Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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 2018

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June	
	2018	2017
Sales volume of Steel *(tonnes)*	**1,453,340**	1,478,401
Revenue *(RMB)*		
Ordinary Steel – Rebar	**2,934 million**	2,244 million
Ordinary Steel – Wire Rod	**783 million**	1,009 million
Special Steel	**1,356 million**	1,202 million
Trading of commodities and sales of by-products	**883 million**	1,137 million
Total	**5,956 million**	5,592 million
Gross profit *(RMB)*	**1,068.5 million**	750.3 million
Gross profit per tonne *(RMB)* – Productions and sales of steel	**726 yuan**	501 yuan
Profit attributable to owners *(RMB)*	**568.7 million**	309.2 million
Net profit margin	**9.5%**	5.5%
Basic earnings per share *(RMB)*	**25.47 cents**	15.41 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 2018 (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

		Six months ended 30 June	
		2018	2017
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
REVENUE	*3*	**5,955,879**	5,592,000
Cost of sales		**(4,887,396)**	(4,841,741)
GROSS PROFIT		**1,068,483**	750,259
Other income and gain	*3*	**39,814**	4,335
Selling and distribution expenses		**(45,043)**	(43,375)
Administrative expenses		**(47,789)**	(20,258)
Other expenses		**(18,770)**	(6,948)
Research and development costs		**(162,011)**	(117,041)
OPERATING PROFIT		**834,684**	566,972
Finance costs	*5*	**(167,658)**	(152,417)
PROFIT BEFORE TAX	*4*	**667,026**	414,555
Income tax expense	*6*	**(98,373)**	(105,360)
PROFIT FOR THE PERIOD		**568,653**	309,195
Profit attributable to owners of the parent		**568,653**	309,195
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*7*		
Basic		**RMB25.47 cents**	RMB15.41 cents
Diluted		**RMB23.78 cents**	RMB15.38 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	**568,653**	309,195
OTHER COMPREHENSIVE (LOSS)/INCOME		
Revaluation losses on equity instruments at fair value through other comprehensive income	**(10,377)**	–
Exchange differences on translation of foreign operations	**5,308**	6,707
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX	**(5,069)**	6,707
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**563,584**	315,902
Total comprehensive income attributable to owners of the parent	**563,584**	315,902

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 June 2018** *RMB'000* **(Unaudited)**	31 December 2017 *RMB'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**10,248,475**	10,206,774
Prepaid land lease payments		**92,951**	94,062
Prepayments for long term assets		**214,063**	282,394
Other intangible assets		**92,092**	97,802
Available-for-sale investment		**–**	100,000
Equity instruments at fair value through other comprehensive income		**101,429**	–
Deferred tax assets		**16,773**	16,271
Total non-current assets		**10,765,783**	10,797,303
CURRENT ASSETS			
Inventories		**736,488**	797,129
Trade and bills receivables	*9*	**59,639**	240,750
Prepayments, deposits and other receivables		**492,035**	193,164
Pledged deposits		**738,923**	513,829
Cash and cash equivalents		**598,714**	125,644
Total current assets		**2,625,799**	1,870,516
CURRENT LIABILITIES			
Trade and bills payables	*10*	**2,711,668**	1,772,353
Receipts in advance, other payables and accruals		**808,332**	1,204,982
Contract liabilities		**680,607**	–
Derivative financial instruments		**47,723**	44,118
Interest-bearing bank and other borrowings		**2,537,998**	2,380,062
Borrowings from the ultimate holding company		**50,334**	–
Income tax payable		**83,558**	10,760
Total current liabilities		**6,920,220**	5,412,275

	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
NET CURRENT LIABILITIES	**(4,294,421)**	(3,541,759)
TOTAL ASSETS LESS CURRENT LIABILITIES	**6,471,362**	7,255,544
NON-CURRENT LIABILITIES		
Convertible bonds	**168,346**	156,763
Interest-bearing bank and other borrowings	**503,854**	1,769,390
Borrowings from the ultimate holding company	**–**	4,401
Deferred tax liabilities	**27,340**	18,337
Other long term payable	**161,000**	161,000
Total non-current liabilities	**860,540**	2,109,891
Net assets	**5,610,822**	5,145,653
EQUITY		
Equity attributable to owners of the parent		
Share capital	**1,287,598**	1,091,561
Reserves	**4,323,224**	4,054,092
Total equity	**5,610,822**	5,145,653

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 2017.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the Group's audited 2017 annual financial statements, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

As at 30 June 2018, the Group had net current liabilities of approximately RMB4,294.4 million (31 December 2017: RMB3,541.8 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 2017, except for the adoption of the new interpretation and amendments as of 1 January 2018, noted below:

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	*Amendments to HKFRS 1 and HKAS 28*

The impact of the Group's application of the above new and amendments to HKFRSs is described below:

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted HKFRS 15 using the modified retrospective method of adoption. The Group elected to apply the practical expedient for completed contracts and did not restate the contracts completed before 1 January 2018, thus the comparative figures have not been restated.

The Group mainly engages in the businesses of sales of steels. The effects of the adoption of HKFRS 15 are further explained as follows:

Accounting for sales of steels (including ordinary steel, special steel, trading of commodities and by products)

The Group's contracts with customers for the sale of goods generally include one performance obligation. The Group has concluded that revenue from sale of goods should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. Therefore, the adoption of HKFRS 15 did not have a material impact on the timing of revenue recognition.

HKFRS 9 Financial Instruments

HKFRS 9 Financial Instruments replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1st January, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

(a) Classification and measurement

Except for certain trade receivables, under HKFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss “FVPL”, amortised cost, or fair value through other comprehensive income “FVOCI”. The classification is based on two criteria: the Group’s business model for managing the assets; and whether the instruments’ contractual cash flows represent ‘solely payments of principal and interest’ on the principal amount outstanding (the “**SPPI criterion**”).

The new classification and measurement of the Group’s financial assets are as follows:

Debt instruments at amortised cost that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group’s trade receivables, other receivables.

Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. The Group classified its unquoted equity instruments as equity instruments at FVOCI. Equity instruments at FVOCI are not subject to an impairment assessment under HKFRS 9. Under HKAS 39, the Group’s unquoted equity instruments were classified as available-for-sale investments and stated at cost.

The assessment of the Group’s business model was made as of initial application, i.e. 1st January, 2018, and then applied retrospectively to those financial assets that were not derecognised as at 1st January, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group’s financial liabilities remains largely the same as it was under HKAS 39. Similar to the requirements of HKAS 39, HKFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the statement of profit or loss.

Under HKFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on their contractual terms and the Group's business model.

The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not been changed from that required by HKAS 39.

The statement of financial position as at 1 January 2018 was adjusted, resulting in reclassification of available-for-sale investments to equity instruments at fair value through other comprehensive income amounting to RMB100,000,000 and an increase in other reserves and increase in equity instruments at FVOCI amounting to RMB1,429,000 due to the remeasurement of financial instruments.

(b) Impairment

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss "ECL" approach.

The Group records an allowance for ECLs on financial assets which are subject to impairment under HKFRS 9, including all loans and other debt financial assets and contract assets.

For trade receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For all other assets that are subject to impairment under HKFRS 9, the Group assessed for their impairment based on 12-month expected credit losses: 12-month ECLs are the portion of lifetime ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the asset is less than 12 months). However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The Group considers a financial asset in default when contractual payment are 90 days 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.

The statement of financial position as at 1 January 2018 was adjusted, resulting in an increase in provision for expected credit losses amounting to RMB174,000 due to the impairment under HKFRS 9.

As a result of the adoption of HKFRS 9, certain comparative information in these condensed consolidated financial statements may not be comparable as it was prepared in accordance with HKAS 39.

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 2018, 100% (six months ended 30 June 2017: 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 2018, revenue of RMB876,959,000 (six months ended 30 June 2017: no revenue) 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 2018 are as follows:

	Notes	**Ordinary steel** *RMB'000*	**Special steel** *RMB'000*	**Trading of commodities** *RMB'000*	**By-products** *RMB'000*	**Consolidated** *RMB'000*
Segment revenue:						
Sales to external customers		**3,716,576**	**1,356,080**	**617,180**	**266,043**	**5,955,879**
Cost of sale		**(2,935,116)**	**(1,082,991)**	**(610,389)**	**(258,900)**	**(4,887,396)**
Gross profit		**781,460**	**273,089**	**6,791**	**7,143**	**1,068,483**
Reconciliation:						
Other income and gain	*3*					**39,814**
Selling and distribution expenses						**(45,043)**
Administrative expenses						**(47,789)**
Other expenses						**(18,770)**
Research and development costs						**(162,011)**
Finance costs	*5*					**(167,658)**
Profit before tax						**667,026**

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

	Notes	Ordinary steel RMB'000	Special steel RMB'000	Trading of commodities RMB'000	By-products RMB'000	Consolidated RMB'000
Segment revenue:						
Sales to external customers		3,252,911	1,202,015	975,912	161,162	5,592,000
Cost of sale		(2,639,980)	(1,074,702)	(969,620)	(157,439)	(4,841,741)
Gross profit		612,931	127,313	6,292	3,723	750,259
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*					(152,417)
Profit before tax						414,555

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	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue		
Sale of ordinary steel	**3,716,576**	3,252,911
Sale of special steel	**1,356,080**	1,202,015
Trading of commodities	**617,180**	975,912
Sale of by-products	**266,043**	161,162
	5,955,879	5,592,000
Other income and gain		
Bank interest income	**1,970**	3,165
Subsidy income	**36,992**	–
Others	**852**	1,170
	39,814	4,335

4. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold	**4,887,396**	4,841,741
Depreciation	**215,042**	172,471
Minimum lease payments under operating lease	**1,949**	1,675
Amortisation of other intangible assets	**6,184**	–
Amortisation of prepaid land lease payments	**1,111**	1,111
Research and development costs	**162,011**	117,041
Employee benefit expense (including directors' remuneration):		
Wages and salaries	**132,253**	111,638
Pension scheme contributions#	**9,164**	7,830
Equity-settled share option expenses	**173**	441
Staff welfare expenses	**4,716**	3,369
	146,306	123,278
Foreign exchange differences, net##	**12,357**	1,751
Provision for expected credit losses on trade receivables##	**141**	–
Fair value (gains)/losses on derivative financial instruments (excluding embedded derivative component of convertible bonds)##	**(998)**	2,040
Fair value losses on embedded derivative component of convertible bonds##	**4,232**	–

\# *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, provision for expected credit losses on trade receivables, fair value gains/losses on derivative financial instruments and embedded derivative component of convertible bonds are included in "Other expenses" in the interim condensed consolidated statement of profit or loss for the six months ended 30 June 2018 and for the six months ended 30 June 2017.*

5. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest on bank and other borrowings	**84,840**	19,528
Interest on a finance lease	**–**	10,640
Interest on convertible bonds	**17,592**	–
Finance cost on bills discounted	**64,202**	13,094
Interest on borrowings from the ultimate holding company	**2,591**	61,668
Interest on borrowings from Xiwang Group Finance Company Limited ("**Xiwang Finance**")（西王集團財務有限公司）	**9,139**	69,336
Total interest expense on financial liabilities not at fair value through profit or loss	**178,364**	174,266
Less: Interest capitalised	**(10,706)**	(21,849)
	167,658	152,417

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	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current – the PRC		
Charge for the Period	**89,872**	108,912
Deferred	**8,501**	(3,552)
Total tax charge for the Period	**98,373**	105,360

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 2018 based on the profit attributable to ordinary equity holders of the parent for the Period, and the weighted average number of 2,232,707,093 (six months ended 30 June 2017: 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 2018 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.

The calculation of the basic and diluted earnings per share for the six months ended 30 June 2018 is based on:

	Six months ended 30 June 2018 *RMB'000* **(Unaudited)**	Six months ended 30 June 2017 *RMB'000* (Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**568,653**	309,195

	Number of shares 30 June 2018 (Unaudited)	Number of shares 30 June 2017 (Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the Period used in the basic earnings per share calculation	**2,232,707,093**	2,006,666,666
Effect of dilution – weighted average number of ordinary shares		
Share option	**2,561,220**	3,965,048
Share-based payment	**100,000,000**	–
Convertible bonds	**136,046,511**	–
Weighted average number of ordinary shares used in the diluted earnings per share calculation	**2,471,314,824**	2,010,631,714

8. DIVIDENDS

No interim dividend was proposed for the Period (six months ended 30 June 2017: nil).

9. TRADE AND BILLS RECEIVABLES

	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables	**15,670**	87,834
Bills receivables	**44,284**	152,916
	59,954	240,750
Allowance for expected credit losses	**(315)**	–
	59,639	240,750

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 2018	31 December 2017
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 3 months	**33,893**	212,935
3 to 6 months	**7,630**	15,145
6 months to 1 year	**1,849**	2,874
Over 1 year	**16,267**	9,796
	59,639	240,750

Set out below is the movement in the allowance for expected credit losses of trade receivables:

	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
As at 1 January	**–**	–
Effect of adoption of new accounting standard	**174**	–
At as 1 January	**174**	–
Provision for expected credit losses	**141**	–
As at 30 June 2018/31 December 2017	**315**	–

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 RMB15,115,000 (31 December 2017: RMB10,554,000), which are repayable on credit terms similar to those offered to the major customers of the Group.

10. TRADE AND BILLS PAYABLES

	30 June 2018 *RMB'000* **(Unaudited)**	31 December 2017 *RMB'000* (Audited)
Bills payable	**1,690,074**	673,000
Trade payables	**1,021,594**	1,099,353
	2,711,668	1,772,353

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 2018 *RMB'000* **(Unaudited)**	31 December 2017 *RMB'000* (Audited)
Within 1 month	**566,344**	471,445
1 to 3 months	**646,015**	353,385
3 to 6 months	**716,715**	738,479
6 to 12 months	**685,963**	66,492
Over 12 months	**96,631**	142,552
	2,711,668	1,772,353

As at 30 June 2018, the Group's bills payable amounting to RMB1,147,000,000 (31 December 2017: RMB673,000,000) were secured by the pledged time deposit of RMB654,000,000 (31 December 2017: RMB336,500,000).

Included in trade and bills payables are trade payables of RMB6,126,000 (31 December 2017: RMB52,057,000) due to fellow subsidiaries which are non-interest bearing and repayable on demand.

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

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 base was in Shandong Province, which remained as the main sales region of the Group. Revenue attributable to the region constitutes 69.6% of the total sales of steel during the Period (first half of 2017: 63.6%). In addition, the Group has been actively developing markets in other provinces. During the Period, Jiangsu Province had a relatively large demand for steel, and was the second largest contributor to the Group's revenue, which attributed to 6.3% of the total revenue during the Period (first half of 2017: 5.2%).

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 73.3% of the total sales amount of steel during the Period (first half of 2017: 73.0%). 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 26.7% of the total sales amount of steel during the Period (first half of 2017: 27.0%).

II. FINANCIAL REVIEW

Business Performance

1. Revenue

The Group achieved revenue of RMB5,955,879,000 during the Period (first half of 2017: RMB5,592,000,000), representing a moderate increase of 6.5% as compared to the corresponding period of last year. The increase in revenue was mainly attributable to the increase in average selling price of steel. The average selling price of ordinary steel and special steel for the Period was RMB3,367 and RMB3,880 respectively, representing an increase of 13.0% and 24.8% as compared to RMB2,980 and RMB3,108 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			
	2018		2017	
	Revenue	**Average selling price**	Revenue	Average selling price
	RMB million	***(RMB/tonne)***	*RMB million*	*(RMB/tonne)*
Ordinary Steel				
Rebar	**2,934**	**3,337**	2,244	2,976
Wire rod	**783**	**3,486**	1,009	2,988
Subtotal/Average	**3,717**	**3,367**	3,253	2,980
Special Steel	**1,356**	**3,880**	1,202	3,108
Production and sales of steel	**5,073**		4,455	
Trading of commodities#	**617**		976	
Sales of by-products##	**266**		161	
Total	**5,956**		5,592	

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			
	2018		2017	
	Tonnes	***Percentage***	*Tonnes*	*Percentage*
Ordinary Steel				
Rebar	**879,355**	**60.5%**	753,831	51.0%
Wire rod	**224,481**	**15.5%**	337,829	22.8%
Subtotal	**1,103,836**	**76.0%**	1,091,660	73.8%
Special Steel	**349,504**	**24.0%**	386,741	26.2%
Total	**1,453,340**	**100.0%**	1,478,401	100.0%

2. Cost of sales

During the Period, our cost of sales was RMB4,887,396,000 which remained stable as compared to the corresponding period of last year (first half of 2017: RMB4,841,741,000). The total cost of production and sales of steel for the Period was RMB4,018,107,000, representing an increase of 8.2% as compared to RMB3,714,682,000 for the corresponding period of last year. The increase was mainly attributable to the increase in average production costs of steel per tonne. The average production costs of steel per tonne increased from RMB2,513 for the first half of 2017 to RMB2,765 per tonne for the Period, representing an increase of RMB252 or 10.0% per tonne.

3. Gross profit

Gross profit per tonne of the Group's steel products increased to RMB726 for the six months ended 30 June 2018 from RMB501 for the corresponding period in 2017, reflecting an increase of 44.9%. Overall gross profit margin of the Group was 17.9% (first half of 2017: 13.4%), representing an increase of 4.5 percentage point as compared to the corresponding period of last year. The increase was mainly attributable to the greater increase in average selling price of steel than the increase in the average production costs of steel.

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

	For the six months ended 30 June			
	2018		2017	
	RMB'000	***Gross profit margin***	*RMB'000*	*Gross profit margin*
Ordinary steel	**781,460**	**21.0%**	612,931	18.8%
Special steel	**273,089**	**20.1%**	127,313	10.6%
Production and sales of steel	**1,054,549**	**20.8%**	740,244	16.6%
Trading of commodities	**6,791**	**1.1%**	6,292	0.6%
Sales of by-products	**7,143**	**2.7%**	3,723	2.3%
Total/Overall	**1,068,483**	**17.9%**	750,259	13.4%

4. Selling and distribution expenses

The Group's selling and distribution expenses for the Period amounted to RMB45,043,000 (first half of 2017: RMB43,375,000), representing an increase of 3.8% 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 RMB47,789,000 (first half of 2017: RMB20,258,000), representing an increase of RMB27,531,000 as compared to the corresponding period of last year. It was mainly due to the increase in salaries of administrative staff and general office expenses during the Period.

6. Finance costs

The Group's finance costs for the Period amounted to RMB167,658,000 (first half of 2017: RMB152,417,000), representing an increase of 10.0% as compared to the corresponding period of last year. It was mainly attributable to the increase in bills discounting during the Period.

Financial position

Liquidity and capital resources

As at 30 June 2018, the Group had approximately RMB598.7 million in cash and cash equivalents (31 December 2017: RMB125.6 million), and approximately RMB738.9 million in pledged bank deposits (31 December 2017: RMB513.8 million). The Group had trade and bills payables of approximately RMB2,711.7 million (31 December 2017: RMB1,772.4 million), bank and other borrowings due within one year in the amount of approximately RMB2,538.0 million (31 December 2017: RMB2,380.1 million), and bank and other borrowings due after one year in the amount of approximately RMB503.9 million (31 December 2017: 1,769.4 million). As at 30 June 2018, the bank and other borrowings are denominated in Renminbi, Hong Kong dollar and United States dollar. 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.

Capital structure

As at 30 June 2018, the Group's total assets was approximately RMB13,391.6 million (31 December 2017: RMB12,667.8 million), which was funded by the following: (1) share capital of approximately RMB1,287.6 million (31 December 2017: RMB1,091.6 million), (2) reserves of approximately RMB4,323.2 million (31 December 2017: RMB4,054.1 million) and (3) total liabilities of approximately RMB7,780.8 million (31 December 2017: RMB7,522.1 million).

Gearing ratio

As at 30 June 2018, the gearing ratio, being the ratio of total interest-bearing debts including interest-bearing bank and other borrowings, borrowings from the ultimate holding company, other long term payable and convertible bonds divided by total equity was 0.61 (31 December 2017: 0.87). The decrease in this ratio was mainly due to the decrease in the borrowings from Xiwang Finance for the Period. The annual interest rate of the banks and other borrowings for the period ended 30 June 2018 ranged from 3.2% to 11.0% (31 December 2017: 2.40% to 9%).

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 2018, pledged deposits of RMB700,539,000 (31 December 2017: RMB336,500,000) were pledged as security for bank borrowings and bills payable.

Capital commitments and contingent liabilities

As at 30 June 2018, the capital commitment of the Group was RMB650,200,000 (31 December 2017: RMB848,580,000), mainly used for renovation project and purchasing equipments.

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 2018, the Group mainly exposed to risks related to its liabilities denominated in US dollar of RMB326,042,000 (31 December 2017: RMB241,809,000).

Employees and remuneration

As at 30 June 2018, the Group had a total of 4,430 employees (as at 30 June 2017: 3,907). Staff-related costs incurred during the Period was RMB146,306,000 (first half of 2017: RMB123,278,000). 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

Since the Central Economic Work Conference first proposed the policy of "Three Removals (de-capacity, de-stocking and de-leveraging), One Decrease (cutting corporate costs) and One Improvement (improving weak links)"(三去一降一補) in late 2015, reform of supply side has achieved progress by stages. After cutting national production capacity of crude steel by 65 million tonnes in 2016 and 50 million tonnes in 2017, and "Sub-Standard Steels" by approximately 140 million tonnes, the government has set the target of further cutting production capacity by 30 million tonnes in 2018. It is expected that the target of the "13th Five-Year" of cutting a maximum of total steel production capacity of 150 million tons will be completed within the year. Meanwhile, to prevent the production capacity of "Sub-Standard Steels" from reverting, the Central Environmental Protection Inspectorate has conducted inspection locally to strictly monitor the implementation of cutting production capacity. With the battle to defend the blue sky in full swing within the year, the Ministry of Environmental Protection has introduced measures on the prevention and control of air pollution in key areas of Beijing-Tianjin-Hebei and surrounding areas, the Yangtze River Delta, and the Fenwei Plain(汾渭平原), and also proposed staggered and non-staggered production and further tightened the environmental standards of the industry. The Group believes the above supply-side policy reflected the government's determination to de-capacity on an on-going basis. In the context of the exit of illegal and excessive production capacity, the advantageous production capacity of the Group will be offered plenty of room for development and its operating efficiency will continue to improve.

Looking forward, benefited from the rigorous supply-side policy and the steady development of domestic real estate sector, the continued strength of infrastructure projects in Shandong Province, and the demand from infrastructure projects in countries along the "Belt and Road Initiative", the steel market will be in the status of "low inventory, high profit, high demand", and steel prices will have certain support in the future. The Group will continue to adopt the market-oriented approach, take steel prices as an indicator of the market to reallocate its capacity between ordinary and special steel in a flexible way and to focus on the manufacturing of ordinary steel with higher demand and profits so as to maximize its profit in the short term.

In the long-term, supported by the technological and development capabilities of Chinese Academy of Sciences (the "Academy"), together with the strategic development goal of the Company, the Group will actively optimize its production technology to reinforce its competitiveness and profitability. As the highest domestic scientific research institution in the field of science and technology, targeted R&D of the Academy is addressing the major needs of the country. By properly utilizing the exclusive development technology of the Academy, the Group will aim at the needs of the country, focus on developing special steel products with higher technology and more stable market. Built on the success of jointly development of over 100 new products, we will focus on promoting the industrialization of quality special steel products in the field of military, nuclear power, high-speed rail and marine engineering, and further broaden the coverage of existing products.

For the above development, the Group will spare no effort to push forward the rail steel projects with the Academy and launch rail steel products with high strength, tenacity and durability in the market, so as to significantly increase the proportion of special steel business. It is expected that the production line will produced annually 700,000 tonnes of steel rail, 150,000 tonnes of railway billet and 150,000 tonnes of figured steel. According to the current status of construction works, the first phase of the project (300,000 tonnes of steel rails and 150,000 tonnes of railway billets) is expected to be completed in mid-2019, and the second phase will be completed in 2020. In respect of other railway products, the Group has also entered into product supply and technology agreements with some large-scale enterprises in relation to its products, such as axle shaft steel and braking beams, and has successfully entered their supplier lists. This further reflects the Group's core competitiveness.

As the overwhelming needs for environmental protection continue, the Group will also vigorously invested in environmental protection equipment. In addition to projects such as newly-invested projects regarding the improvement of tertiary dust removal of converters and raw material yards, it will also invest in projects such as ultra-low smoke emission of sintering machine heads, sewage treatment and diversion of rain and sewage to meet environmental regulations of the industry. In the future, the Group will continue to step up R&D, lay network, lower financial costs and business risks, thereby providing a more solid foundation for the profitability of the Group.

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 2017: nil).

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

Hong Kong, 30 August 2018

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

Executive Directors
Mr. ZHANG Jian
Mr. SUN Xinhu
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