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

2012
INTERIM REPORT

(incorporated in Hong Kong with limited liability)
Stock Code: 1266

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. Wang Liang
Mr. Wang Gang
Mr. Wang Tao

Non-Executive Directors
Mr. Wang Yong *(Chairman)*
Mr. Wang Di
Mr. Sun Xinhu

Independent Non-Executive Directors
Mr. Leung Shu Sun Sunny
Mr. Zhang Gongxue
Mr. Yu Kou

COMMITTEES

Audit Committee
Mr. Leung Shu Sun Sunny *(Chairman)*
Mr. Sun Xinhu
Mr. Zhang Gongxue

Remuneration Committee
Mr. Zhang Gongxue *(Chairman)*
Mr. Wang Di
Mr. Yu Kou

Nomination Committee
Mr. Zhang Gongxue *(Chairman)*
Mr. Wang Di
Mr. Yu Kou

COMPANY SECRETARY

Ms. Lam Wai Lin (FCCA, CPA)

AUTHORISED REPRESENTATIVES

Mr. Wang Di
Ms. Lam Wai Lin

REGISTERED OFFICE

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

HEADQUARTERS

Xiwang Industrial Area
Zouping County
Shandong Province
People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL BANKERS

Bank of China
Agriculture Bank of China
Industrial and Commercial Bank of China
China Construction Bank

AUDITORS

Ernst & Young
Certified Public Accountants
22nd Floor CITIC Tower
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Hong Kong

LEGAL ADVISER

Eversheds
21/F, Gloucester Tower, The Landmark
15 Queen's Road Central
Hong Kong

COMPLIANCE ADVISER

Guangdong Securities Limited
Units 2505–06, 25/F, Low Block, Grand Millennium Plaza
181 Queen's Road Central, Hong Kong

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
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Wanchai
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Management Discussion and Analysis

1. INTRODUCTION

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

The business of the Group was set up in 2003. The Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 23 February 2012 ("**Date of Listing**"). As an EAF-based steel manufacturer, we operate an integrated production process from steel smelting to secondary metallurgy, continuous casting and steel rolling. Our products consist of ordinary steel that is primarily used in buildings and infrastructures, as well as special steel that is used in automobiles, boilers and pipes, and machineries and equipments sectors.

Ordinary steel billets and special steel billets are crude steel which are required for the production of our ordinary steel products and special steel products respectively. We source ordinary steel billets mainly through purchasing from third party suppliers. We produce all the special steel billets in-house using our EAFs. The raw materials used to produce steel billets are mainly steel scraps, molten iron and pig iron. To produce stainless steel, we also need ferroalloys such as ferrochrome and ferronickel.

Currently, our aggregate designed annual capacity of EAFs is approximately 1.0 million tonnes, which is among the largest in Shandong Province, China. Our aggregate designed annual capacity of rolling lines is approximately 2.1 million tonnes.

Our production facilities are located in Xiwang Industrial Area, Zouping County, Shandong Province, China, which consist of:

- Two EAFs, EAF I and EAF II, with a designed annual capacity of 500,000 tonnes each. The two EAFs convert raw materials, primarily steel scraps, molten iron and pig iron into molten steel which will then be cast to form steel billets.

- Two bar rolling lines, Bar I and Bar II, with a designed annual capacity of 500,000 tonnes each. Bar I and Bar II process the steel billets into medium-sized range steel bars which are the most common type in the market. These include rebar, quality carbon structural steel, alloy structural steel and bearing steel.

- A wire rolling line, with a designed annual capacity of 600,000 tonnes. This wire rolling line manufactures steel products in wire rod form, which include wire rod, quality carbon structural steel, bearing steel and stainless steel.

- A large bar rolling line, Bar III, with a designed annual capacity of 500,000 tonnes. Bar III manufactures large bars of special steel such as quality carbon structural steel, alloy structural steel, bearing steel and stainless steel.

Segment Description:

The Group's products are mainly divided into two business segments:

- Ordinary steel, which includes rebar and wire rod.
- Special steel, which includes quality carbon structural steel, alloy structural steel, bearing steel, steel welding wire and stainless steel.

Ordinary steel

Rebar

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

Wire rod

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

Special steel

Quality carbon structural steel

Our quality carbon structural steel includes steel billets with cross sectional diameters ranging from 160 millimetres to 250 millimetres, and steel bars and steel wires with cross sectional diameters ranging from 6.5 millimetres to 60 millimetres. Quality carbon structural steel contains carbon which is less than 0.8% and has less sulfur, phosphorus and non-metallic contents than regular carbon structural steel. Because of its higher purity, quality carbon structural steel has good mechanical properties such as yield strength and tensile strength. They are mainly used for buildings and infrastructures.

Alloy structural steel

Alloy structural steel is mostly used in machineries. To achieve the desired steel properties, we add manganese, silicon, nickel, chromium and molybdenum to adjust the chemical composition of alloy structural steel. Our alloy structural steel includes steel billets with cross sectional diameters ranging from 160 millimetres to 250 millimetres, and steel bars with cross sectional diameters ranging from 22 millimetres to 60 millimetres.

Bearing steel

Our bearing steel is bearing steel wires and bearing steel bars with cross sectional diameters ranging from 5.5 millimetres to 60 millimetres. They are used for manufacturing rollers or ball bearings mainly used in the automobile industry. Our bearing steel has a very high level of purity and thus is harder in structure.

Steel welding wire

Our steel welding wire, with a cross sectional diameter of 5.5 millimetres, is used for manufacturing welding electrode wires in the electrode conduit, liner of welding guns and welding torches.

Stainless steel

Stainless steel is a type of special steel that is highly resistant to corrosion, stain and rust. It contains at least 10% chromium, and (or) other metals such as nickel, manganese which give rise to its anti-corrosion ability. Stainless steel is used widely in machineries and equipments, seamless pipes for petroleum refining and chemical processing plants, automobile components, transportation, buildings and infrastructures. The Group produces long products of stainless steel which include wire rods and steel bars.

2. REVIEW OF FINANCIAL RESULTS

A summary of the unaudited financial results of the Group for the six months ended 30 June 2012 (the "**Period**"), together with the comparative figures of the corresponding period in 2011, is as follow:

Six months ended 30 June	2012 RMB'000	2011 RMB'000	(Decrease) %
Revenue	**3,228,396**	3,988,207	(19.1)
Gross profit	**247,515**	636,573	(61.1)
Operating profit	**219,588**	616,457	(64.4)
Net profit	**169,777**	462,602	(63.3)
Gross profit margin	**7.7**	16.0	(8.3)
Operating profit margin	**6.8**	15.5	(8.7)
Net profit margin	**5.3**	11.6	(6.3)

The Group recorded deteriorated financial results during the Period as compared with the corresponding period in 2011.

During the Period, overall steel industry in China experienced a downturn. While global economy was uncertain and the Chinese Government enforced stricter control on property sector, investments in related industries such as infrastructure, transportation and real estate declined, which caused the demand for and selling prices of steel products to weaken. On the other hand, the prices of our major raw materials, being steel billets, molten iron and pig iron, steel scraps, fell in different magnitudes as compared with their respective product prices, so the gross profit margin was squeezed. Amid weak business environment, the Group was prompted for a faster momentum of special steel product development in order to stay competitive in the long term. During the second quarter of 2012, the Group's EAFs were mainly engaged in the research and development of stainless steel, resulted in lower utilization of our production facilities. The utilization rates of our EAFs and rolling lines were approximately 34% and 85% respectively during the Period as compared with approximately 121% and 108% respectively for the corresponding period in 2011. Accordingly, unit cost became higher and thus giving further pressure to the gross profit margin.

During the Period, the average selling price of the Group's ordinary steel declined by approximately 13% as compared with the corresponding period in 2011, while the cost of its raw material steel billets declined by approximately 8%. The average selling price of special steel dropped by approximately 9%, while the costs of its raw materials, molten iron and pig iron dropped by approximately 16% and 13% respectively, and that of steel scraps dropped by approximately 1%. Therefore, the gross profit margins of both ordinary steel and special steel were squeezed. As a result, the Group's overall gross profit margin decreased to approximately 7.7% (first half of 2011: 16.0%).

Revenue

Revenue by operating segments:

For the six months ended 30 June	2012 RMB'000	2011 RMB'000	Increase/ (Decrease) %
Ordinary steel			
Rebar	**1,141,292**	760,034	50.2
Wire rod	**1,193,790**	1,591,326	(25.0)
Subtotal ordinary steel	**2,335,082**	2,351,360	(0.7)
Special steel			
Quality carbon structural steel	**732,991**	1,338,868	(45.3)
Alloy structural steel	**4,778**	96,374	(95.0)
Bearing steel	**73,247**	147,607	(50.4)
Steel welding wire	**–**	15,329	N.A.
Stainless steel	**58,087**	–	N.A.
Subtotal special steel	**869,103**	1,598,178	(45.6)
By-products	**24,211**	38,669	(37.4)
Total	**3,228,396**	3,988,207	(19.1)

During the Period, revenue of ordinary steel was approximately RMB2,335 million (first half of 2011: RMB2,351 million) which accounted for approximately 72% of the Group's total revenue (first half of 2011: 59%). Revenue of special steel was approximately RMB869 million (first half of 2011: RMB1,598 million) which accounted for 27% of the Group's total revenue (first half of 2011: 40%).

Sales volume:

For the six months ended 30 June	2012 Tonnes	2011 Tonnes	Increase/ (Decrease) %
Ordinary steel			
Rebar	**318,321**	183,260	73.7
Wire rod	**305,645**	360,429	(15.2)
Subtotal ordinary steel	**623,966**	543,689	14.8
Special steel			
Quality carbon structural steel	**181,245**	304,443	(40.5)
Alloy structural steel	**1,167**	21,008	(94.4)
Bearing steel	**16,563**	29,822	(44.5)
Steel welding wire	**–**	3,474	N.A.
Stainless steel	**4,837**	–	N.A.
Subtotal special steel	**203,812**	358,747	(43.2)
Total	**827,778**	902,436	(8.3)

Average selling prices:

For the six months ended 30 June	2012 RMB per tonne		2011 RMB per tonne		(Decrease)
	Tax-inclusive	Tax-exclusive	Tax-inclusive	Tax-exclusive	%
Ordinary steel					
Rebar	**4,194**	**3,585**	4,852	4,147	(13.6)
Wire rod	**4,570**	**3,906**	5,166	4,415	(11.5)
Special steel					
Quality carbon structural steel	**4,731**	**4,044**	5,146	4,398	(8.0)
Alloy structural steel	**4,791**	**4,095**	5,367	4,587	(10.7)
Bearing steel	**5,174**	**4,422**	5,792	4,950	(10.7)
Steel welding wire	**N.A.**	**N.A.**	5,163	4,413	N.A.
Stainless steel	**14,049**	**12,008**	N.A.	N.A.	N.A.

Revenue by geographical segments:

The Group conducts all its business in China so no geographical representation is presented.

Cost of sales

The Group's cost of sales primarily consists of the cost of raw materials (which include steel billets, steel scraps, molten iron, pig iron and ferroalloys), electricity, depreciation and labour costs.

The breakdown of cost of sales was as follows:

For the six months ended 30 June	2012		2011		Increase/ (Decrease)
	RMB'000	% of total	RMB'000	% of total	%
Steel billets	2,119,411	71.1	1,354,280	40.4	56.5
Steel scraps	209,773	7.0	920,421	27.5	(77.2)
Molten iron	161,779	5.4	552,292	16.5	(70.7)
Pig iron	13,977	0.5	79,688	2.4	(82.5)
Ferroalloys	54,544	1.8	–	–	N.A.
Other raw materials	290,301	9.8	243,615	7.2	19.2
Raw materials subtotal	2,849,785	95.6	3,150,296	94.0	(9.5)
Electricity	45,762	1.5	119,449	3.5	(61.7)
Depreciation	51,074	1.7	42,690	1.3	19.6
Labour	32,290	1.1	35,588	1.1	(9.3)
Others	1,970	0.1	3,611	0.1	(45.4)
Total cost of sales	2,980,881	100.0	3,351,634	100.0	(11.1)

The Group's cost of sales during the Period decreased by approximately 11.1% as compared with the corresponding period in 2011. The main reason was that as the utilization rates of our production lines decreased, the production output also decreased such that the consumption of raw materials (steel scraps, molten iron and pig iron) and relevant overheads reduced. In addition, the prices of the raw materials during the Period declined year-on-year.

The table below shows the average unit costs of our major raw materials:

For the six months ended 30 June	2012 RMB per tonne Tax-inclusive	2012 RMB per tonne Tax-exclusive	2011 RMB per tonne Tax-inclusive	2011 RMB per tonne Tax-exclusive	(Decrease) %
Steel billets	**3,662**	**3,130**	3,957	3,382	(7.5)
Steel scraps	**2,710**	**2,316**	2,740	2,342	(1.1)
Molten iron	**3,085**	**2,637**	3,674	3,140	(16.0)
Pig iron	**3,184**	**2,721**	3,639	3,110	(12.5)

Gross profit margins

Gross profit margins of the Group's products and the Group's overall gross profit margin:

For the six months ended 30 June	2012 %	2011 %	(Decrease) Percentage points
Ordinary steel			
Rebars	**3.9**	6.3	(2.4)
Wire rods	**8.2**	13.8	(5.6)
Weighted average gross profit margin	**6.1**	11.4	(5.3)
Special steel			
Quality carbon structural steel	**12.4**	21.0	(8.6)
Alloy structural steel	**5.2**	21.6	(16.4)
Bearing steel	**12.9**	27.5	(14.6)
Steel welding wire	**N.A.**	14.6	N.A.
Stainless steel	**(18.9)**	N.A.	N.A.
Weighted average gross profit margin	**10.3**	21.6	(11.3)
Overall gross profit margin	**7.7**	16.0	(8.3)

During the Period, the gross profit margin of ordinary steel declined by 5.3 percentage points to approximately 6.1% as compared with the corresponding period of 2011, and the gross profit margin of special steel decreased by 11.3 percentage points to approximately 10.3%. As a result, the Group's overall gross profit margin dropped by 8.3 percentage points to approximately 7.7%.

During the Period, stainless steel recorded a negative gross profit margin. It was because our stainless steel production was only in the initial development stage and has not yet reached commercial production during the Period. As we enter into the commercial production stage in the future, we expect our stainless steel can reach a gross profit margin level comparable with or higher than our other special steel products.

Other income and gain

The Group's other income and gain for the Period increased to approximately RMB13.9 million, (first half of 2011: RMB7.5 million) mainly due to the increase in bank interest income.

Selling and distribution costs

The Group's selling and distribution costs comprised mainly the salaries and welfares for sales and marketing employees and the transportation expenses.

Selling and distribution costs for the Period decreased to approximately RMB2.4 million (first half of 2011: RMB3.1 million). As the overall sales volume for the Period was lower, the corresponding sales and marketing and transportation expenses decreased accordingly.

Administrative expenses

Administrative expenses include general administrative overheads, staff cost of management and other non-production staff, professional fees and research and development expenditure.

Administrative expense for the Period increased to approximately RMB39.4 million (first half of 2011: RMB24.5 million) which was mainly caused by the listing expenses and relevant expenses of the Group's Initial Public Offering ("**IPO**").

Finance costs

The Group's finance costs for the Period decreased to approximately RMB21 million (first half of 2011: RMB28 million) as the Group had paid off certain bank loans.

Income tax expense

The Group's income tax expense for the Period amounted to approximately RMB30 million (first half of 2011: RMB126 million).

Pursuant to the PRC Corporate Income Tax Law (the "**New CIT Law**") effective on 1 January 2008, the PRC Corporate Income Tax ("**CIT**") rate was unified as 25% for enterprises in the PRC. Accordingly, the applicable tax rate for the Company's wholly-owned Subsidiaries including Shandong Xiwang Steel Co., Ltd ("**Xiwang Steel**") (山東西王鋼鐵有限公司), Shandong Xiwang Special Steel Co., Ltd. ("**Shandong Xiwang Special Steel**") (山東西王特鋼有限公司) and Shandong Xiwang Recycling Resources Co., Ltd. ("**Xiwang Recycling Resources**") (山東西王再生資源有限公司) is 25% in 2012.

The Company's wholly-owned Subsidiary, Shandong Xiwang Metal Materials Co., Ltd ("**Xiwang Metal**") (山東西王金屬材料有限公司) was registered as a foreign investment enterprise on 20 April 2004. Pursuant to the approval of the tax bureau, Xiwang Metal is exempted from CIT for its first two profit-making years and is entitled to a 50% tax reduction for the succeeding three years. In accordance with the New CIT Law, a company is still able to enjoy the above-mentioned tax holiday within a five-year transition period starting from 1 January 2008. Xiwang Metal has started its tax holiday in 2008 and was exempted from CIT for the years ended 31 December 2008 and 2009 and was subject to the CIT rate of 12.5% for the years ended 31 December 2010 and 2011. In 2012, the applicable tax rate for Xiwang Metal is 12.5%.

Pursuant to the New CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. The Group is therefore liable for withholding taxes on dividend distributed by those subsidiaries and associate established in the PRC in respect of earnings generated from 1 January 2008.

Pursuant to the Announcement [2012] No. 30 released by China State Administration of Taxation on 29 June 2012, a lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. The applicable tax rate for the Group is reduced from 10% to 5%. As a result, there was a credit of deferred tax of approximately RMB14 million to the income statement during the Period.

Liquidity, capital resources and gearing ratio:

	30 June 2012 RMB'000	31 December 2011 RMB'000
Cash and cash equivalents	**573,836**	154,496
Total borrowings	**1,290,000**	1,644,453
Net current liabilities	**644,268**	445,769
Total equity	**2,606,186**	1,892,712
Current ratio[1]	**0.80**	0.84
Gearing ratio[2]	**0.27**	0.79

1 Current ratio equals to total current assets divided by total current liabilities.

2 Gearing ratio equals to the total of interest-bearing bank borrowings, other borrowings and finance lease payable minus cash and cash equivalents, and divided by total equity.

The Group's cash and cash equivalents as at 30 June 2012 amounted to approximately RMB574 million (31 December 2011: RMB154 million). During the Period, the Group had net cash inflow from operating activities of approximately RMB801 million (first half of 2011: net cash outflow of RMB521 million). The improvement mainly came from the reduction of bill receivables. The Group had net cash used in investing activities of approximately RMB558 million (first half of 2011: RMB848 million). During the Period, the Group paid an amount of approximately RMB353 million for capital expenditure. There was also a net addition of pledged deposits of approximately RMB216 million. The Group had a net cash inflow from financing activities of approximately RMB177 million for the Period (first half of 2011: RMB1,351 million). During the Period, the Group received net proceeds from the IPO of approximately RMB806 million. The Group had a net repayment of bank loans of approximately RMB354 million, so that total borrowings reduced to approximately RMB1,290 million as at 30 June 2012 (31 December 2011: RMB1,644 million). The Group also paid out 2011 final dividends amounted to approximately RMB275 million during the Period.

As at 30 June 2012, the Group's total borrowings amounted to approximately RMB1,290 million, of which approximately RMB720 million were short term bank borrowings and approximately RMB570 million was a finance lease with a lease term within four years. Approximately RMB990 million of the total borrowings were of fixed rate structures.

Part of the borrowings of the Group are secured by certain prepaid land lease payments of the Group with an aggregate carrying value of approximately RMB33 million as of 30 June 2012.

The Group's total bills payable are secured by the Group's time deposits of approximately RMB961 million as of 30 June 2012.

Use of proceeds from the Company's IPO

The Company was listed on the Main Board of the Stock Exchange on 23 February 2012. The gross proceeds was approximately Hong Kong Dollars ("**HKD**")1,060 million, equivalent to approximately RMB861 million. After deducting the listing expenses and relevant expenses, the net proceeds became approximately HKD991 million, equivalent to approximately RMB806 million.

During the Period, the net proceeds was utilized in the following manner:

		Planned allocation percentage of net proceeds	Planned allocation amount of net proceeds RMB million	Amount of net proceeds utilized RMB million	Amount of net proceeds remained as at 30 June 2012 RMB million
1.	Construction of high-duty alloy pipe production line	75%	605	112	493
2.	The unpaid construction costs incurred in connection with installing EAF II and the remaining construction costs for installing Bar III	20%	161	122	39
3.	General working capital	5%	40	40	–
		100%	806	274	532

Capital investment

The Group's capital expenditure for the Period was approximately RMB368 million (first half of 2011: RMB703 million) which was mainly incurred for construction of the high-duty alloy pipe production line and Bar III.

Contingent liabilities

The Group did not have any material contingent liabilities as at 30 June 2012 (31 December 2011: Nil).

Foreign exchange risk

All of the operating income of the Group was denominated in RMB and all of the assets held and committed borrowings of the Group were denominated in RMB. Therefore, the directors of the Company ("**Directors**") believed the foreign exchange risk was insignificant. The Group also did not enter into any derivative financial instruments to hedge against foreign exchange risk exposure.

Human resources

The Group had 2,480 employees as at 30 June 2012 (31 December 2011: 2,579). The Group regularly reviewed the remuneration packages of the directors and employees, with respect to their experience and responsibilities to the Group's business. The Group has established a remuneration committee to determine and review the terms of remuneration packages, bonuses, and other compensation payable to the directors and members of its senior management of the Group.

3. OUTLOOK AND DEVELOPMENT

Since the beginning of the second half of 2012, China steel market continued to be weak and steel prices fell further. China Steel Price Index (CSPI), which is published by China Iron and Steel Association, dropped to 108.08 by the end of July 2012, a 6.41% decrement from the end of June 2012. Mysteel Price Index of China (MyspiC Index), released by mysteel.com (a steel information organization), showed a similar trend of that it had dropped by about 10% from the end of June 2012 to middle of August 2012. Currently, China steel industry is said to have entered into the "coldest winter". We expect that the business environment in the third quarter of 2012 would be even more difficult than that in the first two quarters. Nevertheless, following the goal of the PRC Government to prioritize stable economic growth, we expect the earliest time that the steel market would turn better might be the fourth quarter of 2012.

Given the uncertain outlook in the global and domestic economic environments in the foreseeable future, we expect the product prices and raw material prices will still be highly volatile. It is important for enterprise to be able to react quickly under such a fast-changing market situation. Leveraging on our EAF's short flow production process, we can switch our production from one product to another very efficiently, allowing us to minimize the potential impact on the profit margin of a particular product arising from the price movements. While we had been specialized in special steel with many different products, we further enriched our special steel product mix with stainless steel in the first half of 2012. In this way, we will continue to monitor closely to the relative movement of product prices and their raw material prices and to optimize for a production mix which will be the most favorable as a whole.

The Group's development focus is on special steel, which has a higher growth rate and more diverse applications than ordinary steel. While ordinary steel is applied mainly in real estate and general transportation, special steel is applied in industries such as automobiles, boilers and pipes, and machineries and equipments. According to the National Bureau of Statistics in China, the growth rate of manufacture of railways, shipbuilding, aerospace and other transportation equipment in the first seven months of 2012 was 4.2%. In contrast, the growth rate of manufacture of automobiles was 10.1%, and that of electrical machinery and equipment was 9.5%. With the country's technological advancement such as high-speed railways, energy-saving automobiles and clean energy generators, we expect the use of special steel will become more important. Moreover, as stated in the Twelfth Five-Year Development Plan of New Material Industry released by the Ministry of Industry and Information Technology of the PRC in February 2012, high quality special steel will be used for marine projects, nuclear power and petrochemical industries. In light of the above, we expect that the growth of special steel will be sustainable in the foreseeable future.

Since the Eleventh Five-Year, the PRC Government has commenced restructuring the domestic steel industry and intends to achieve further progress in the Twelfth Five-Year. According to the Twelfth Five-Year Plan for Development of Steel Industry published by the Ministry of Industry and Information Technology of the PRC, the main objectives are to speed up product quality upgrade, reduce energy consumption, remove inefficient production capacities and enhance the supply of resources. With our advanced technology, scale and market positioning, we are confident to maintain our leadership position in the long run.

Condensed Consolidated Income Statement

The board of directors (the "**Board**") of the Company is pleased to announce the unaudited condensed consolidated results of the Group prepared under the Hong Kong Financial Reporting Standards ("**HKFRSs**") for 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**").

		Six months ended 30 June	
		2012	2011
	Note	**RMB'000**	RMB'000
		Unaudited	Unaudited
REVENUE	2	**3,228,396**	3,988,207
Cost of sales		**(2,980,881)**	(3,351,634)
Gross profit		**247,515**	636,573
Other income and gain	3	**13,895**	7,529
Selling and distribution costs		**(2,368)**	(3,143)
Administrative expenses		**(39,454)**	(24,502)
Finance costs	5	**(20,773)**	(28,226)
PROFIT BEFORE TAX	4	**198,815**	588,231
Income tax expense	6	**(29,038)**	(125,629)
PROFIT FOR THE PERIOD		**169,777**	462,602
Profit attributable to equity holders of the Company		**169,777**	462,602
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Basic and diluted	7	**RMB9.1 cents**	RMB28.9 cents

The notes on pages 20 to 35 are an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Comprehensive Income

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	Unaudited	Unaudited
PROFIT FOR THE PERIOD	**169,777**	462,602
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	**(3,072)**	1,111
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**(3,072)**	1,111
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**166,705**	463,713
Total comprehensive income attributable to equity holders of the Company	**166,705**	463,713

Condensed Consolidated Statement of Financial Position

	Note	30 June 2012 RMB'000 Unaudited	31 December 2011 RMB'000 Audited
NON-CURRENT ASSETS			
Property, plant and equipment	9	**3,575,657**	3,269,488
Prepaid land lease payments		**93,915**	94,903
Deferred asset	13	**9,277**	–
Deferred tax assets	14	**1,370**	1,370
Total non-current assets		**3,680,219**	3,365,761
CURRENT ASSETS			
Inventories	10	**644,466**	421,921
Trade and bills receivables	11	**45,852**	547,594
Prepayments, deposits and other receivables		**427,037**	498,228
Pledged deposits		**961,000**	744,951
Cash and cash equivalents		**573,836**	154,496
Total current assets		**2,652,191**	2,367,190
CURRENT LIABILITIES			
Trade and bills payables	12	**1,981,407**	1,578,883
Receipts in advance, other payables and accruals		**433,401**	536,458
Interest-bearing bank and other borrowings		**720,000**	644,453
Finance lease payable	13	**153,875**	–
Income tax payable		**7,776**	53,165
Total current liabilities		**3,296,459**	2,812,959
NET CURRENT LIABILITIES		**(644,268)**	(445,769)
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,035,951**	2,919,992

	Note	30 June 2012 RMB'000 Unaudited	31 December 2011 RMB'000 Audited
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**–**	1,000,000
Finance lease payable	13	**416,125**	–
Deferred tax liability	14	**13,640**	27,280
Total non-current liabilities		**429,765**	1,027,280
Net assets		**2,606,186**	1,892,712
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	15	**165,903**	133,392
Share premium	15	**789,924**	1,119
Other reserves	16	**321,274**	306,972
Retained earnings			
– Proposed final dividend		**–**	274,000
– Others		**1,329,085**	1,177,229
Total equity		**2,606,186**	1,892,712

Wang Yong
Director

Wang Liang
Director

Condensed Consolidated Statement of Changes in Equity

	Share capital RMB'000 (note 15)	Share premium RMB'000 (note 15)	Contributed surplus RMB'000 (note 16)	Statutory surplus reserve RMB'000 (note 16)	Exchange fluctuation reserve RMB'000 (note 16)	Retained profits RMB'000	Proposed final dividend RMB'000	Total equity RMB'000
	Unaudited Attributable to equity holders of the Company							
At 1 January 2012	**133,392**	**1,119**	**78,938***	**221,740***	**6,294***	**1,177,229**	**274,000**	**1,892,712**
Profit for the Period	**–**	**–**	**–**	**–**	**–**	**169,777**	**–**	**169,777**
Other comprehensive income for the Period:								
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**–**	**(3,072)**	**–**	**–**	**(3,072)**
Total comprehensive income for the Period	**–**	**–**	**–**	**–**	**(3,072)**	**169,777**	**–**	**166,705**
Issue of shares	**32,511**	**788,805**	**–**	**–**	**–**	**–**	**–**	**821,316**
Dividend paid	**–**	**–**	**–**	**–**	**–**	**(547)**	**(274,000)**	**(274,547)**
Profit appropriated to reserve	**–**	**–**	**–**	**17,374**	**–**	**(17,374)**	**–**	**–**
At 30 June 2012	**165,903**	**789,924**	**78,938***	**239,114***	**3,222***	**1,329,085**	**–**	**2,606,186**
At 1 January 2011	–	–	78,938	135,315	5,920	628,335	–	848,508
Profit for the Period	–	–	–	–	–	462,602	–	462,602
Other comprehensive income for the Period:								
Exchange differences on translation of foreign operations	–	–	–	–	1,111	–	–	1,111
Total comprehensive income for the Period	–	–	–	–	1,111	462,602	–	463,713
Profit appropriated to reserve	–	–	–	63,000	–	(63,000)	–	–
At 30 June 2011	–	–	78,938	198,315	7,031	1,027,937	–	1,312,221

* These reserve accounts comprise the consolidated other reserves of RMB321,274,000 (2011: RMB306,972,000) in the consolidated statement of financial position.

Condensed Consolidated Statement of Cash Flows

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	Unaudited	Unaudited
Net cash inflow/(outflow) from operating activities	**800,555**	(521,003)
Net cash outflow from investing activities	**(558,031)**	(847,793)
Net cash inflow/(outflow) before financing activities	**242,524**	(1,368,796)
Net cash inflow from financing activities	**176,816**	1,351,383
Net increase/(decrease) in cash and cash equivalents	**419,340**	(17,413)
Cash and cash equivalent at beginning of the Period	**154,496**	72,528
Cash and cash equivalent at end of the Period	**573,836**	55,115

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.

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 ("**Xiwang Holdings**") (西王控股有限公司). During the Period, the ultimate holding company of the Company was Xiwang Holdings.

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 (the "**Listing Rules**") on the Stock Exchange.

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 2011.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the Group's audited 2011 annual financial statements, which have been prepared in accordance with HKFRSs.

As at 30 June 2012, the Group had net current liabilities of approximately RMB644,268,000. 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 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 interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011, except for the adoption of the new amendments as of 1 January 2012, noted below.

HKFRS 1 Amendments	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards* – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopter
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The adoption of these new amendments has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

2. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and has three 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; and

(c) the "others" segment, which includes the sale of by-products.

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 Period, 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 period ended 30 June 2012, sales to two of the Group's customers of RMB1,122,915,000, which represented 34.8% of the Group's total revenue, were derived from sales by the ordinary steel segment and the special steel segment. Sales to each of these customers represented 17.2% and 17.6% of the Group's total revenue, respectively.

For the period ended 30 June 2011, sales to one of the Group's customers of RMB465,983,000, which represented 11.7% of the Group's total revenue, were derived from sales by the ordinary steel segment and the special steel segment.

2. OPERATING SEGMENT INFORMATION (continued)

The unaudited segment results and other segment items included in profit before tax for the six months ended 30 June 2012 are as follows:

	Note	Ordinary steel RMB'000	Special steel RMB'000	Others RMB'000	Consolidated RMB'000
Segment revenue:					
Sales to external customers		**2,335,082**	**869,103**	**24,211**	**3,228,396**
Cost of sales		**(2,193,149)**	**(779,240)**	**(8,492)**	**(2,980,881)**
Gross profit		**141,933**	**89,863**	**15,719**	**247,515**
Reconciliation:					
Other income and gain	3				**13,895**
Selling and distribution costs					**(2,368)**
Administrative expenses					**(39,454)**
Finance costs	5				**(20,773)**
Profit before tax					**198,815**

The unaudited segment results and other segment items included in profit before tax for the six months ended 30 June 2011 are as follows:

	Note	Ordinary steel RMB'000	Special steel RMB'000	Others RMB'000	Consolidated RMB'000
Segment revenue:					
Sales to external customers		2,351,360	1,598,178	38,669	3,988,207
Cost of sales		(2,084,189)	(1,253,495)	(13,950)	(3,351,634)
Gross profit		267,171	344,683	24,719	636,573
Reconciliation:					
Other income and gain	3				7,529
Selling and distribution costs					(3,143)
Administrative expenses					(24,502)
Finance costs	5				(28,226)
Profit before tax					588,231

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	
	2012	2011
	RMB'000	RMB'000
	Unaudited	Unaudited
Revenue		
Sale of ordinary steel	**2,335,082**	2,351,360
Sale of special steel	**869,103**	1,598,178
Sale of by-products	**24,211**	38,669
	3,228,396	3,988,207
Other income		
Bank interest income	**12,420**	5,532
Rental income from fellow subsidiaries	**–**	25
Others	**401**	363
	12,821	5,920
Gain		
Foreign exchange gain, net	**1,074**	1,609
	13,895	7,529

4. PROFIT BEFORE TAX

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

	Note	Six months ended 30 June 2012 RMB'000 Unaudited	2011 RMB'000 Unaudited
Cost of inventories sold^		**2,980,881**	3,351,634
Depreciation^		**52,687**	44,276
Amortisation of prepaid land lease payments^		**988**	882
Employee benefit expense (including directors' remuneration)^:			
Wages and salaries		**38,173**	39,636
Pension scheme contributions*		**1,125**	1,733
Staff welfare expenses		**536**	1,176
		39,834	42,545
Foreign exchange differences, net	3	**(1,074)**	(1,609)
Bank interest income	3	**(12,420)**	(5,532)

^ Included in the cost of inventories sold are direct employee benefit expense, depreciation of manufacturing facilities and amortisation of prepaid land lease payments amounting to approximately RMB83,364,000 (first half of 2011: RMB78,278,000). These amounts are also included in the amounts for the respective types of expenses disclosed above.

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

5. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June 2012 RMB'000 Unaudited	2011 RMB'000 Unaudited
Interest on bank borrowings wholly repayable within five years	**35,385**	35,227
Interest payable to the ultimate holding company	**–**	17,542
Total interest expense on financial liabilities not at fair value through profit or loss	**35,385**	52,769
Less: Interest capitalised	**(14,612)**	(24,543)
	20,773	28,226

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 the PRC have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof.

Pursuant to the New CIT Law effective on 1 January 2008, the CIT rate was unified as 25% for enterprises in the PRC. Accordingly, the applicable tax rate for the Company's wholly-owned subsidiaries including Xiwang Steel (山東西王鋼鐵有限公司), Shandong Xiwang Special Steel (山東西王特鋼有限公司) and Xiwang Recycling Resources (山東西王再生資源有限公司) is 25% in 2012.

The Company's wholly-owned subsidiary, Xiwang Metal (山東西王金屬材料有限公司) was registered as a foreign investment enterprise on 20 April 2004. Pursuant to the approval of the tax bureau, Xiwang Metal is exempted from CIT for its first two profit-making years and is entitled to a 50% tax reduction for the succeeding three years. In accordance with the New CIT Law, a company is still able to enjoy the above-mentioned tax holiday within five-year transitional period from 1 January 2008. Xiwang Metal has started its tax holiday in 2008 and was exempted from CIT for the years ended 31 December 2008 and 2009 and was subject to the CIT rate of 12.5% for the years ended 31 December 2010 and 2011. In 2012, the applicable tax rate for Xiwang Metal is 12.5%.

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	Unaudited	Unaudited
Current – the PRC		
Charge for the period	**42,678**	127,700
Deferred (note 14)	**(13,640)**	(2,071)
Total tax charge for the period	**29,038**	125,629

7. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

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

The calculation of the basic earnings per share is based on:

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	Unaudited	Unaudited
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	**169,777**	462,602
Shares		
Weighted average number of ordinary shares in issue used in the basic earnings per share calculation, as adjusted retrospectively to reflect the Share Split and the Debt Settlement (i)	**1,870,329,670**	1,600,000,000
Basic earnings per share (RMB per share)	**0.091**	0.289

Note:

(i) Weighted average number of ordinary shares in issue used in the basic earnings per share calculation for the period ended 30 June 2011 was adjusted retrospectively to reflect the Share Split and the Debt Settlement on 27 July 2011.

On 27 July 2011, the Company passed an ordinary resolution to sub-divide each of the issued and unissued shares comprising 10,000 shares of HK$1 each into 100,000 shares of HK$0.10 each and increase the authorised share capital of the Company to HK$10,000,000,000 divided into 100,000,000,000 shares of HK$0.1 each by the creation of 99,999,900,000 new shares of HK$0.10 each (the "**Share Split**").

On 27 July 2011, the Company and Xiwang Investment, the immediate holding company, entered into a debt settlement agreement (the "**Debt Settlement**"), pursuant to which, the Company issued additional 1,599,999,990 shares of HK$0.10 each to Xiwang Investment, the consideration for which was set-off by the amount of HK$161,341,779 (equivalent to RMB134,511,000) owed by the Company to Xiwang Investment.

There were no potentially dilutive ordinary shares in issue during the Period and therefore the diluted earnings per share is equivalent to the basic earnings per share.

8. DIVIDENDS

A final dividend for the year ended 31 December 2011 of RMB0.137 per share, payable in cash, totaling approximately RMB275 million, was approved at the annual general meeting held on 11 May 2012 and paid in May 2012.

No interim dividend was proposed for the Period (six months ended 30 June 2011: Nil).

9. PROPERTY, PLANT AND EQUIPMENT

The Group's capital expenditure for the Period was approximately RMB368 million (first half of 2011: RMB703 million) which was mainly incurred for construction of the production lines.

Certain machinery and equipment of the Group with a net carrying amount of RMB570,000,000 (31 December 2011: Nil) as at 30 June 2012 was held under finance lease.

10. INVENTORIES

	30 June 2012 RMB'000 Unaudited	31 December 2011 RMB'000 Audited
Raw materials	**275,202**	244,733
Work in progress	**3,467**	19,381
Finished goods	**365,797**	157,807
	644,466	421,921

The cost of inventories recognized as expenses and included in cost of goods sold amounted to approximately RMB2,980,881,000 for the Period (first half of 2011: RMB3,351,634,000).

11. TRADE AND BILLS RECEIVABLES

	30 June 2012 RMB'000 Unaudited	31 December 2011 RMB'000 Audited
Trade receivables	**30,732**	30,986
Bills receivable	**15,120**	516,608
	45,852	547,594

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 is generally three months and each customer has a maximum credit limit. 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.

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

	30 June 2012 RMB'000 Unaudited	31 December 2011 RMB'000 Audited
Within 3 months	**26,899**	30,986
3 to 6 months	**3,833**	–
	30,732	30,986

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.

12. TRADE AND BILLS PAYABLES

	30 June 2012 RMB'000 Unaudited	31 December 2011 RMB'000 Audited
Trade payables	**181,407**	176,883
Bills payable	**1,800,000**	1,402,000
	1,981,407	1,578,883

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

	30 June 2012 RMB'000 Unaudited	31 December 2011 RMB'000 Audited
Within 1 month	**117,331**	103,750
1 to 3 months	**43,138**	57,134
3 to 6 months	**20,938**	15,999
	181,407	176,883

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 deposits.

13. FINANCE LEASE

The Group entered into a sale and leaseback arrangement in respect of certain of its machinery and equipment (note 17). This lease is classified as a finance lease and has remaining lease term within four years.

The excess of the carrying amount of the machinery and equipment over the sales proceeds was accounted for as deferred asset. As at 30 June 2012, deferred asset of RMB9,277,000 will be amortised over the lease term.

At 30 June 2012, the unaudited total future minimum lease payments under finance lease and their present values were as follows:

Group	**Minimum lease payments 30 June 2012 RMB'000**	Minimum lease payments 31 December 2011 RMB'000	**Present value of minimum lease payments 30 June 2012 RMB'000**	Present value of minimum lease payments 31 December 2011 RMB'000
Amounts payable:				
Within one year	**159,323**	–	**153,875**	–
In the second year	**265,538**	–	**193,030**	–
In the third to four years	**212,431**	–	**223,095**	–
Total minimum finance lease payments	**637,292**	–	**570,000**	–
Future finance charges	**(67,292)**	–		
Total net finance lease payable	**570,000**	–		
Portion classified as current liability	**(153,875)**	–		
Non-current portion	**416,125**	–		

14. DEFERRED TAX

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

Deferred tax assets

	30 June 2012 RMB'000 Unaudited	31 December 2011 RMB'000 Audited
At 1 January	**1,370**	–
Deferred tax credited to the income statement during the Period	**–**	1,370
Gross deferred tax assets at the end of the Period	**1,370**	1,370

Deferred tax assets represented the unrealized profit arising from intra-group sales in 2011.

Deferred tax liability

	Withholding tax on the distributable profits	
	30 June 2012 RMB'000 Unaudited	31 December 2011 RMB'000 Audited
At 1 January	**27,280**	–
Deferred tax (credited)/charged to the income statement during the Period (note 6)	**(13,640)**	27,280
At end of the Period	**13,640**	27,280

Pursuant to the New CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. The Group is therefore liable for withholding taxes on dividend distributed by those subsidiaries and associate established in the PRC in respect of earnings generated from 1 January 2008.

Pursuant to the Announcement [2012] No. 30 released by China State Administration of Taxation on 29 June 2012, a lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. The applicable tax rate for the Group is reduced from 10% to 5%. As a result, these was a credit of deferred tax of RMB13,640,000 to the income statement during the Period.

15. SHARE CAPITAL

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

	Number of shares in issue	Share capital RMB'000	Share premium RMB'000	Total RMB'000
		Unaudited		
At 1 January 2011	1	–	–	–
At 1 January 2012	1,600,000,000	133,392	1,119	134,511
Issue of shares	400,000,000	32,511	788,805	821,316
At 30 June 2012	**2,000,000,000**	**165,903**	**789,924**	**955,827**

Notes:

(a) The total authorized number of ordinary shares is 100 billion ordinary shares (2011: 100 billion shares) with a par value of HK$0.1 per shares (2011: HK$0.1 per share). All issued shares are fully paid.

(b) On 23 February 2012, the Company was listed on the Stock Exchange with the issue of 400,000,000 ordinary shares on the main board, with an offer price of HK$2.65 per share.

The increase in share premium was credited with the net proceeds from the allotment and issue of the offer shares pursuant to the global offering of the Company.

16. RESERVES

In accordance with the PRC Company Law and the respective articles of association of the subsidiaries registered in the PRC (the "**PRC Subsidiaries**"), the PRC Subsidiaries are required to appropriate 10% of the 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.

16. RESERVES (continued)

	Contributed surplus RMB'000	Statutory surplus reserve RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000
		Unaudited		
At 1 January 2012	78,938	221,740	6,294	306,972
Profit appropriated to reserve	–	17,374	–	17,374
Exchange differences on translation of Foreign operations	–	–	(3,072)	(3,072)
At 30 June 2012	**78,938**	**239,114**	**3,222**	**321,274**
At 1 January 2011	78,938	135,315	5,920	220,173
Profit appropriated to reserve	–	63,000	–	63,000
Exchange differences on translation of Foreign operations	–	–	1,111	1,111
At 30 June 2011	78,938	198,315	7,031	284,284

17. NOTE TO THE CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

On 27 June 2012, the Group entered into a sale and finance leaseback arrangement in respect of property, plant and equipment with a total capital value at the inception of the lease of RMB570,000,000.

18. OPERATING LEASE ARRANGEMENTS

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

	30 June 2012 RMB'000 Unaudited	31 December 2011 RMB'000 Audited
Within one year	**369**	369
In the second to fifth years, inclusive	**1,475**	1,475
After five years	**5,100**	5,255
	6,944	7,099

19. COMMITMENTS

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

	30 June 2012 RMB'000 Unaudited	31 December 2011 RMB'000 Audited
Contracted, but not provided for:		
Property, plant and equipment	**77,409**	130,121

The Group entered into a cooperation agreement with a German steel consulting company on 28 October 2010, pursuant to which the Group would pay €800,000 in aggregate for its services provided in the three years from December 2010 to December 2013. The Group had the following commitment under the cooperation agreement at the end of the reporting period:

	30 June 2012 RMB'000 Unaudited	31 December 2011 RMB'000 Audited
Contracted, but not provided for:		
Consulting services	**574**	1,265

20. RELATED PARTY TRANSACTIONS AND BALANCES

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

	Notes	Six months ended 30 June 2012 RMB'000	2011 RMB'000
Purchase of raw materials from:			
Fellow subsidiaries		–	377,547
Purchase of machinery from:			
A fellow subsidiary		–	22,269
Interest expenses to:			
A related company		–	17,542
Rental income from:			
Fellow subsidiaries		–	25
Rental expenses to:			
A related company	(i)	185	–
The ultimate holding company	(i)	–	82
		185	82

(i) The rental expenses to Xiwang Group were charged by reference to the market prices.

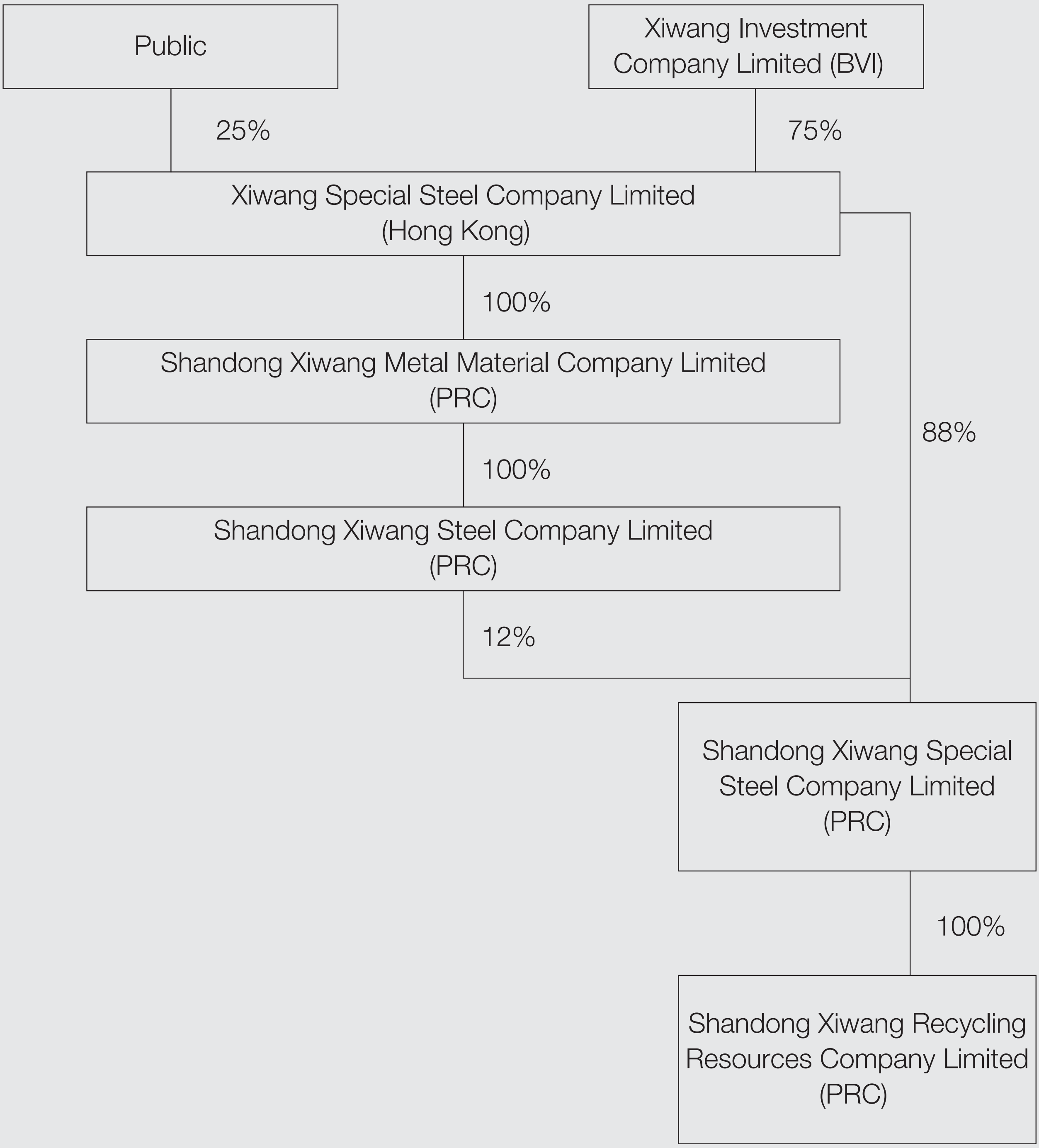
In the opinion of the Board, the above related party transaction was conducted on normal commercial terms and in the ordinary course of the Group's business.

21. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the Board on 29 August 2012.

Organization Structure

As at the date of this interim report:



CORPORATE GOVERNANCE PRACTICES

The Company has complied throughout the period from the Date of Listing to 30 June 2012 with all the code provisions set out in the Code on Corporate Governance Practices (the "**CG Code**") formerly set out in Appendix 14 to the Listing Rules and the new edition of the CG Code applicable to financial reports covering a period after 1 April 2012.

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 standard set out in the Model Code during the period from the Date of Listing to 30 June 2012.

AUDIT COMMITTEE

We established an Audit Committee with written terms of reference based upon the provisions and recommended practices of the CG Code. The primary duties of the Audit Committee are to make recommendation to the Board on the appointment and removal of external auditors; review the financial statements and material advice in respect of financial reporting; oversight of internal control procedures of our Company. The Audit Committee consists of three members who are Mr. Leung Shu Sun Sunny, Mr. Sun Xinhu and Mr. Zhang Gongxue. Mr. Leung Shu Sun Sunny is the chairman of the Audit Committee.

The Group's unaudited condensed consolidated financial statements and the interim report for the Period have been reviewed by the Audit Committee, which is of the opinion that such statements complied with the applicable accounting standards, the Listing Rules, the requirements of the Stock Exchange and the laws of Hong Kong, and that adequate disclosures have been made.

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 from the Date of Listing to 30 June 2012.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the Period (corresponding period in 2011: Nil).

SHARE OPTION SCHEME

The Company did not adopt any share option scheme since its incorporation and up to the date of this interim report.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2012, 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 or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("**SFO**")) ("**Associated Corporations**") which were recorded in the register required to be kept by the Company under section 352 of the SFO; or notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules, were as follows:

Name of company/ Associated corporations	Name of directors	Capacity	Number and class of securities held/interest (Note 1)	Approximate percentage shareholding in the same class of securities in the relevant corporation as at 30 June 2012
Company	WANG Yong	Interest of controlled corporations (Note 2)	1,500,000,000 ordinary shares (L) (Note 4)	75%
Xiwang Holdings Limited ("**Xiwang Holdings**")	WANG Yong	Beneficial owner (Note 2) Other (Note 2)	128,722 shares (L) 71,278 shares (L)	64.36% 35.64%
Xiwang Investment Company Limited ("**Xiwang Investment**")	WANG Yong	Interest of controlled corporations (Note 2)	3 shares (L)	100%
Xiwang Sugar Holdings Company Limited ("**Xiwang Sugar**")	Wang Yong	Interest of controlled corporations (Note 3)	562,494,077 ordinary shares (L) (Note 4) 904,454,180 convertible preference shares (L) (Note 4)	55.77% 99.64%
Xiwang Holdings	WANG Di	Beneficial owner (Note 2)	3,546 shares (L)	1.77%
Xiwang Holdings	WANG Liang	Beneficial owner (Note 2)	4,610 shares (L)	2.31%
Xiwang Holdings	WANG Gang	Beneficial owner (Note 2)	4,610 shares (L)	2.31%
Xiwang Holdings	SUN Xinhu	Beneficial owner (Note 2)	1,773 shares (L)	0.89%

Notes:

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

(2) Xiwang Investment is a wholly-owned subsidiary of Xiwang Holdings, the voting right of which is in turn controlled as to 100% by Mr. WANG Yong and the shares of which are directly and beneficially owned as to 64.36% by Mr. WANG Yong. Mr. WANG Yong is therefore deemed to be interested in the entire issued share capital in Xiwang Investment and Xiwang Holdings.

Xiwang Holdings is directly and beneficially owned as to 64.36% by Mr. WANG Yong, 1.77% by Mr. WANG Di, 2.31% by each of Mr. WANG Liang, Mr. WANG Gang and 0.89% by Mr. SUN Xinhu.

(3) As at 30 June 2012, Xiwang Investment, which is deemed to be wholly owned by Mr. WANG Yong, held 55.77% of ordinary shares of Xiwang Sugar, a company publicly listed on the Main Board of the Stock Exchange, (stock code: 2088), and 99.64% of convertible preference shares of Xiwang Sugar.

(4) These shares are registered in the name of Xiwang Investment. Mr. WANG Yong is deemed to be interested in all shares of the Company in which Xiwang Investment is interested.

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 30 June 2012, so far as known to any Director or Chief executive of the Company, the following persons (other than the Directors or chief executive of the Company) had or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company as recorded in the register to be kept by the Company under section 336 of the SFO:

Name of substantial shareholder	Capacity	Number of shares of the Company held (Note 1)	Approximate percentage of interest in the Company as at 30 June 2012
Xiwang Investment	Beneficial owner	1,500,000,000 ordinary shares (L)	75%
Xiwang Holdings	Interest of a controlled corporation (Note 2)	1,500,000,000 ordinary shares (L)	75%
ZHANG Shufang	Interest of spouse (Note 3)	1,500,000,000 ordinary shares (L)	75%

Notes:

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

(2) Xiwang Investment is a wholly owned subsidiary of Xiwang Holdings. Xiwang Holdings is deemed to be interested in the shares in which Xiwang Investment is interested.

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

(b) Other persons who are required to disclose their interests pursuant to Part XV of the SFO

Save as disclosed in the section headed "DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS" and paragraph (a) above, as at 30 June 2012, no other person had interests or short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under section 336 of the SFO.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This interim report contains certain forward-looking statements and opinions with respect to the operations and businesses of the Company. These forward-looking statements and opinions relate to, among other things, our objectives, goals, strategies, intentions, plans, beliefs, expectations and estimates and are generally indicated by the use of forward-looking terminology such as believe, expect, anticipate, estimate, plan, project, target, may, will, would or other results of actions that may or are expected to occur in the future. Shareholders and potential investors should not place undue reliance on these forward-looking statements and opinions, which apply only as of the date of this interim report. These forward-looking statements are based on the Company's own information and on information from other sources which the Company believes to be reliable. Our actual results may be materially less favorable than those expressed or implied by these forward-looking statements and opinions which could affect the market price of our shares. Neither the Company nor its Directors and employees assume any liability in the event that any forward-looking statement or opinion does not materialize or turns out to be incorrect. Subject to the requirements of the Listing Rules, the Company does not undertake to update any forward-looking statements or opinions contained in this interim report.

MISCELLANEOUS

In the event of inconsistency, the English texts of this interim report shall prevail over the Chinese texts.