 31 December 2021	**453,920**	**23,997**	**477,917**
At 31 December 2021:			
Cost	**534,639**	**41,736**	**576,375**
Accumulated amortisation	**(80,719)**	**(17,739)**	**(98,458)**
Net carrying amount	**453,920**	**23,997**	**477,917**

	Intellectual properties RMB'000	Software RMB'000	Total RMB'000
Cost at 1 January 2020, net of accumulated amortisation	43,714	32,345	76,059
Additions during the year	198,677	–	198,677
Amortisation provided during the year	(11,016)	(4,174)	(15,190)
Exchange realignment	(2,378)	–	(2,378)
At 31 December 2020	228,997	28,171	257,168
At 31 December 2020:			
Cost	280,821	41,736	322,557
Accumulated amortisation	(51,824)	(13,565)	(65,389)
Net carrying amount	228,997	28,171	257,168

Note:

Pursuant to the Technology License and Cooperation Agreement (the "**Agreement**") with the Institute of Metal Research (the "**IMR**"), the IMR agreed to license certain steel production technologies (the "**Licensed Technologies**") to the Group for a period of 10 years commencing on the date of the Agreement as well as to provide technological services and support to the Group in relation to the application of the Licensed Technologies. The consideration had been satisfied by allotting and issuing 100,000,000 ordinary shares of the Company in December 2019.

Included in licenses is an amount of RMB253,818,000 (2020: RMB198,677,000) representing the carrying amount of the RST license, capitalised in 2021. The license entitles the Group to manufacture products using the RST Technology for 10 years from the date of capitalisation. The net carrying amount will therefore be amortised over the remaining useful lives.

16. EQUITY INVESTMENT DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2021 RMB'000	2020 RMB'000
Equity investment designated at FVTOCI		
Unlisted equity investment, at fair value		
Xiwang Finance	**66,096**	75,498

As at 31 December 2021, the unlisted equity investment with a carrying amount of RMB66,096,000 (2020: RMB75,498,000) represents a 5% equity interest in Xiwang Finance. The above equity investment was irrevocably designated at FVTOCI as the Group considers this investments to be strategic in nature. The Group does not intend to dispose of the investment in the near future.

17. INVENTORIES

	2021 RMB'000	2020 RMB'000
Raw materials	**773,723**	378,714
Work in progress	**361,655**	161,101
Finished goods	**252,166**	260,306
	1,387,544	800,121

During the year ended 31 December 2020, there was a significant increase in the net realisable value of certain finished goods due to market shortage. As a result, a reversal of write-down of RMB17,096,000 had been recognised and included in cost of sales during the year ended 31 December 2020.

18. TRADE AND BILLS RECEIVABLES

	2021 RMB'000	2020 RMB'000
Bills receivable	**–**	41,393
Trade receivables	**58,154**	51,046
Less: loss allowance	**(649)**	(1,434)
Trade receivables, net of impairment	**57,505**	49,612
Trade and bills receivables	**57,505**	91,005

18. TRADE AND BILLS RECEIVABLES (Continued)

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 six months and every 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.

Included in the Group's trade receivables are amounts due from the Group's fellow subsidiaries of RMB7,138,000 (2020: RMB11,162,000), which are repayable on credit terms similar to those offered to the other customers of the Group.

Trade receivables

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2021 **RMB'000**	2020 RMB'000
Within 3 months	**46,589**	24,880
3 to 6 months	**7,936**	19,655
6 months to 1 year	**2,257**	2,772
Over 1 year	**723**	2,305
Trade receivables, net of loss allowance	**57,505**	49,612

The Group generally allows a credit period with a range of 6 months to 1 year to its customers.

The movements in the loss allowance for impairment of trade receivables are as follows:

	2021 **RMB'000**	2020 RMB'000
At beginning of year	**1,434**	510
Impairment losses, net (note 6)	**(785)**	924
At end of year	**649**	1,434

18. TRADE AND BILLS RECEIVABLES (Continued)

Trade receivables (Continued)

In addition, the Group uses practical expedient in estimating ECL on trade receivables which are not assessed individually using a provision matrix. The provision rates are based on aging of debtors as groupings of various debtors taking into consideration the Group's historical default rates and forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The Group considers a financial asset in default when contractual payments are six months past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2021

		Past due			
	Current	Less than 1 month	1 to 6 months	Over 6 months	Total
ECL rate	0.01%	–	–	5.56%	1.12%
Gross carrying amount (RMB'000)	46,595	–	–	11,559	58,154
ECLs (RMB'000)	6	–	–	643	649

18. TRADE AND BILLS RECEIVABLES (Continued)

Trade receivables (Continued)

As at 31 December 2020

		Past due			
	Current	Less than 1 month	1 to 6 months	Over 6 months	Total
ECL rate	0.01%	–	–	5.47%	2.81%
Gross carrying amount (RMB'000)	24,883	–	–	26,163	51,046
ECLs (RMB'000)	3	–	–	1,431	1,434

Bills receivable

	2021 RMB'000	2020 RMB'000
Financial assets at FVTOCI	**–**	41,393

The interest rate of bills receivable is with the range from 4.45% to 4.46% and its maturity is within 6 months.

The bills receivable are held by the Group within a business model whose objective is both to collect their contractual cash flows which are solely payments of principal and interest on the principal amount outstanding and to sell these financial assets. Hence, the bills receivable are classified at FVTOCI.

Details of impairment assessment are set out in note 37.

19. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2021 **RMB'000**	2020 RMB'000
Non-current		
Prepayments for long-term assets	**198,361**	319,083
Current		
Prepayments for raw materials	**1,727,208**	1,385,033
Deposits and other receivables	**150,196**	88,042
Bank interest receivable	**4,225**	6,054
	1,881,629	1,479,129
Less: loss allowance	**(6,318)**	(160)
	1,875,311	1,478,969
	2,073,672	1,798,052

Details of bank interest receivable and impairment assessment are set out in note 37.

19. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS (Continued)

At 31 December 2021, included in the prepayment, other receivables and other assets are prepayments of RMB80,216,000 (2020: RMB76,730,000) due from fellow subsidiaries.

The balance of prepayments which are non-interest-bearing and repayable on demand. Included in due from fellow subsidiaries of Nil were due from a fellow subsidiary through which the Group purchased electricity (note 34(a)).

The credit quality of the financial assets included in deposits and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful". Set out below is the information about the credit risk exposure on the Group's financial assets included in deposits and other receivables:

As at 31 December 2021

	Normal	**Doubtful**	**Total**
ECL rate	**4.2%**	**–**	**4.2%**
Gross carrying amount (RMB'000)	**150,196**	**–**	**150,196**
ECLs (RMB'000)	**6,318**	**–**	**6,318**

As at 31 December 2020

	Normal	Doubtful	Total
ECL rate	0.2%	–	0.2%
Gross carrying amount (RMB'000)	88,042	–	88,042
ECLs (RMB'000)	160	–	160

The movements in the loss allowance for impairment of other receivables are as follows:

	2021 **RMB'000**	2020 RMB'000
At beginning of year	**160**	21,745
Write-offs	**–**	(21,610)
Impairment losses, net (note 6)	**6,158**	25
At end of year	**6,318**	160

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Notes	2021 RMB'000	2020 RMB'000
Pledged deposits and time deposits		**543,288**	847,557
Cash and bank balances		**208,166**	31,474
		751,454	879,031
Less: Pledged deposits:			
Guarantee deposits for certain bank borrowings and other borrowings	23	**(250,000)**	(461,000)
Guarantee deposits for issuance of bills payable	21	**(156,558)**	(27,949)
Frozen deposits		**(12,714)**	(3,270)
Pledged deposits		**(419,272)**	(492,219)
Cash and cash equivalents		**332,182**	386,812

At the end of the reporting period, the cash and bank balances and time deposits balances of the Group denominated in RMB amounted to RMB207,351,000 (2020: RMB30,617,000) and RMB121,700,000 (2020: RMB354,350,000). The RMB is not freely convertible into other currencies, however, under PRC 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.

Included in the Group's cash and bank balances are deposits of RMB207,210,000 (2020: RMB16,407,000) and time deposits of RMB121,700,000 (2020: RMB354,350,000) placed with Xiwang Finance, which is a financial institution approved by the People's Bank of China ("**PBOC**"). The effective interest rate of these deposits ranges from 0.30% to 2.10% (2020: 0.30% to 2.10%) per annum, which allows banks to refer to the savings interest rate provided by the PBOC and float on the basis of the PBOC's benchmark interest rate.

21. TRADE AND BILLS PAYABLES

	2021 RMB'000	2020 RMB'000
Trade payables	**1,724,142**	1,975,908
Bills payable	**529,981**	159,958
	2,254,123	2,135,866

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

	2021 RMB'000	2020 RMB'000
Within 1 month	**949,008**	899,221
1 to 3 months	**556,542**	527,344
3 to 6 months	**187,092**	176,828
6 to 12 months	**157,789**	149,296
Over 12 months	**403,692**	383,177
	2,254,123	2,135,866

As at 31 December 2021, the Group's bills payable amounting to RMB313,116,000 (2020: RMB55,898,000) were secured by the pledged deposits of RMB156,558,000 (2020: RMB27,949,000) (note 20).

At 31 December 2021, included in the trade and bills payables are trade payables of RMB6,684,000 (2020: RMB2,634,000) due to fellow subsidiaries which are non-interest-bearing and repayable on demand.

The Group's certain bills payable are guaranteed by certain related parties, as further detailed in note 34(b)(i) to the consolidated financial statements.

The trade and bills payables are non-interest-bearing and are settled with a range from six months to 1 year.

22. OTHER PAYABLES AND ACCRUALS/CONTRACT LIABILITIES

Other payables and accruals

	2021 RMB'000	2020 RMB'000
Construction and equipment payables	**479,095**	357,432
Other tax payables	**8,900**	7,059
Other payables	**137,678**	120,035
Salaries and welfare payables	**26,808**	30,493
Deferred revenue (Note)	**8,308**	11,971
	660,789	526,990

Note: Assets related governments grants on the project on research and development.

As at 31 December 2021, included in other payables are outstanding balances of RMB10,487,000 (2020: RMB18,563,000) due to fellow subsidiaries, and of RMBNil (2020: RMB11,513,000) due to Xiwang Investment, which are non-interest-bearing and repayable on demand.

Contract liabilities

Details of contract liabilities are as follows:

	2021 RMB'000	2020 RMB'000
Short-term advances received from customers		
Sale of goods	**3,389,324**	2,256,367

22. OTHER PAYABLES AND ACCRUALS/CONTRACT LIABILITIES (Continued)

Contract liabilities (Continued)

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

Sale of industrial products

When the Group receives a deposit before the production activity commences, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the relevant contract.

Movements in contract liabilities

	2021 RMB'000	2020 RMB'000
As at 1 January	**2,256,367**	1,179,761
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	**(2,256,367)**	(586,071)
Disposal of a subsidiary	**(38,384)**	–
Deposits received in respect of production activity in progress	**3,427,708**	1,662,677
As at 31 December	**3,389,324**	2,256,367

23. INTEREST-BEARING BANK AND OTHER BORROWINGS

		31 December 2021			31 December 2020		
	Notes	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current							
Interest-bearing bank borrowings – secured	(i)&(ii)&(v)	4.35-15.40	2022	1,052,669	3.35-15.40	2021	908,966
Interest-bearing other borrowings – secured	(i)&(ii)&(iii) &(iv)&(v)	2.90-11.80	2022	2,307,042	2.84-11.80	2021	1,815,731
Interest-bearing other borrowings – unsecured	(ii)&(v)	–	–	–	4.45-4.46	2021	38,218
Borrowings from Xiwang Finance – unsecured	(v)	–	–	–	4.00-5.97	2021	82,768
Guaranteed secured bonds	(vii) & 24	10.00	2022	181,157	10.00	2021	195,681
				3,540,868			3,041,364
Non-current							
Long term interest-bearing bank borrowings – secured	(ii)	–	–	–	13.50-15.40	2022	535,964
Long term interest-bearing other borrowings – secured	(ii)&(iii)&(iv)	–	–	–	7.80-11.80	2022	651,963
Long term borrowing from Xiwang Finance – unsecured		5.97	2023	33,791			–
				33,791			1,187,927
				3,574,659			4,229,291

	2021 RMB'000	2020 RMB'000
Analysed into:		
Bank and other borrowings repayable:		
Within one year	3,540,868	3,041,364
In the second year	33,791	1,187,927
	3,574,659	4,229,291

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

Notes:

(i) As at 31 December 2021, the Group's interest-bearing borrowings of RMB482,590,000 (2020: RMB987,352,000) were secured by pledged deposits of RMB250,000,000 (2020: RMB461,000,000) (note 20).

(ii) As at 31 December 2021, the Group's interest-bearing borrowings of RMB3,359,712,000 (2020: RMB3,912,624,000) were guaranteed by certain related parties, as further detailed in note 34(b)(ii) to the consolidated financial statements.

(iii) As at 31 December 2021, the Group's other borrowings of RMB382,000,000 (2020: RMB382,000,000) were secured by 100% equity interests of the subsidiary, Shandong Xiwang Recycling Resources Company Limited (note 1).

(iv) As at 31 December 2021, the Group's other borrowings of RMB1,617,749,000 (2020: RMB1,705,913,000) were secured by a net carrying amount of approximately RMB3,336,594,000 (2020: RMB3,600,057,000) of the Group's machinery and equipment, motor vehicles and office equipment and fixtures (note 13).

(v) As at 31 December 2021, interest-bearing bank and other borrowings of approximately RMB729,996,000 (2020: RMB1,455,240,000) were advances from the unrecognised Discounted Bills (note 29).

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

24. DEFERRED TAX

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

Deferred tax assets

	Financial assets at FVTOCI RMB'000	Tax losses RMB'000	Unrealised profits RMB'000	Write-down of inventories RMB'000	Provision for ECL on trade and other receivables RMB'000	Total RMB'000
At 1 January 2020	3,408	–	1,759	4,274	5,360	14,801
Credited/(charged) to profit or loss during the year (note 10)	–	11,007	529	(4,274)	(4,975)	2,287
Charged to other comprehensive income during the year	(435)	–	–	–	–	(435)
At 31 December 2020	2,973	11,007	2,288	–	385	16,653
Disposal of a subsidiary (note 38)	**–**	**(3,358)**	**–**	**–**	**–**	**(3,358)**
Credited/(charged) to profit or loss during the year (note 10)	**–**	**37,516**	**(2,288)**	**–**	**1,356**	**36,584**
Charged to other comprehensive income during the year	**(1,410)**	**–**	**–**	**–**	**–**	**(1,410)**
At 31 December 2021	**1,563**	**45,165**	**–**	**–**	**1,741**	**48,469**

24. DEFERRED TAX (Continued)

Deferred tax liabilities

	2021 RMB'000	2020 RMB'000
At 1 January	**33,328**	33,542
Deferred tax in respect of withholding tax on the distributable profits charged/(credited) during the year (note 10)	**241**	(214)
At 31 December	**33,569**	33,328

Pursuant to the 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 PRC. A lower withholding tax rate may be applied if there is a tax treaty between PRC 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 PRC in respect of earnings generated from after 31 December 2017.

At 31 December 2021, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was RMB671,784,000 (2020: RMB699,576,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

The Group had unused tax losses arising in Hong Kong of approximately RMB67,621,000 as at 31 December 2021 (2020: RMB65,036,000), that are available for offsetting against future taxable profits of the Company in which the losses arose. Deferred tax assets have 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 whether future profits will be available against which tax losses can be utilised in the foreseeable future.

25. OTHER LONG TERM PAYABLE

On 23 December 2015, the Company, Xiwang Metal Science & Technology and Zouping Finance Bureau entered into an investment agreement with China Development Fund Company Limited ("**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. Based on the terms of the investment agreement, CD Fund has the right to request Zouping Finance Bureau to purchase the equity interest of the Company owned by CD Fund within 15 years. The Company shall pay CD Fund quarterly dividends at an annual rate of return amounting to 1.2% of the capital investment. Based on the terms of the investment agreement, Xiwang Metal Science & Technology, which is a subsidiary of the Company, has a contractual obligation to CD Fund in the event of uncertain future events such as liquidation, dissolution or termination of the Company that are beyond the control of the Group. As Xiwang Metal Science & Technology does not have the unconditional right to avoid delivering cash, the capital investment of RMB161,000,000 made by CD Fund to the Company was recorded as a financial liability. During the year ended 31 December 2020, capital investment of RMB31,000,000 was repaid by the Group.

26. SHARE CAPITAL

	2021 RMB'000	2020 RMB'000
Issued and fully paid:		
2,369,110,999 (2020: 2,369,110,999) ordinary shares	**1,369,681**	1,369,681

27. 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 HKD5 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 HKD1 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.

27. SHARE OPTION SCHEME (Continued)

The fair value of equity-settled share options granted was estimated as at the date of grant using the 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 12 April 2017:

Dividend yield (%)	–
Expected volatility (%)	46
Risk-fee interest rate (%)	1.18
Expected life of options (years)	1.00 – 5.00

As at 31 December 2021 and 2020, 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 2021**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**As at 31 December 2021**	**Exercise price per share HKD**
25 August 2016	**3,766,667**	**–**	**–**	**(3,766,667)**	**–**	**0.730**
12 April 2017	**200,000**	**–**	**–**	**–**	**200,000**	**1.380**
Total	**3,966,667**	**–**	**–**	**(3,766,667)**	**200,000**	

	Number of share options					
Date of grant	As at 1 January 2020	Granted during the year	Exercised during the year	Lapsed during the year	As at 31 December 2020	Exercise price per share HKD
25 August 2016	3,766,667	–	–	–	3,766,667	0.730
12 April 2017	200,000	–	–	–	200,000	1.380
Total	3,966,667	–	–	–	3,966,667	

27. SHARE OPTION SCHEME (Continued)

No share options were exercised during the year (2020: Nil).

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

Date of grant	Number of options	Exercise price HKD per share	Exercise period
12 April 2017	200,000	1.380	12 April 2019 to 11 April 2022

No share option was granted during the years ended 31 December 2021 and 2020.

At the end of the reporting period, the Company had 200,000 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 200,000 additional ordinary shares of the Company and additional share capital of HKD276,000 (equivalent to RMB226,000) (2020: RMB2,547,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 200,000 (2020: 3,966,667) share options outstanding under the Scheme, which represented approximately 0.01% (2020: 0.17%) of the Company's shares in issue as at that date.

28. RESERVES

(a) In accordance with PRC Company Law and the respective articles of association of the subsidiaries registered in PRC (the "**PRC Subsidiaries**"), each of 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 engaging 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.

(c) The Group's other reserve includes the deemed contribution from the Company's ultimate holding company's borrowings.

29. TRANSFERS OF FINANCIAL ASSETS

Transferred financial assets that are not derecognised in their entirety

Bills discounted

As at 31 December 2021, certain bills receivable within the Group were discounted by two banks and certain companies in PRC (the "**Discounted Bills**") with carrying amounts of RMB752,000,000 (2020: RMB1,507,219,000). In the opinion of the directors, the Group had retained the substantial risks and rewards, which include default risks relating to the Discounted Bills, and accordingly, advances from the discounting of the Group's Discounted Bills had been accounted for as interest-bearing bank and other borrowings in the consolidated statement of financial position. The aggregate carrying amount of the Discounted Bills as at 31 December 2021 was RMB752,000,000 (2020: RMB1,507,219,000) and the carrying amount of bank advances on the Discounted Bills as at 31 December 2021 was RMB729,996,000 (2020: RMB1,455,240,000).

Financial assets that are derecognised in their entirety

Bills discounted

As at 31 December 2021, certain bills receivable were discounted by two banks in PRC with a carrying amount of RMB281,506,000 (2020: RMB101,448,300). In the opinion of the directors, the Group had transferred substantially all risks and rewards relating to the Discounted Bills. Accordingly, it had derecognised the full carrying amount 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 was equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's continuing involvement in the Discounted Bills were not significant.

During the year ended 31 December 2021, losses were recognised in "finance costs" on the date of transfer of the Discounted Bills of RMB51,210,000 (2020: RMB21,889,000). No gains or losses were recognised from the continuing involvement, both during the year or cumulatively.

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year ended 31 December 2020, the Group entered into new lease agreements for the use of leased properties for two years. On the lease commencement, the Group recognised RMB1,094,000 right-of-use assets and RMB1,094,000 lease liabilities.

(b) Changes in liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Bank and other loans RMB'000 (note 23)	**Lease liabilities** RMB'000 (note 14(b))	**Amount due to the ultimate holding company** RMB'000 (note 34(d)(ii))	**Total** RMB'000
At 1 January 2020	3,737,904	826	1,594	3,740,324
Changes from financing cash flows	353,884	(847)	(1,151)	351,886
New leases	–	1,094	–	1,094
Exchange realignment	(31,497)	(59)	–	(31,556)
Interest expense	169,000	61	4	169,065
At 31 December 2020	4,229,291	1,075	447	4,230,813
Changes from financing cash flows	**(868,906)**	**(621)**	**(4)**	**(869,531)**
Exchange realignment	**(26,857)**	**(15)**	**–**	**(26,872)**
Accrual interest	**(48,298)**	**–**	**–**	**(48,298)**
Interest expense	**289,429**	**40**	**4**	**289,473**
At 31 December 2021	**3,574,659**	**479**	**447**	**3,575,585**

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(c) Total cash outflow for leases

The total cash outflow for leases included in the consolidated statement of cash flows is as follows:

	2021 RMB'000	2020 RMB'000
Within operating activities	**5,116**	4,902
Within financing activities	**621**	847
	5,737	5,749

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**"). On 19 January 2021, the Company entered into a supplementary guarantee agreement with Xiwang Group to revise the terms and conditions.

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 from the Group to Xiwang Group and the Relevant Subsidiaries (including but not limited to the borrowings provided by Xiwang Group to the Group) and the aggregate amount of the Group's borrowings which is guaranteed and/or secured by Xiwang Group and the Relevant Subsidiaries, less the aggregate amount due from Xiwang Group and the Relevant Subsidiaries to the Group (including but not limited to the deposits placed by the Group with Xiwang Finance) (the "**Outstanding Amount**") and shall be subject to the maximum cap of RMB5 billion. For all the guarantee amount provided by the Group to the lenders, Xiwang Group would have provided a counter guarantee to the Group.

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.

31. CONTINGENT LIABILITIES (Continued)

As at 31 December 2021 and 2020, contingent liabilities not provided for in the financial statements in respect of the Guarantee Amount were as follows:

	2021 RMB'000	2020 RMB'000
Guarantees given to banks in connection with facilities:		
Granted to Xiwang Group	**1,400,000**	1,400,000
Granted to the Relevant Subsidiaries	**2,790,000**	2,754,960
	4,190,000	4,154,960

As at 31 December 2021, the Outstanding Amount was RMB3,489,130,000 (2020: RMB3,917,480,000).

32. PLEDGE OF ASSETS

Details of the Group's assets pledged for the bills payable, interest-bearing and other borrowings of the Group and fellow subsidiaries, and the counter guarantee are included in notes 13, 14(a) and 20 to the consolidated financial statements.

33. COMMITMENTS

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

	2021 RMB'000	2020 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	**577,209**	782,522

34. MATERIAL 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	**2021 RMB'000**	2020 RMB'000
Rental expenses to Xiwang Group	34(a)(i)	**183**	183
Rental expenses to a fellow subsidiary	34(a)(i)		
– Lease of land		**720**	733
Delivery service fees to a fellow subsidiary	34(a)(i)		
– Delivery of steel		**3,133**	849
– Delivery of ore-powder		**5,571**	14,520
Interest expenses on borrowings from Xiwang Group	34(a)(ii)	**4**	4
Interest expenses on borrowings from Xiwang Finance	34(a)(iii)	**2,067**	2,933
Interest on discounted bills paid to Xiwang Finance	34(a)(iii)	**43**	5,173
Interest income from Xiwang Finance	34(a)(iii)	**2,932**	8,917
Sale of steam to a fellow subsidiary	34(a)(iv)	**22,672**	29,558
Sale of heat energy to a fellow subsidiary	34(a)(iv)	**1,439**	8,409
		24,111	37,967
Sale of water to fellow subsidiaries	34(a)(iv)	**8,368**	13,768
Purchase of diesel oil from a fellow subsidiary	34(a)(v)	**13,019**	10,966
Purchase of water from a fellow subsidiary	34(a)(v)	**1,415**	1,236
Purchase of scrap from fellow subsidiaries	34(a)(v)	**1,100**	811
Purchase of electricity through a fellow subsidiary	34(a)(vi)	**969,158**	798,549
Bills discounting service from Xiwang Finance	34(a)(vii)	**–**	128,270
Bills acceptance service from Xiwang Finance	34(a)(vii)	**578,800**	746,000

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

(ii) The interest expenses to Xiwang Group for the year amounted to RMB4,000 (2020: RMB4,000) (note 7).

(iii) Details of deposits and the interest-bearing borrowings from Xiwang Finance are disclosed in notes 20 and 23 to the consolidated financial statements. The interest expenses to Xiwang Finance for the year amounted to RMB2,067,000 (2020: RMB2,933,000) (note 7).

(iv) The selling prices of steam, steel, heat energy and water offered to fellow subsidiaries were mutually agreed between both parties.

(v) The purchase prices of diesel oil, water and scrap from fellow subsidiaries were mutually agreed between both parties.

(vi) The electricity was purchased through a fellow subsidiary as an agent of the local power bureau. The purchase prices of electricity were mutually agreed between both parties. The Group paid the fellow subsidiary with a total amount of RMB1,115,850,000 (2020: RMB730,689,000) for electricity consumption. The Group entered into the new agreement during the year ended 31 December 2020.

(vii) The bills discounting and bills acceptance services from Xiwang Finance for the year amounted to RMBNil and RMB578,800,000 (2020: RMB128,270,000 and RMB746,000,000) respectively.

34. MATERIAL RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(b) Other related party transactions

(i) Certain bills payable are guaranteed by certain related parties as follows:

	Note	2021 RMB'000	2020 RMB'000
Xiwang Group, Mr. Wang Yong, a controlling shareholder of the Company and Mr. Wang Di, the Chairman, jointly and severally	21	**313,116**	55,898

(ii) Certain interest-bearing borrowings are guaranteed by certain related parties as follows:

	Note	2021 RMB'000	2020 RMB'000
Mr. Wang Yong	23	**241,192**	247,917
Certain ordinary shares of a fellow subsidiary			
Certain convertible preference shares of a fellow subsidiary			
Xiwang Group	23	**649,790**	649,790
Mr. Wang Di and Ms. Su Xin (spouse of Mr. Wang Di) jointly and severally			
Mr. Wang Yong and Ms. Zhang Shufang (spouse of Mr. Wang Yong) jointly and severally			
Certain land and buildings from fellow subsidiaries			
Certain machinery and equipment from a fellow subsidiary			
Certain shares of fellow subsidiaries			
Xiwang Group	23	**1,068,550**	1,155,006
Xiwang Group and a fellow subsidiary	23	**304,064**	304,310
Xiwang Group, Mr. Wang Yong and Mr. Wang Di jointly and severally	23	**714,116**	688,444
Mr. Wang Yong and Mr. Wang Di jointly and severally	23	**382,000**	382,000
Two fellow subsidiaries jointly and severally	23	**–**	485,157
		3,359,712	3,912,624

34. MATERIAL RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(b) Other related party transactions (Continued)

(iii) The Group provided guarantee services to Xiwang Group and the Relevant Subsidiaries during the years ended 31 December 2021 and 2020, details of which are included in note 31 to the consolidated financial statements.

(iv) At 31 December 2021, as part of the guarantee services provided by the Group to Xiwang Group and the Relevant Subsidiaries as disclosed in note 34(b)(iii) above, certain of the Group's buildings, leaseholds land and machinery and equipment with net carrying amounts of approximately RMB1,317,709,000 (2020: RMB1,357,845,000) (note 13), RMB86,605,000 (2020: RMB88,805,000) (note 14) and 357,216,000 (2020: RMB395,473,000) (note 13) were pledged to secure other borrowings of RMB978,000,000 (2020: RMB990,230,000) of fellow subsidiaries.

(v) At 31 December 2021, as part of the guarantee services provided by the Group to Xiwang Group and the Relevant Subsidiaries as disclosed in note 34(b)(iii) above, 99.10% (2020: 88.48%) equity interests of the subsidiary, Xiwang Special Steel Company Limited, the PRC subsidiary, have been pledged for other borrowings of fellow subsidiaries of RMB804,000,000 (2020: RMB675,000,000) (note 1).

(vi) At 31 December 2021, as part of the guarantee services provided by the Group to Xiwang Group and the Relevant Subsidiaries as disclosed in note 34(b)(iii) above, 100% (2020: 100%) equity interests of the subsidiary, Xiwang Metal Science & Technology, have been pledged for other borrowings of the ultimate holding company of RMB1,400,000,000 (2020: RMB1,400,000,000) (note 1).

(c) Commitments with related parties

The Group leases certain land from Xiwang Group and leases certain land and vehicles from a fellow subsidiary under short-term leases. The total amounts of lease of land from a fellow subsidiary for the year are disclosed in note 34(a)(i) to the consolidated financial statements.

(d) Outstanding balances with related parties

(i) The Group had long term interest-bearing borrowings from Xiwang Finance, a fellow subsidiary, as at 31 December 2021 and 2020. Details of the interest-bearing borrowings from Xiwang Finance are disclosed in note 23 to the consolidated financial statements.

The Group had certain deposits placed with Xiwang Finance as at 31 December 2021 and 2020. Details of the deposits in Xiwang Finance are disclosed in note 20 to the consolidated financial statement.

(ii) The balance of the Group's borrowings of approximately RMB447,000 (2020: RMB447,000) from its ultimate holding company on 31 December 2021 and 2020 is unsecured and repayable on demand.

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

34. MATERIAL RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

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

	2021 RMB'000	2020 RMB'000
Employee benefit expenses	**6,842**	6,258
Equity-settled share option expenses	**–**	–
Pension scheme contributions	**189**	136
Total compensation paid to key management personnel	**7,031**	6,394

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

35. 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:

2021
Financial assets

	Equity investments at FVTOCI RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Equity investments at FVTOCI	66,096	–	66,096
Trade and bills receivables	–	57,505	57,505
Financial assets included in prepayments, other receivables and other assets	–	148,103	148,103
Pledged deposits	–	419,272	419,272
Cash and cash equivalents	–	332,182	332,182
	66,096	957,062	1,023,158

35. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2020

Financial assets

	Financial assets at FVTOCI			
	Bills receivable RMB'000	Equity investments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Equity investments at FVTOCI	–	75,498	–	75,498
Trade and bills receivables	41,393	–	49,612	91,005
Financial assets included in prepayments, other receivables and other assets	–	–	93,936	93,936
Pledged deposits	–	–	492,219	492,219
Cash and cash equivalents	–	–	386,812	386,812
	41,393	75,498	1,022,579	1,139,470

Financial liabilities

	2021 RMB'000	2020 RMB'000
Trade and bills payables (note 21)	**2,254,123**	2,135,866
Financial liabilities included in other payables and accruals	**616,773**	477,467
Borrowings from ultimate holding company (note 34(d)(ii))	**447**	447
Interest-bearing bank and other borrowings (note 23)	**3,574,659**	4,229,291
Other long term payable (note 25)	**130,000**	130,000
Dividend payables (note 11)	**290,369**	290,369
Lease liabilities (note 14(b))	**479**	1,075
Total	**6,866,850**	7,264,515

36. 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 bank balances, pledged deposits, trade and bills receivables, other receivables and other assets, trade and bills payables, other payables and accruals, dividend payables, borrowings from the ultimate holding company and the current portion of interest-bearing bank and other borrowings approximate 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 of 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 changes in fair value as a result of 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 2021 and 2020 were assessed to be insignificant.

36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

As at 31 December 2021 and 2020, the unlisted equity investment designated at FVTOCI has been estimated using a market-based valuation technique on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and to calculate an appropriate price multiple, such as price-to-book ("**P/B**") ratio (excluding goodwill) multiple, for each comparable company identified. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

As at 31 December 2021 and 2020, the mark-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.

For the fair value of the unlisted equity investments at FVTOCI, management has estimated the potential effect of using reasonably possible alternatives as inputs to the valuation model.

Below is a summary of significant unobservable inputs to valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2021 and 2020:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted equity investment	Valuation multiples	Average P/B ratio multiple of peers (Or Average P/E multiple of peers)	2021: 0.66 (2020: 0.77)	5% (2020: 5%) increase/ decrease in multiple would result in increase/ decrease in fair value by RMB3,058,000 (2020: RMB3,934,000)
		Discount for lack of marketability	2021: 15.80% (2020: 15.80%)	5% (2020: 5%) increase/ decrease in discount would result in decrease/ increase in fair value by RMB620,000 (2020: RMB709,000)

The fair values of bills receivable at FVTOCI included in level 2 category have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant unobservable input being the discount rate that reflects the credit risk of counterparties. The higher the discount rate, the lower the fair value is.

The discount for lack of marketability represents the amounts of premiums and discounts determined by the Group that market participants would take into account when pricing the investments.

36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Reconciliation of Level 3 fair value measurements

	Unlisted equity investment RMB'000
At 1 January 2020	83,282
Total losses:	
– in other comprehensive income	(7,784)
At 31 December 2020	75,498
Total losses:	
– in other comprehensive income	(9,402)
At 31 December 2021	66,096

Included in other comprehensive income is an amount of RMB9,402,000 (2020: RMB7,784,000) loss relating to unlisted equity investment held at the end of the current reporting period and is reported as changes of fair value reserve.

36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

As at 31 December 2021

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Equity investments designated at FVTOCI	**–**	**–**	**66,096**	**66,096**

As at 31 December 2020

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Equity investments designated at FVTOCI	–	–	75,498	75,498
Bills receivable at FVTOCI	–	41,393	–	41,393
	–	41,393	75,498	116,891

During the year, 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.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise trade and bills receivable, other receivables and other assets, pledged deposits, bank balances, trade and bill payables, other payables and accruals, dividend payables, lease liabilities, interest-bearing bank and other borrowings, borrowings from the ultimate holding company and other long term payable. The main purpose of these financial instruments is to raise finance for the Group's operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, other price 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 fair value interest rate risk in relation to fixed-rate interest-bearing bank and other borrowings, bills receivable and lease liabilities. The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances.

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 consolidated 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, all of the Group's interest-bearing bank and other borrowings bore interest at fixed rates and the Group considered interest rate risk is insignificant and thus no sensitivity analysis is presented.

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.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk (Continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the United States dollar exchange rates, with all other variables held constant, of the Group's profit after tax and the Group's equity.

	Increase/ (decrease) in foreign exchange rate	Increase/ (decrease) in post-tax profit RMB'000
2021		
If the United States weakens against the RMB	**(5%)**	**6,134**
If the United States strengthens against the RMB	**5%**	**(6,134)**
If the Hong Kong dollar weakens against the RMB	**(5%)**	**10,028**
If the Hong Kong dollar strengthens against the RMB	**5%**	**(10,028)**
2020		
If the United States weakens against the RMB	(5%)	9,595
If the United States strengthens against the RMB	5%	(9,595)
If the Hong Kong dollar weakens against the RMB	(5%)	10,529
If the Hong Kong dollar strengthens against the RMB	5%	(10,529)

Other price risk

The Group is exposed to equity price risk through its investments in equity investment measured at FVTOCI. The Group invested in 5% equity interest in finance industry sector for long term strategic purposes which had been designated as FVTOCI. The Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

Details of the sensitivity analysis of equity investment with fair value measurement categorised within Level 3 are set out in note 36.

37. 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.

Other receivables and other assets

In relation to other receivables and other assets, the Group has assessed that the ECL for these receivables under the general approach. Impairment loss of approximately RMB6,158,000 (2020: RMB25,000) was made. The Group performs impairment assessment on the balances on a periodic basis. In determining the ECL of other receivables and other assets, the Group has taken into account the financial position of the counterparties, the industries they operate, their latest operating result where available as well as forward-looking information that is available without undue cost or effort.

Pledged bank deposits and bank balances

Credit risk on pledged bank deposits, bills receivable, bank interest receivable and bank balances is limited because the counterparties are reputable banks with high credit ratings assigned by international credit agencies. The Group assessed 12m ECL for pledged bank deposits, bills receivable and bank balances by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. The credit risk is insignificant and no loss allowance is recognised.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The Group is exposed to minimal liquidity risk as a substantial portion of its financial assets and financial liabilities are due within one year and it can finance its operations from existing shareholders' funds and internally generated cash flows.

In the management of the liquidity risk, the Group monitors and maintains a level of bank balances and cash deemed adequate by the directors of the Company to finance the Group's operations and mitigate the effect of fluctuations in cash flows. The directors of the Company monitor current and expected liquidity requirements on a regular basis.

The following tables detail the Group's contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Group can be required to pay. The tables include both interest and principal cash flows.

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 2021					
	Weighted average interest rate %	On demand or less than 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total contractual undiscounted cash flow RMB'000	Carrying amount RMB'000
Lease liabilities	7.39	505	–	–	505	479
Interest-bearing bank and other borrowings	2.84-15.4	3,657,504	34,390	–	3,691,894	3,574,659
Trade and bills payables	–	2,254,123	–	–	2,254,123	2,254,123
Borrowings from the ultimate holding company	0.8	447	–	–	447	447
Financial liabilities included in other payables and accruals	–	331,577	285,196	–	616,773	616,773
Other long term payable	1.2	1,560	55,629	83,819	141,008	130,000
Dividend payable	–	290,369	–	–	290,369	290,369
		6,536,085	375,215	83,819	6,995,119	6,866,850

	31 December 2020					
	Weighted average interest rate %	On demand or less than 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total contractual undiscounted cash flow RMB'000	Carrying amount RMB'000
Lease liabilities	7.39-7.50	688	489	–	1,177	1,075
Interest-bearing bank and other borrowings	2.84-15.4	3,310,315	1,252,115	–	4,562,430	4,229,291
Trade and bills payables	–	2,135,866	–	–	2,135,866	2,135,866
Borrowings from the ultimate holding company	0.8	447	–	–	447	447
Financial liabilities included in other payables and accruals	–	300,507	176,950	–	477,467	477,467
Other long term payable	1.2	1,560	56,206	84,803	142,569	130,000
Dividend payable	–	290,369	–	–	290,369	290,369
		6,039,752	1,485,760	84,803	7,610,325	7,264,515

37. 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 2021 and 2020.

The Group monitors capital using a gearing ratio, which is total interest-bearing debt divided by total assets. Total debt includes interest-bearing bank and other borrowings, borrowings from the ultimate holding company, lease liabilities and other long term payable. The Group's policy is to maintain the gearing ratio below 30%. The gearing ratios as at the end of the reporting periods were as follows:

	Notes	**2021** **RMB'000**	2020 RMB'000
Interest-bearing bank and other borrowings	23	**3,574,659**	4,229,291
Other long term payable	25	**130,000**	130,000
Borrowings from the ultimate holding company	34(d)(ii)	**447**	447
Lease Liabilities	14(b)	**479**	1,075
Total debt		**3,705,585**	4,360,813
Total assets		**16,168,870**	15,369,929
Gearing ratio		**22.9%**	28.4%

38. DISPOSAL OF A SUBSIDIARY

On 9 October 2021, the Group entered into a sale agreement to dispose of Xiwang Special Steel International Trade (Binzhou) Company Limited. The disposal was completed on 9 October 2021, on which date control of of Xiwang Special Steel International Trade (Binzhou) Company Limited passed to the acquirer. Details of the assets and liabilities disposed of, and the calculation of the profit or loss on disposal, are disclosed as follows:

The net liabilities of Xiwang Special Steel International Trade (Binzhou) Company Limited at the date of disposal were as follows:

	RMB'000
Deferred tax assets	3,358
Inventories	21,871
Trade and bills receivables	18,685
Prepayment and other receivables	14,254
Cash and cash equivalents	6
Trade and bills payables	(10,779)
Other payables and accruals	(18,176)
Contract liabilities	(38,384)
Net liabilities disposed of	(9,165)
Gain on disposal of a subsidiary	
Consideration	–
Net liabilities disposed of	9,165
Gain on disposal	9,165
Net cash outflow arising on disposal:	
cash and cash equivalents disposed of	(6)

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:

	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS		
Other intangible assets	**23,939**	32,858
Investments in subsidiaries	**1,368,316**	1,368,316
Right-of-use assets	**435**	1,049
Total non-current assets	**1,392,690**	1,402,223
CURRENT ASSETS		
Prepayments and other receivables	**1,033,228**	1,073,865
Cash and cash equivalents	**294**	206
Total current assets	**1,033,522**	1,074,071
CURRENT LIABILITIES		
Other payables and accruals	**220,137**	244,997
Dividend payables	**290,369**	290,369
Lease liabilities	**479**	613
Interest-bearing bank and other borrowings	**417,772**	443,598
Total current liabilities	**928,757**	979,577
NET CURRENT ASSETS	**104,765**	94,494
Total assets less current liabilities	**1,497,455**	1,496,717
NON-CURRENT LIABILITY		
Lease liabilities	**–**	462
Total non-current liabilities	**–**	462
Net assets	**1,497,455**	1,496,255
CAPITAL AND RESERVES		
Share capital	**1,369,681**	1,369,681
Reserves (note)	**127,774**	126,574
Total equity	**1,497,455**	1,496,255

The Company's statement of financial position was approved and authorised for issue by the board of directors on 31 March 2022 and are signed on its behalf by:

Wang Di
Director

Sun Xinhu
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 option reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total reserves RMB'000
At 1 January 2020	(20,936)	1,051	(297,394)	(317,279)
Profit for the year	–	–	437,345	437,345
Exchange differences on translation of foreign operations	6,508	–	–	6,508
At 31 December 2020	(14,428)	1,051	139,951	126,574
Profit for the year	**–**	**–**	**599**	**599**
Exchange differences on translation of foreign operations	**601**	**–**	**–**	**601**
Transfer of share option reserve upon the lapse of share options	**–**	**(759)**	**759**	**–**
At 31 December 2021	**(13,827)**	**292**	**141,309**	**127,774**

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2022.

Five-year Financial Summary

	2021	2020	2019	2018	2017
For the year (RMB million)					
Revenue	**19,116**	15,288	11,170	11,917	12,362
Gross profit	**784**	469	705	1,967	2,025
EBITDA[(1)]	**946**	705	801	1,959	1,816
Net profit	**65**	18	20	962	898
As at 31 December (RMB million)					
Current assets	**4,072**	3,249	2,973	3,717	1,871
Non-current assets	**12,097**	12,121	10,472	10,680	10,797
Total assets	**16,169**	15,370	13,445	14,397	12,668
Current liabilities	**10,187**	8,287	7,110	7,717	5,412
Non-current liabilities	**197**	1,352	614	683	2,110
Total liabilities	**10,384**	9,639	7,724	8,400	7,522
Total equity	**5,785**	5,731	5,721	5,997	5,146
Total liabilities and equity	**16,169**	15,370	13,445	14,397	12,668
Per share (RMB)					
Earnings per share					
Basic	**0.0274**	0.0078	0.0087	0.427	0.442
Diluted	**n/a**	n/a	n/a	0.392	0.419
Dividends per share	**–**	–	–	0.128	0.130

Note:

(1) EBITDA refers to profit before tax plus finance cost, depreciation and amortisation of prepaid land lease payments (prior to the adoption of HKFRS 16) and other intangible assets.

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