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XIWANG SPECIAL STEEL COMPANY LIMITED

西王特鋼有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1266)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

	For the six months ended 30 June	
	2017	2016
Sales volume of Steel (<i>tonnes</i>)	1,478,401	1,346,006
Revenue (<i>RMB</i>)		
Ordinary Steel – Rebar	2,244 million	1,323 million
Ordinary Steel – Wire Rod	1,009 million	527 million
Special Steel – Quality carbon structural steel	734 million	564 million
Special Steel – Others (Alloy structural steel, bearing steel and Ingot)	468 million	185 million
Trading of commodities and sales of by-products	1,137 million	735 million
Total	<u>5,592 million</u>	<u>3,334 million</u>
Gross profit (<i>RMB</i>)	750.3 million	473.8 million
Gross profit per tonne (<i>RMB</i>) – Productions and sales of steel	501 yuan	345 yuan
Profit attributable to owners (<i>RMB</i>)	309.2 million	162.1 million
Net profit margin	5.5%	4.9%
Basic earnings per share (<i>RMB</i>)	15.41 cents	8.08 cents

The board (the “**Board**”) of directors (the “**Directors**”) of Xiwang Special Steel Company Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2017 (the “**Period**”), together with the comparative figures, as follows. The consolidated results are unaudited, but have been reviewed by the Company’s audit committee (“**Audit Committee**”).

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	<i>Notes</i>	Six months ended 30 June	
		2017	2016
		RMB’000	RMB’000
		(Unaudited)	(Unaudited)
REVENUE	3	5,592,000	3,333,868
Cost of sales		<u>(4,841,741)</u>	<u>(2,860,111)</u>
GROSS PROFIT		750,259	473,757
Other income and gain	3	4,335	8,399
Selling and distribution expenses		(43,375)	(5,651)
Administrative expenses		(20,258)	(29,603)
Other expenses		(6,948)	(1,285)
Research and development costs		<u>(117,041)</u>	<u>(92,683)</u>
OPERATING PROFIT		566,972	352,934
Finance costs	5	<u>(152,417)</u>	<u>(167,241)</u>
PROFIT BEFORE TAX	4	414,555	185,693
Income tax expense	6	<u>(105,360)</u>	<u>(23,608)</u>
PROFIT FOR THE PERIOD		<u>309,195</u>	<u>162,085</u>
Profit attributable to owners of the parent		<u>309,195</u>	<u>162,085</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7		
Basic		RMB15.41 cents	RMB8.08 cents
Diluted		<u>RMB15.38 cents</u>	<u>RMB8.08 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	<u>309,195</u>	<u>162,085</u>
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	<u>6,707</u>	<u>(4,693)</u>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	<u>6,707</u>	<u>(4,693)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>315,902</u>	<u>157,392</u>
Total comprehensive income attributable to owners of the parent	<u>315,902</u>	<u>157,392</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2017	31 December 2016
<i>Notes</i>		<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		10,073,048	9,915,086
Prepaid land lease payments		95,172	96,283
Available-for-sale investment		100,000	100,000
Deferred tax assets		10,441	5,171
		<hr/>	<hr/>
Total non-current assets		10,278,661	10,116,540
		<hr/>	<hr/>
CURRENT ASSETS			
Inventories		914,898	1,050,596
Trade and bills receivables	9	136,488	128,670
Prepayments, deposits and other receivables		163,926	193,550
Derivative financial instrument		–	3,584
Pledged deposits		542,997	334,588
Cash and cash equivalents		151,101	102,459
		<hr/>	<hr/>
Total current assets		1,909,410	1,813,447
		<hr/>	<hr/>
CURRENT LIABILITIES			
Trade and bills payables	10	1,560,359	1,661,073
Receipts in advance, other payables and accruals		836,439	800,220
Derivative financial instruments		2,580	540
Interest-bearing bank and other borrowings		2,930,695	2,380,157
Borrowing from the ultimate holding company		21,744	1,482,375
Income tax payable		20,554	18,750
		<hr/>	<hr/>
Total current liabilities		5,372,371	6,343,115
		<hr/>	<hr/>

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
NET CURRENT LIABILITIES	<u>(3,462,961)</u>	<u>(4,529,668)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>6,815,700</u>	<u>5,586,872</u>
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	964,400	–
Borrowing from the ultimate holding company	1,346,267	1,399,900
Deferred tax liability	5,358	3,640
Other long term payable	<u>161,000</u>	<u>161,000</u>
Total non-current liabilities	<u>2,477,025</u>	<u>1,564,540</u>
Net assets	<u>4,338,675</u>	<u>4,022,332</u>
EQUITY		
Equity attributable to owners of the parent		
Share capital	962,949	962,949
Other reserves	<u>3,375,726</u>	<u>3,059,383</u>
Total equity	<u>4,338,675</u>	<u>4,022,332</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1.1 CORPORATE INFORMATION

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 shares of the Company have been listed on the Stock Exchange since 23 February 2012. The Group is principally engaged in the production and sale of steel products in the PRC.

The immediate holding company of the Company is Xiwang Investment Company Limited (“**Xiwang Investment**”) (西王投資有限公司) which is wholly owned by Xiwang Holdings Limited (“**Xiwang Holdings**”) (西王控股有限公司). The ultimate holding company of the Company was Xiwang Group Company Limited (“**Xiwang Group**”) (西王集團有限公司).

1.2 BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”).

The accounting policies and method of computation used in the preparation of these condensed consolidated interim financial statements are consistent with those adopted in the annual financial statements for the year ended 31 December 2016.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the Group's audited 2016 annual financial statements, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”).

As at 30 June 2017, the Group had net current liabilities of approximately RMB3,463.0 million (31 December 2016: RMB4,529.7 million). The Directors are of the opinion that the Group will have sufficient working capital to finance its operations and to maintain its operating existence in the foreseeable future and accordingly have prepared the interim condensed consolidated financial statements on a going concern basis notwithstanding the net current liabilities position.

1.3 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The accounting policies adopted in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016, except for the adoption of the new interpretation and amendments as of 1 January 2017, noted below:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised

The adoption of the above new interpretation and amendments has had no material effect on the accounting policies of the Group and the methods of computation in the condensed consolidated interim financial statements.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

2. OPERATING SEGMENT INFORMATION

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

- (a) the "ordinary steel" segment, which engages in the production and sale of ordinary steel products;
- (b) the "special steel" segment, which engages in the production and sale of special steel products;
- (c) the "trading of commodities" segment, which engages in the trading of commodities such as iron ore dust, pellet, steel billets and coke; and
- (d) the "by-products" segment, which includes the sale of by-products such as steel slag, steam and electricity.

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

Geographical information

The Group operates within one geographical area. For the six months ended 30 June 2017, 100% (six months ended 30 June 2016: 100%) of its revenue was generated in the PRC and the principal assets and capital expenditure of the Group were located and incurred in the PRC. Accordingly, no geographical information is presented.

Information about major customers

For the six months ended 30 June 2017, no revenue (six months ended 30 June 2016: 384,140,000) from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

The unaudited segment results and other segment items included in profit before tax for the six months ended 30 June 2017 are as follows:

	<i>Notes</i>	Ordinary steel <i>RMB'000</i>	Special steel <i>RMB'000</i>	Trading of commodities <i>RMB'000</i>	By- products <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Segment revenue:						
Sales to external customers		3,252,911	1,202,015	975,912	161,162	5,592,000
Cost of sale		<u>(2,639,980)</u>	<u>(1,074,702)</u>	<u>(969,620)</u>	<u>(157,439)</u>	<u>(4,841,741)</u>
Gross profit		<u><u>612,931</u></u>	<u><u>127,313</u></u>	<u><u>6,292</u></u>	<u><u>3,723</u></u>	<u><u>750,259</u></u>
Reconciliation:						
Other income and gain	3					4,335
Selling and distribution expenses						(43,375)
Administrative expenses						(20,258)
Other expenses						(6,948)
Research and development costs						(117,041)
Finance costs	5					<u>(152,417)</u>
Profit before tax						<u><u>414,555</u></u>

The unaudited segment results and other segment items included in profit before tax for the six months ended 30 June 2016 are as follows:

	<i>Notes</i>	Ordinary steel <i>RMB'000</i>	Special steel <i>RMB'000</i>	Trading of commodities <i>RMB'000</i>	By- products <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Segment revenue:						
Sales to external customers		1,849,669	749,139	620,150	114,910	3,333,868
Cost of sale		<u>(1,466,115)</u>	<u>(667,852)</u>	<u>(612,201)</u>	<u>(113,943)</u>	<u>(2,860,111)</u>
Gross profit		<u><u>383,554</u></u>	<u><u>81,287</u></u>	<u><u>7,949</u></u>	<u><u>967</u></u>	<u><u>473,757</u></u>
Reconciliation:						
Other income and gain	3					8,399
Selling and distribution expenses						(5,651)
Administrative expenses						(29,603)
Other expenses						(1,285)
Research and development costs						(92,683)
Finance costs	5					<u>(167,241)</u>
Profit before tax						<u><u>185,693</u></u>

3. REVENUE, OTHER INCOME AND GAIN

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

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue		
Sale of ordinary steel	3,252,911	1,849,669
Sale of special steel	1,202,015	749,139
Trading of commodities	975,912	620,150
Sale of by-products	161,162	114,910
	5,592,000	3,333,868
Other income and gain		
Bank interest income	2,847	3,088
Interest income from a fellow subsidiary	318	124
Foreign exchange differences, net	–	1,052
Others	1,170	4,135
	4,335	8,399

4. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	4,841,741	2,860,111
Depreciation	172,471	171,050
Amortisation of prepaid land lease payments	1,111	1,111
Research and development costs	117,041	92,683
Employee benefit expense (including directors' remuneration):		
Wages and salaries	111,638	94,322
Pension scheme contributions [#]	7,830	5,673
Equity-settled share option expenses	441	169
Staff welfare expenses	3,369	4,963
	123,278	105,127
Foreign exchange differences, net ^{##}	1,751	(1,052)
Fair value loss on derivative financial instrument ^{###}	2,040	1,228

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

^{##} *The foreign exchange differences are included in "Other expenses" and "Other income and gain" in the interim condensed consolidated statement of profit or loss for the six months ended 30 June 2017 and for the six months ended 30 June 2016.*

^{###} *The fair value loss on derivative financial instrument is included in "Other expenses" in the interim condensed consolidated statement of profit or loss for the six months ended 30 June 2017 and for the six months ended 30 June 2016.*

5. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on bank borrowings	19,528	32,223
Interest on a finance lease from Xiwang Finance Leasing Company Limited (“Xiwang Leasing”) (西王融資租賃有限公司)	10,640	–
Finance cost on bills discounted*	13,094	12,013
Interest on borrowings from the ultimate holding company	61,668	102,948
Interest on an amount due to an independent third party	–	17,995
Interest on borrowings from Xiwang Group Finance Company Limited (“Xiwang Finance”) (西王集團財務有限公司)	69,336	26,114
	<hr/>	<hr/>
Total interest expense on financial liabilities not at fair value through profit or loss	174,266	191,293
Less: Interest capitalised	(21,849)	(24,052)
	<hr/>	<hr/>
	152,417	167,241
	<hr/> <hr/>	<hr/> <hr/>

* Included interest of RMB7,217,000 (six months ended 30 June 2016: RMB9,436,000) on the bills discounted to a fellow subsidiary.

6. INCOME TAX EXPENSE

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

Pursuant to the new Corporate Income Tax Law (the “**New CIT Law**”) effective on 1 January 2008, the PRC subsidiaries are subject to corporate income tax at a statutory rate of 25% on their respective taxable income for the Period.

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current – the PRC		
Charge for the Period	108,912	24,065
Deferred	(3,552)	(457)
	<hr/>	<hr/>
Total tax charge for the Period	<u>105,360</u>	<u>23,608</u>

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

The calculation of the basic earnings per share amounts is for the six months ended 30 June 2017 based on the profit attributable to ordinary equity holders of the parent for the Period, and the weighted average number of 2,006,666,666 (six months ended 30 June 2016: 2,006,666,666) ordinary shares in issue during the Period.

The calculation of the diluted earnings per share amounts for the six months ended 30 June 2017 is based on the profit for the period attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of the adjustment for the effect of deemed exercise of all share options at the beginning of the Period.

No adjustment has been made to the basic earnings per share amounts presented for the six months ended 30 June 2016 in respect of a dilution as the impact of share options would not have dilutive effect on basic earnings per share amounts presented.

The calculation of the basic and diluted earnings per share for the six months ended 30 June 2017 is based on:

	Six months ended 30 June 2017 RMB'000 (Unaudited)	Six months ended 30 June 2016 RMB'000 (Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	<u>309,195</u>	<u>162,085</u>
	Number of shares 30 June 2017 (Unaudited)	Number of shares 30 June 2016 (Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the Period used in the basic earnings per share calculation	2,006,666,666	2,006,666,666
Effect of dilution on weighted average number of ordinary shares – Share Options	<u>3,965,048</u>	<u>–</u>
Weighted average number of ordinary shares used in the diluted earnings per share calculation	<u>2,010,631,714</u>	<u>2,006,666,666</u>

8. DIVIDENDS

No interim dividend was proposed for the Period (six months ended 30 June 2016: nil).

9. TRADE AND BILLS RECEIVABLES

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Trade receivables	97,642	106,704
Bills receivables	<u>38,846</u>	<u>21,966</u>
	<u>136,488</u>	<u>128,670</u>

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

	30 June	31 December
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Within 3 months	118,217	92,068
3 to 6 months	5,872	13,842
6 months to 1 year	190	9,553
Over 1 year	12,209	13,207
	<u>136,488</u>	<u>128,670</u>

The trade receivables are not individually nor collectively considered to be impaired, and were neither past due nor impaired. Customers of these receivables had no recent history of default.

Bills receivables are received from customers under the ordinary course of business. All of them are bank acceptance bills with maturity period within six months.

Included in the Group's trade receivables are amounts due from the Group's fellow subsidiaries of RMB7,611,000 (31 December 2016: RMB14,942,000), which are repayable on credit terms similar to those offered to the major customers of the Group.

10. TRADE AND BILLS PAYABLES

	30 June	31 December
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Bills payable	883,340	1,157,386
Trade payables	677,019	503,687
	<u>1,560,359</u>	<u>1,661,073</u>

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

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Within 1 month	397,798	383,647
1 to 3 months	215,465	341,111
3 to 6 months	767,765	784,537
6 to 12 months	76,126	85,972
Over 12 months	103,205	65,806
	<u>1,560,359</u>	<u>1,661,073</u>

The trade payables are non-interest-bearing and are normally settled within six months.

Bills payables are bank acceptance bills with maturity period within six months. These are issued under the ordinary course of business and mainly secured by the Group's pledged time deposits of approximately RMB542,997,000 (31 December 2016: RMB304,338,000).

Included in trade and bills payables are trade payables of RMB44,516,000 (31 December 2016: RMB26,982,000) due to fellow subsidiaries which are non-interest bearing and repayable on demand.

MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS REVIEW

During the Period, the Group's main source of revenue was the production and sales of steel. Geographically, the Group's primary production department was in Shandong province, which remained as the main sales region of the Group. Revenue attributable to the region constitutes 63.6% of the total sales of steel during the Period (first half of 2016: 64.0%). In addition, the Group has been actively developing markets in other provinces. During the Period, Zhejiang Province had a relatively large demand for steel, and was the second largest contributor to the Group's revenue, which attributed to 7.8% of the total revenue during the Period (first half of 2016: 8.6%).

Production and Sales of Steel

The ordinary steel products manufactured by the Group included rebars and wire rods, mainly used for construction and infrastructure projects, constituting 73.0% of the total sales amount of steel during the Period (first half of 2016: 71.2%). The special steel products of the Group mainly included quality carbon structural steel used for mechanical processing and equipment production, and alloy structural steel used for machineries, bearing steel used for automobile manufacturing and ingots used in transportation, marine engineering and weaponries, constituting 27.0% of the total sales amount of steel during the Period (first half of 2016: 28.8%).

II. FINANCIAL REVIEW

Business Performance

1. Revenue

The Group achieved revenue of RMB5,592,000,000 during the Period (first half of 2016: RMB3,333,868,000), representing a substantial increase of 67.7% as compared to the corresponding period of last year. The increase in revenue was mainly attributable to the increase in sales volume and the increase in average selling price of steel. During the Period, the sales volume of steel was 1,478,401 tonnes, representing an increase of 9.8% as compared to 1,346,006 tonnes for the corresponding period of last year. The average selling price of ordinary steel and special steel for the Period was RMB2,980 and RMB3,108 respectively, representing an increase of 57.5% and 52.8% as compared to RMB1,892 and RMB2,034 per tonne respectively for the corresponding period of last year.

The breakdown of revenue and average selling price by product (tax-exclusive) during the period were as follows:

	For the six months ended 30 June			
	2017		2016	
	Revenue	Average	Revenue	Average
	<i>RMB million</i>	<i>selling price (RMB/tonne)</i>	<i>RMB million</i>	<i>selling price (RMB/tonne)</i>
Ordinary Steel				
Rebar	2,244	2,976	1,323	1,870
Wire rod	1,009	2,988	527	1,951
Subtotal/Average	3,253	2,980	1,850	1,892
Special Steel				
Quality carbon structural steel	734	2,987	564	1,984
Alloy structural steel	330	3,199	92	1,887
Bearing steel	23	3,318	28	2,158
Ingot	85	3,693	65	2,924
Forgings materials	30	3,779	–	–
Subtotal/Average	1,202	3,108	749	2,034
Production and sales of steel	4,455		2,598	
Trading of commodities[#]	976		620	
Sales of by-products^{##}	161		115	
Total	5,592		3,334	

[#] Trading of commodities mainly includes the trading of iron ore dust, pellet, steel billets 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			
	For the six months ended 30 June			
	2017		2016	
	<i>Tonnes</i>	<i>Percentage</i>	<i>Tonnes</i>	<i>Percentage</i>
Ordinary Steel				
Rebar	753,831	51.0%	707,327	52.6%
Wire rod	337,829	22.8%	270,291	20.1%
Subtotal	<u>1,091,660</u>	<u>73.8%</u>	<u>977,618</u>	<u>72.7%</u>
Special Steel				
Quality carbon structural steel	245,682	16.6%	284,509	21.1%
Alloy structural steel	103,134	7.0%	48,961	3.6%
Bearing steel	6,977	0.5%	12,784	1.0%
Ingot	23,085	1.6%	22,134	1.6%
Forgings materials	7,863	0.5%	–	–
Subtotal	<u>386,741</u>	<u>26.2%</u>	<u>368,388</u>	<u>27.3%</u>
Total	<u><u>1,478,401</u></u>	<u><u>100.0%</u></u>	<u><u>1,346,006</u></u>	<u><u>100.0%</u></u>

2. Cost of sales

During the Period, our cost of sales increased by 69.3% as compared to the corresponding period of last year to RMB4,841,741,000 (first half of 2016: RMB2,860,111,000). It was mainly attributable to the increase in sales volume and the increase in average production costs of steel per tonne. The average production costs of steel per tonne increased from RMB1,585 for the first half of 2016 to RMB2,513 per tonne for the Period, representing an increase of RMB928 or 58.5% per tonne.

Breakdown of cost of sales:

	For the six months ended 30 June			
	2017		2016	
	RMB'000	Percentage	RMB'000	Percentage
Raw materials				
Iron ore dust	1,224,128	25.3%	733,953	25.6%
Coke	881,248	18.2%	411,000	14.4%
Steel scraps	284,313	5.9%	70,992	2.5%
Coal	222,883	4.6%	71,876	2.5%
Coke powder	43,408	0.9%	32,922	1.1%
Pig iron	45,842	0.9%	24,585	0.9%
Others	470,155	9.7%	342,979	12.0%
Subtotal of raw materials	<u>3,171,977</u>	<u>65.5%</u>	<u>1,688,307</u>	<u>59.0%</u>
Production overhead				
Depreciation	148,272	3.1%	151,884	5.3%
Electricity	243,445	5.0%	182,692	6.4%
Labour	92,048	1.9%	82,142	2.9%
Others	58,940	1.2%	28,942	1.0%
Subtotal of production overhead	<u>542,705</u>	<u>11.2%</u>	<u>445,660</u>	<u>15.6%</u>
Total cost of production and sales of steel	<u>3,714,682</u>	<u>76.7%</u>	<u>2,133,967</u>	<u>74.6%</u>
Cost of trading of commodities	969,620		612,201	
Cost of sales of by-products	157,439		113,943	
	<u><u>4,841,741</u></u>		<u><u>2,860,111</u></u>	

Breakdown of average steel cost per tonne (tax-exclusive):

	For the six months ended 30 June			
	2017		2016	
	<i>RMB'000</i>	<i>Percentage</i>	<i>RMB'000</i> (Restated)	<i>Percentage</i> (Restated)
Raw materials				
Iron ore dust	828	33.0%	545	34.4%
Coke	596	23.7%	305	19.2%
Steel scraps	192	7.6%	53	3.3%
Coal	151	6.0%	53	3.4%
Coke powder	30	1.2%	24	1.5%
Pig iron	31	1.2%	18	1.2%
Others	318	12.7%	255	16.1%
Subtotal of raw materials	<u>2,146</u>	<u>85.4%</u>	<u>1,253</u>	<u>79.1%</u>
Depreciation	100	4.0%	113	7.1%
Electricity	165	6.5%	136	8.6%
Labour	62	2.5%	61	3.8%
Others	40	1.6%	22	1.4%
Subtotal of production overhead	<u>367</u>	<u>14.6%</u>	<u>332</u>	<u>20.9%</u>
Total production costs	<u>2,513</u>	<u>100.0%</u>	<u>1,585</u>	<u>100.0%</u>

3. *Gross profit*

Gross profit per tonne of the Group's steel products increased to RMB501 for the six months ended 30 June 2017 from RMB345 for the corresponding period in 2016, reflecting an increase of 45.2%. Overall gross profit margin of the Group was 13.4% (first half of 2016: 14.2%), representing a decrease of 0.8 percentage point as compared to the corresponding period of last year. The decrease was mainly attributable to the greater increase in the cost of ordinary steel than the increase in the selling price of ordinary steel.

Breakdown of the contribution of gross profit and gross profit margins by operating segment:

	For the six months ended 30 June			
	2017		2016	
	<i>RMB'000</i>	<i>Gross profit margin</i>	<i>RMB'000</i>	<i>Gross profit margin</i>
Ordinary steel				
Rebar	451,526	20.1%	272,485	20.6%
Wire rod	161,405	16.0%	111,069	21.1%
Subtotal/weighted average	612,931	18.8%	383,554	20.7%
Special steel				
Quality carbon structural steel	87,257	11.9%	87,104	15.4%
Alloy structural steel	33,641	10.2%	(1,432)	(1.5%)
Bearing steel	3,017	13.0%	(3,537)	(12.8%)
Ingot	3,398	4.0%	(848)	(1.3%)
Subtotal/weighted average	127,313	10.6%	81,287	10.9%
Production and sales of steel	740,244	16.6%	464,841	17.9%
Trading of commodities	6,292	0.6%	7,949	1.3%
Sales of by-products	3,723	2.3%	967	0.8%
Total/Overall	750,259	13.4%	473,757	14.2%

4. *Selling and distribution expenses*

The Group's selling and distribution expenses for the Period amounted to RMB43,375,000 (first half of 2016: RMB5,651,000), representing an increase of RMB37,724,000 as compared to the corresponding period of last year. It was attributable to the increase in transportation costs during the Period.

5. *Administrative expenses*

Administrative expenses for the Period amounted to RMB20,258,000 (first half of 2016: RMB29,603,000), representing a decrease of 31.6% as compared to the corresponding period of last year. Administrative expenses include general office expenses, salaries of administrative staff, professional and legal fees and bank service charges.

6. *Finance costs*

The Group's finance costs for the Period amounted to RMB152,417,000 (first half of 2016: RMB167,241,000), representing a decrease of 8.9% as compared to the corresponding period of last year. The decrease was mainly due to the amounts due to an independent third party and an asset management company, which bore 7.0% and 9.0% per annum respectively, were repaid on 23 September 2016 and 5 January 2017.

Financial position

Liquidity and capital resources

As at 30 June 2017, cash and cash equivalents of the Group amounted to RMB151,101,000, representing an increase of RMB48,642,000 as compared with RMB102,459,000 as at 31 December 2016. The Group mainly used its operating cash inflow to fund its working capital needs, while the capital requirement for addition of production equipment was mainly satisfied by cash inflows from operating and financing activities.

The table below sets forth our short-term and long-term borrowings as at 30 June 2017.

	As at	
	30 June 2017	31 December 2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Bank and other borrowings	<u>3,895,095</u>	<u>2,380,157</u>
Finance lease payables to Xiwang Leasing	411,000	–
Interest-bearing bank loans – secured	–	419,894
Interest-bearing bank loans – unsecured	361,585	–
Interest-bearing other loans – secured	719,800	422,991
Borrowing from Xiwang Finance	<u>2,402,710</u>	<u>1,537,272</u>
	<u>3,895,095</u>	<u>2,380,157</u>
Carrying amount repayable:		
Within one year	2,930,695	2,380,157
Between one to two years	789,400	–
Between two to five years	<u>175,000</u>	<u>–</u>
	3,895,095	2,380,157
<i>Less: Amounts due within one year shown under current liabilities</i>	<u>(2,930,695)</u>	<u>(2,380,157)</u>
	<u>964,400</u>	<u>–</u>

As at 30 June 2017, the gearing ratio, being the ratio of total liabilities divided by total equity was 1.81 (31 December 2016: 1.97). The annual interest rate of the banks and other borrowings for the period ended 30 June 2017 varied from 2.36% to 6.2% (31 December 2016: 1.13% to 9%). As at 30 June 2017, the bank and other borrowings are denominated in Renminbi and United States dollar. Other borrowings amounted to RMB719,800,000 were secured by non-current assets of the fellow subsidiary of the Group.

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

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

Pledge of assets

As at 30 June 2017, no leasehold land (31 December 2016: RMB55,397,000) and no pledged deposits (31 December 2016: RMB30,250,000) were pledged as security for bank borrowings. As at 30 June 2017, time deposits of RMB542,997,000 (31 December 2016: RMB304,338,000) were pledged as security for bills payable.

Capital commitments and contingent liabilities

As at 30 June 2017, the capital commitment of the Group was RMB539,500,000 (31 December 2016: RMB360,516,000), mainly used for renovation project and purchasing equipments. The Group also entered into a technical cooperation agreement with 洛陽軸承研究所有限公司 (Luoyang Bearing Research Centre Company Limited*) to enhance its product quality. As at 30 June 2017, commitment in respect of this technical consultation service amounted to RMB1,500,000 (31 December 2016: RMB1,500,000).

Foreign exchange risk

The majority of the operating income, costs and expenditures of the Group were denominated in RMB. As such, the Group has not been exposed to material foreign exchange risk during its operation. As at 30 June 2017, the Group mainly exposed to risks related to its liabilities denominated in US dollar of RMB121,817,000 (31 December 2016: RMB429,438,000).

Employees and remuneration

As at 30 June 2017, the Group had a total of 3,907 employees (as at 30 June 2016: 3,502). Staff-related costs incurred during the Period was RMB123,278,000 (first half of 2016: RMB105,127,000). 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 bonus to certain employees as incentives according to their performance.

III. BUSINESS OUTLOOK

The continuous efforts of China in reducing production capacity of the supply-side of the steel industry, curbing substandard steel, tightening environmental protection regulations and gradually eliminating outdated production capacity have resulted in a more favorable market development prospect for the Group and other law-abiding companies. In response to the “Opinions on Resolving Excessive Capacity of Iron and Steel Industry for Development and Relief from Loss” promulgated by the State Council in early 2016, which stipulated the goal of further reduction of crude steel capacity by 100-150 million tonnes in five years, PRC steel enterprises reduced the production capacity of crude steel by over 65 million tonnes in aggregate in 2016, which exceeded the annual target of lowering 45 million tonnes of crude steel capacity. Moreover, the country has reduced the production capacity of crude steel by 42.39 million tonnes as of the end of May 2017, accounting for 84.8% of the annual target. In June 2017, the National Development and Reform Commission of the PRC also announced that all production of “substandard steel” identified in previous investigations has been terminated, thereby improving the overall product quality and order of the market. Additionally, the demand from infrastructure in countries along the “Belt and Road Initiative” and Xiongan New Area, as well as the steady growth of real estate investment, has led to robust demand for ordinary steel. Given the favorable supply and demand factors, it is expected that the prices of steel products, particularly ordinary steel, will stay at a high level in the foreseeable future. In view of such, the Group will carry on seizing market opportunities and timely give full play to its flexible and convertible ordinary steel and special steel production equipment. Adopting the market-oriented approach, it will focus on the manufacture of ordinary steel with a high demand so as to maximize profit.

In long-term, the Group will strive to achieve the strategic development goal by developing high-tech special steel products for a more stable market, with the aim of strengthening its competitiveness and profitability. To optimize the existing product mix and significantly increase the proportion of special steel business, it will spare no efforts to push forward the rail steel projects and introduce rail steel products with a high level of strength, tenacity and durability to the market. The production line, which has a rail steel capacity of 700,000 tonnes, a railway billet capacity of 150,000 tonnes and a figured steel capacity of 150,000 tonnes per annum, will be developed in two phases that are expected to be completed in 2018 and 2020 respectively. Upon the completion of phase I, the designed annual capacity of the new production line is estimated to reach 300,000 tonnes of rail steel and 150,000 tonnes of railway billet per annum. As the construction of the production line is progressing well, the Group is confident that it will deliver new production capacity on schedule.

Apart from the rail steel project, the Group will continue to cooperate with Institute of Metal Research of Chinese Academy of Sciences to enhance its production technology as well as research and development capability. Riding on the successful development of over 90 new products, it will target the demands of the country and advance the industrialization of quality special steel products for the use in military, nuclear power and high-speed rail, so as to further expand the existing product portfolio.

Internal control and production efficiency are the focus of the Group as well. The Group will consider introducing a series of ancillary equipment for production, for the purposes of actively strengthening production process while enhancing operational flexibility and production efficiency. Through reducing daily operating expenses, it will lay a solid foundation for higher profitability.

CORPORATE GOVERNANCE

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions of the Directors. Having made specific enquiries with all Directors, all Directors confirmed that they have complied with the required standards set out in the Model Code during the Period.

AUDIT COMMITTEE

Audit Committee and Review of Financial Information

The audit committee of the Company has reviewed with the Company’s management the accounting principles and practices adopted by the Group and financial reporting matters including the review of the unaudited interim financial statements for the Period.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the Period.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the Period (corresponding period in 2016: nil).

By order of the Board of
Xiwang Special Steel Company Limited
WANG Di
Chairman

Hong Kong, 30 August 2017

As at the date of this announcement, the Board comprises the following Directors:

Executive Directors

Mr. ZHANG Jian
Mr. SUN Xihu
Ms. LI Hai Xia

Independent non-executive Directors

Mr. LEUNG Shu Sun Sunny
Mr. LI Bangguang
Mr. YU Kou

Non-executive Directors

Mr. WANG Di
Mr. WANG Yong