2013
INTERIM REPORT

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

(incorporated in Hong Kong with limited liability)

STOCK CODE: 1266

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. WANG Hui *(Chief Executive Officer)*
(appointed on 15 July 2013)

Mr. JIANG Chang Lin
(appointed on 15 July 2013)

Mr. HE Qing Wen
(appointed on 15 July 2013)

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
Agricultural Bank of China
Industrial and Commercial Bank of China
China Construction Bank

AUDITORS

Ernst & Young
Certified Public Accountants
22nd Floor CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

LEGAL ADVISER

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

COMPLIANCE ADVISER

Somerley Limited
20th Floor, Aon China Building
29 Queen's Road Central
Hong Kong
(engagement commenced on 13 August 2013)

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26th floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

INVESTOR RELATIONS CONTACT

Mr. WANG Chao
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WEBSITE

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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 founded in 2003 and the Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 23 February 2012. 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, chemical and petrochemical, machinery and equipment sectors.

Ordinary steel billets and special steel billets are raw materials for our rolling lines. We meet our need for ordinary steel billets by purchasing from third party suppliers or by producing them in-house using our EAFs. We produce all of the special steel billets in-house using our EAFs. The raw materials used to produce steel billets are steel scraps, molten iron and pig iron. To produce special steel billets, we also add alloys to get the desired chemistry composition.

Currently, our aggregate designed annual EAFs smelting capacity is approximately 1.0 million tonnes, and our aggregate designed annual rolling capacity is approximately 2.1 million tonnes.

Our production activities are conducted in our production facilities located in Xiwang Industrial Area, Zouping County, Shandong Province of China. Our steel production facilities 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 produce ordinary steel billets and special steel billets. The ordinary steel billets are rolled into ordinary steel products of rebars and wire rods. The special steel billets are rolled into special steel products, which include quality carbon structural steel, alloy structural steel and bearing steel;

- two bar rolling lines, Bar I and Bar II, with a designed annual capacity of 500,000 tonnes each. Bar I and Bar II manufacture small to medium-sized steel bar, including rebars, quality carbon structural steel, alloy structural steel and bearing steel. These are the most common types in the market;

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

Segment Description:

The Group's products are mainly divided into two major types:

1. Ordinary steel, which includes rebar and wire rod.

2. Special steel, which includes quality carbon structural steel, alloy structural steel, bearing steel and stainless steel.

1. Ordinary steel

Rebar

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

Wire rod

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

2. 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 better mechanical properties such as yield strength and tensile strength than regular carbon structural steel. This product is 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. 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

We produce bearing steel bars and wires with cross sectional diameters ranging from 5.5 millimetres to 60 millimetres. They are used for manufacturing rollers or ball bearings for automobile industry. Our bearing steel products are of relatively high level of purity and thus are harder in structure than ordinary steel.

Stainless steel

Stainless steel is highly resistant to corrosion, stain and dust. 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 in machineries and equipments, seamless pipes for petroleum refining and chemical processing plants, automobile components, transportation, buildings and infrastructures. We produces long products of stainless steel including 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 2013 (the "**Period**"), together with the comparative figures of the corresponding period in 2012, is as follow:

Six months ended 30 June	2013 RMB'000	2012 RMB'000	Increase/ (Decrease) %
Revenue	**3,596,340**	3,228,396	11.4
Gross profit	**318,332**	247,515	28.6
Operating profit	**316,291**	219,588	44.0
Net profit	**181,725**	169,777	7.0
Gross profit margin (%)	**8.9**	7.7	1.2
Operating profit margin (%)	**8.8**	6.8	2.0
Net profit margin (%)	**5.1**	5.3	(0.2)

Financial results of the Group improved during the Period as compared with the corresponding period in 2012.

During the Period, the call for urbanization by the Central People's Government of China (the "**China Government**") revitalized the economy and boosted market sentiment. Analysis from the Shandong Economic and Information Technology Committee (山東省經濟和信息化委員會) revealed that a majority of industrial sectors in Shandong Province are experiencing stable growth in 2013, especially the machinery and automobiles industries which suffered from relatively big downturn in 2012. The recovery of these industries generated higher demand for steel in 2013. Despite the increasing demand for steel products, the average selling price of various steel products is falling since the problem of over-capacity is still unsolved and the growth in production volume outpaced the growth in demand.

Revenue and sales volume of the Group during the Period grew by approximately 11.4% and approximately 29.5% respectively due to a stronger market demand for steel products. The total cost of sales increased by approximately 10.0% as compared with the corresponding period in 2012, thus, the gross profit margins of our steel products only registered a slight growth of 1.2 percentage points to 8.9% (first half of 2012: 7.7%).

Revenue

Revenue by operating segments:

For the six months ended 30 June	2013 RMB'000	2012 RMB'000	Increase/ (Decrease) %
Ordinary steel			
Rebar	**1,134,424**	1,141,292	(0.6)
Wire rod	**1,141,867**	1,193,790	(4.3)
Subtotal ordinary steel	**2,276,291**	2,335,082	(2.5)
Special steel			
Quality carbon structural steel	**1,061,874**	732,991	44.9
Alloy structural steel	**41,990**	4,778	778.8
Bearing steel	**127,485**	73,247	74.0
Stainless steel	**23,320**	58,087	(59.9)
Subtotal special steel	**1,254,669**	869,103	44.4
By-products	**65,380**	24,211	170.0
Total	**3,596,340**	3,228,396	11.4

During the Period, revenue of ordinary steel was approximately RMB2,276 million (first half of 2012: RMB2,335 million) which accounted for approximately 63% of the Group's total revenue (first half of 2012: 72%). Revenue of special steel was approximately RMB1,255 million (first half of 2012: RMB869 million) which accounted for 35% of the Group's total revenue (first half of 2012: 27%).

Sales volume:

For the six months ended 30 June	2013 Tonnes	2012 Tonnes	Increase/ (Decrease) %
Ordinary steel			
Rebar	**383,220**	318,321	20.4
Wire rod	**349,973**	305,645	14.5
Subtotal ordinary steel	**733,193**	623,966	17.5
Special steel			
Quality carbon structural steel	**292,711**	181,245	61.5
Alloy structural steel	**11,582**	1,167	892.5
Bearing steel	**31,619**	16,563	90.9
Stainless steel	**2,523**	4,837	(47.8)
Subtotal special steel	**338,435**	203,812	66.1
Total	**1,071,628**	827,778	29.5

Average selling prices:

For the six months ended 30 June	2013 RMB per tonne		2012 RMB per tonne		(Decrease) %
	Tax-inclusive	Tax-exclusive	Tax-inclusive	Tax-exclusive	
Ordinary steel					
Rebar	**3,463**	**2,960**	4,194	3,585	(17.4)
Wire rod	**3,818**	**3,263**	4,570	3,906	(16.5)
Special steel					
Quality carbon structural steel	**4,245**	**3,628**	4,731	4,044	(10.3)
Alloy structural steel	**4,241**	**3,625**	4,791	4,095	(11.5)
Bearing steel	**4,717**	**4,032**	5,174	4,422	(8.8)
Stainless steel	**10,814**	**9,243**	14,049	12,008	(23.0)

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	2013		2012		Increase/ (Decrease)
	RMB'000	% of total	RMB'000	% of total	%
Steel billets	2,369,850	72.3	2,119,411	71.1	11.8
Steel scraps	390,492	11.9	209,773	7.0	86.1
Molten iron	104,855	3.2	161,779	5.4	(35.2)
Pig iron	17	–	13,977	0.5	(99.9)
Ferroalloys	7,795	0.2	54,544	1.8	(85.7)
Other raw materials	170,803	5.2	290,301	9.8	(41.2)
Raw materials subtotal	3,043,812	92.8	2,849,785	95.6	6.8
Electricity	85,860	2.6	45,762	1.5	87.6
Depreciation	94,139	2.9	51,074	1.7	84.3
Labour	44,259	1.4	32,290	1.1	37.1
Others	9,938	0.3	1,970	0.1	404.5
Total cost of sales	3,278,008	100.0	2,980,881	100.0	10.0

The Group's cost of sales during the Period increased by approximately 10.0% as compared with the corresponding period in 2012.

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

For the six months ended 30 June	2013 RMB per tonne		2012 RMB per tonne		Increase/ (Decrease)
	Tax-inclusive	Tax-exclusive	Tax-inclusive	Tax-exclusive	%
Steel billets	3,140	2,684	3,662	3,130	(14.2)
Steel scraps	2,110	1,803	2,710	2,316	(22.2)
Molten iron	3,026	2,586	3,085	2,637	(1.9)
Pig iron	3,917	3,348	3,184	2,721	23.0

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	2013 %	2012 %	Increase/ (Decrease) Percentage points
Ordinary steel			
Rebars	**0.1**	3.9	(3.8)
Wire rods	**7.4**	8.2	(0.8)
Weighted average gross profit margin	**3.8**	6.1	(2.3)
Special steel			
Quality carbon structural steel	**14.9**	12.4	2.5
Alloy structural steel	**12.5**	5.2	7.3
Bearing steel	**17.2**	12.9	4.3
Stainless steel	**(4.2)**	(18.9)	14.7
Weighted average gross profit margin	**14.7**	10.3	4.4
Overall gross profit margin	**8.9**	7.7	1.2

During the Period, the gross profit margin of ordinary steel declined by 2.3 percentage points to approximately 3.8% as compared with the corresponding period of 2012, and the gross profit margin of special steel increased by 4.4 percentage points to approximately 14.7%. As a result, the Group's overall gross profit margin increased by 1.2 percentage points to approximately 8.9%.

Other income and gain

The Group's other income and gain for the Period increased to approximately RMB22.3 million (first half of 2012: RMB13.9 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 expenses for sales and marketing employees.

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 decreased to approximately RMB20.7 million (first half of 2012: RMB39.4 million). Compared with last period during which the listing expenses and relevant expenses of the Group's Initial Public Offering ("**IPO**") incurred, the administrative expenses decreased significantly in the Period.

Finance costs

The Group's finance costs for the Period increased to approximately RMB80.1 million (first half of 2012: RMB20.8 million) as the new bank loans of approximately RMB550 million were drawn down and interest rates of the bank loans increased during the Period.

Income tax expense

The Group's income tax expense for the Period amounted to approximately RMB54.4 million (first half of 2012: RMB29.0 million).

Pursuant to the PRC Corporate Income Tax Law (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 Shandong Xiwang Steel Company Ltd.* (山東西王鋼鐵有限公司), Shandong Xiwang Special Steel Company Ltd.* (山東西王特鋼有限公司), Shandong Xiwang Recycling Resources Company Ltd.* (山東西王再生資源有限公司) and Shandong Xiwang Metal Material Company Ltd. (山東西王金屬材料有限公司) is 25% in 2013.

Liquidity, capital resources and gearing ratio:

	30 June 2013 RMB'000	31 December 2012 RMB'000
Cash and cash equivalents	**297,841**	370,172
Total borrowings	**2,115,992**	1,808,020
Net current liabilities	**1,930,218**	878,645
Total equity	**2,933,977**	2,784,599
Current ratio[1]	**0.49**	0.76
Gearing ratio[2]	**0.62**	0.52

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.

* For identification purpose only.

The Group's cash and cash equivalents as at 30 June 2013 amounted to approximately RMB298 million (31 December 2012: RMB370 million). During the Period, the Group had net cash inflow from operating activities of approximately RMB617 million (first half of 2012: RMB801 million). The Group had net cash used in investing activities of approximately RMB967 million (first half of 2012: RMB558 million). During the Period, the Group paid an amount of approximately RMB1,555 million for capital expenditure. There was a net reduction of pledged deposits of approximately RMB565 million. The Group had a net cash inflow from financing activities of approximately RMB278 million during the Period (first half of 2012: RMB177 million). The Group had new bank borrowings of approximately RMB550 million, while approximately RMB242 million of bank borrowings were repaid during the Period. The Group also paid out 2012 final dividends amounted to approximately RMB30 million during the Period.

The Group's net current liabilities as at 30 June 2013 significantly increased to approximately RMB1,930 million, mainly for the capital investment. The Group will take appropriate measures, including increase in financing by long term borrowings to improve the net current liabilities position of the Group.

Details of maturity profile of borrowings and committed borrowing facilities were disclosed in note 15 to the condensed consolidated financial statements of this report.

As at 30 June 2013, the Group's total borrowings amounted to approximately RMB2,116 million, of which approximately RMB647 million were short term bank borrowings and approximately RMB418 million was a finance lease with a lease term within three years. The net carrying amounts of the Group's fixed assets held under finance lease as at 30 June 2013 amounted to approximately RMB543 million. Approximately RMB1,250 million of the total borrowings were of fixed rate structures.

Part of the borrowings of the Group are secured by certain inventories of the Group with an aggregate carrying value of approximately RMB188 million as of 30 June 2013.

The Group's total bills payable amounting to approximately RMB1,430 million are secured by the Group's time deposits of approximately RMB725 million, inventories of approximately RMB577 million and certain prepaid land lease payments of the Group of approximately RMB58 million as of 30 June 2013.

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.

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 2013 RMB million
1.	Construction of high-duty alloy pipe production line	75%	605	342	263
2.	The unpaid construction costs incurred in connection with installing EAF II and the remaining construction costs for installing Bar III	20%	161	161	–
3.	General working capital	5%	40	40	–
		100%	806	543	263

Capital investment
The Group's capital expenditure for the Period was approximately RMB1,555 million (first half of 2012: RMB368 million) which was mainly incurred for technological renovation of EAFs, mainly for the improvements of the supply and the efficiency of the inputs of raw materials and the foundation work of high-duty alloy pipe production line.

Contingent liabilities
The Group did not have any material contingent liabilities as at 30 June 2013 (31 December 2012: 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 (the "**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.

Major acquisition or disposal
No major acquisition or disposal undertaken by the Group during the Period.

Human resources
The Group had 3,509 employees as at 30 June 2013 (31 December 2012: 2,772). Total staff related costs incurred during the Period was approximately RMB53 million (first half of 2012: RMB40 million). 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

The National Bureau of Statistics of China announced that during the first six months of 2013, the gross domestic product ("**GDP**") of China reached RMB24.8 trillion and registered an increase of 7.6%, which met the goal of the China Government for stable economic growth. During the Period, the emphasis of urbanization by the China Government revitalized the economy and a majority of industries experienced stable growth. Demand of steel from property, machinery and automobile industries thus increased steadily. The steel sector was able to reap profit for the Period as compared to the deteriorating revenue in 2012.

The production volume of steel in China was 516,960,000 tonnes during the Period, recorded a growth rate of 10.2% over the corresponding period in 2012. The growth of steel production volume, however, still outpaced the growth of demand despite there is a growing demand for steel from various industries in 2013. The problem of over-capacity is still unsolved and steel price remained at a relatively low level. The China Iron and Steel Association reported that the China Steel Price Index (CSPI) continued to drop from 111.12 points at the end of February to 98.52 points at the end of June 2013, which was 14.69% lower than the index in the same period in 2012.

In view of this, the China Government is keen to create a healthier operating environment by speeding up the removal of inefficient production capacities of the steel sector. In January 2013, twelve government departments including the Ministry of Industry and Information Technology of the People's Republic of China (中華人民共和國工業和信息化部) published a document called "Guiding Comments on Acceleration of Merger and Acquisition of Corporations in Major Sectors*" (關於加快推進重點行業企業兼併重組的指導意見). The document revealed the target for the steel sector is to concentrate around 60% of production volume to the top ten enterprises, and to form 3 to 5 enterprises which are highly competitive and with strong international exposure, 6 to 7 enterprises with strong regional exposure by the year 2015. The China Government also encourages large iron and steel corporations to conduct merger and acquisition and reorganization in order to remove inefficient production capacities, to concentrate production and to launch technical innovation for better competitiveness. We believe that further policies will be formulated in this regard in the second half of 2013. As a leading steel producer in Shandong Province, the Group will benefit from the restructuring of the iron and steel sector.

To strengthen the overall management of the Group for better operation amid the challenging operating environment, the Group reconstituted the composition of the board of Directors (the "**Board**") on 15 July 2013 by appointing new Directors who are better equipped with professional knowledge and skills from the steel sector in the PRC.

We plan to enhance our research and development effort and our production team with an aim to improve our production efficiency and adjust our product mix in view of changing market demand. For the construction of high-duty alloy pipe production line, we are conducting the foundation work. We are reviewing the market demand and competition of the product and will decide whether to continue the construction in the second half of the year in consideration of the market situation. The foundation work can also be applied for improvements of the supply and the efficiency of inputs of raw materials. Moreover, we will start large commodity trading this year. In the second half of 2013, we will also closely monitor any introduction of relevant government policies regarding the steel sector and timely review our development strategy in response to the changing market situation. We are optimistic that we are able to maintain our leading position in the steel industry in Shandong Province in the long run.

4. EVENTS AFTER REPORTING PERIOD

With effect from 15 July 2013, Mr. WANG Liang, Mr. WANG Gang and Mr. WANG Tao have resigned as executive Directors of the Company and Mr. WANG Liang has also ceased to be the general manager of the Company. With effect from 15 July 2013, Mr. WANG Hui, Mr. JIANG Chang Lin and Mr. HE Qing Wen have been appointed as executive Directors of the Company. Mr. WANG Hui has also been appointed as the chief executive officer of the Company.

With effect from 15 July 2013, Mr. CHUNG Kwok Mo John has been re-designated from the chief financial officer to executive vice president of the Company. He will be in charge of the Group's corporate finance and investor relations. Original duties of chief financial officer will be shared by executive vice president, financial controller and company secretary of the Company.

With effect from 13 August 2013, Guangdong Securities Limited, the Company's previous compliance advisor, has resigned as the compliance advisor of the Company due to changes in its personnel. Somerley Limited ("**Somerley**") was appointed as the Company's compliance advisor, effective from 13 August 2013 until the date on which the Company complies with Rule 13.46 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") in respect of its financial results for the first full financial year (being the year ending 31 December 2013) commencing after the listing date of the Company, or until the compliance adviser agreement entered into between the Company and Somerley is terminated in accordance with its terms, whichever is earlier.

* *For identification purpose only*

Condensed Consolidated Income Statement

The Board 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**").

	Note	Six months ended 30 June	
		2013	2012
		RMB'000	RMB'000
		Unaudited	Unaudited
REVENUE	2	**3,596,340**	3,228,396
Cost of sales		**(3,278,008)**	(2,980,881)
Gross profit		**318,332**	247,515
Other income and gain	3	**22,306**	13,895
Selling and distribution costs		**(3,612)**	(2,368)
Administrative expenses		**(20,735)**	(39,454)
Finance costs	5	**(80,143)**	(20,773)
PROFIT BEFORE TAX	4	**236,148**	198,815
Income tax expense	6	**(54,423)**	(29,038)
PROFIT FOR THE PERIOD		**181,725**	169,777
Profit attributable to equity holders of the Company		**181,725**	169,777
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Basic and diluted	7	**RMB9.1 cents**	RMB9.1 cents

The notes on pages 21 to 37 are an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Comprehensive Income

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	Unaudited	Unaudited
PROFIT FOR THE PERIOD	**181,725**	169,777
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	**(2,347)**	(3,072)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**(2,347)**	(3,072)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**179,378**	166,705
Total comprehensive income attributable to equity holders of the Company	**179,378**	166,705

Condensed Consolidated Statement of Financial Position

	Note	30 June 2013 RMB'000 Unaudited	31 December 2012 RMB'000 Audited
NON-CURRENT ASSETS			
Property, plant and equipment	9	**6,059,431**	4,599,585
Prepaid land lease payments		**92,184**	92,895
Deferred asset	16	**1,408**	1,760
Deferred tax assets	17	**2,586**	2,969
Total non-current assets		**6,155,609**	4,697,209
CURRENT ASSETS			
Inventories	10	**505,419**	572,834
Trade and bills receivables	11	**31,593**	49,198
Prepayments, deposits and other receivables	12	**220,929**	475,998
Pledged deposits		**811,439**	1,376,000
Cash and cash equivalents		**297,841**	370,172
Total current assets		**1,867,221**	2,844,202
CURRENT LIABILITIES			
Trade and bills payables	13	**1,731,125**	2,429,739
Receipts in advance, other payables and accruals	14	**1,188,236**	452,604
Interest-bearing bank and other borrowings	15	**839,718**	789,195
Due to a related party	22(b)	**27,817**	22,099
Income tax payable		**10,543**	29,210
Total current liabilities		**3,797,439**	3,722,847
NET CURRENT LIABILITIES		**(1,930,218)**	(878,645)
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,225,391**	3,818,564

	Note	30 June 2013 RMB'000 Unaudited	31 December 2012 RMB'000 Audited
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	15	**1,276,274**	1,018,825
Deferred tax liability	17	**15,140**	15,140
Total non-current liabilities		**1,291,414**	1,033,965
Net assets		**2,933,977**	2,784,599
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	18	**165,903**	165,903
Share premium	18	**789,930**	789,930
Other reserves	19	**533,495**	387,328
Retained earnings			
– Proposed final dividend		**–**	30,000
– Others		**1,444,649**	1,411,438
Total equity		**2,933,977**	2,784,599

WANG Yong
Director

WANG Hui
Director

Condensed Consolidated Statement of Changes in Equity

	Unaudited								
	Attributable to equity holders of the Company								
	Share capital RMB'000	Share premium RMB'000	Contributed surplus RMB'000	Statutory surplus reserve RMB'000	Special reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profit RMB'000	Proposed final dividend RMB'000	Total equity RMB'000
At 1 January 2013	**165,903**	**789,930**	**78,938***	**264,701***	**37,220***	**6,469***	**1,411,438**	**30,000**	**2,784,599**
Profit for the Period	**–**	**–**	**–**	**–**	**–**	**–**	**181,725**	**–**	**181,725**
Other comprehensive income for the Period:									
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**(2,347)**	**–**	**–**	**(2,347)**
Total comprehensive income for the Period	**–**	**–**	**–**	**–**	**–**	**(2,347)**	**181,725**	**–**	**179,378**
Dividend paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(30,000)**	**(30,000)**
Profit appropriated to reserve	**–**	**–**	**–**	**133,930**	**14,584**	**–**	**(148,514)**	**–**	**–**
At 30 June 2013	**165,903**	**789,930**	**78,938***	**398,631***	**51,804***	**4,122***	**1,444,649**	**–**	**2,933,977**
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

* These reserve accounts comprise the consolidated other reserves of RMB533,495,000 (2012: RMB387,328,000) in the consolidated statement of financial position.

Condensed Consolidated Statement of Cash Flows

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	Unaudited	Unaudited
Net cash inflow from operating activities	**617,023**	800,555
Net cash outflow from investing activities	**(967,044)**	(558,031)
Net cash (outflow)/inflow before financing activities	**(350,021)**	242,524
Net cash inflow from financing activities	**277,690**	176,816
Net (decrease)/increase in cash and cash equivalents	**(72,331)**	419,340
Cash and cash equivalent at beginning of the period	**370,172**	154,496
Cash and cash equivalent at end of the period	**297,841**	573,836

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 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 2012.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the Group's audited 2012 annual financial statements, which have been prepared in accordance with HKFRSs.

As at 30 June 2013, the Group had net current liabilities of approximately RMB1,930,218,000. 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 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 2012, except for the adoption of the new standards, interpretation and amendments as of 1 January 2013, noted below:

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
HKFRS 10	*Consolidated Financial Statements*
HKFRS 11	*Joint Arrangements*

1.3 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKFRS 12	*Disclosure of Interests in Other Entities*
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*
HKFRS 13	*Fair Value Measurement*
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*
HKAS 19 (2011)	*Employee Benefits*
HKAS 27 (2011)	*Separate Financial Statements*
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012

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

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

2. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and has 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 2013, sales to two of the Group's customers of RMB742,672,000, which represented 20.7% 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 12.5% and 8.2% of the Group's total revenue, respectively.

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.

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 2013 are as follows:

	Note	Ordinary steel RMB'000	Special steel RMB'000	Others RMB'000	Consolidated RMB'000
Segment revenue:					
Sales to external customers		**2,276,291**	**1,254,669**	**65,380**	**3,596,340**
Cost of sale		**(2,190,657)**	**(1,070,126)**	**(17,225)**	**(3,278,008)**
Gross profit		**85,634**	**184,543**	**48,155**	**318,332**
Reconciliation:					
Other income and gain	3				**22,306**
Selling and distribution costs					**(3,612)**
Administrative expenses					**(20,735)**
Finance costs	5				**(80,143)**
Profit before tax					**236,148**

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

		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

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	
	2013	2012
	RMB'000	RMB'000
	Unaudited	Unaudited
Revenue		
Sale of ordinary steel	**2,276,291**	2,335,082
Sale of special steel	**1,254,669**	869,103
Sale of by-products	**65,380**	24,211
	3,596,340	3,228,396
Other income		
Bank interest income	**19,722**	12,420
Others	**1,033**	401
	20,755	12,821
Gain		
Foreign exchange gain, net	**1,551**	1,074
	22,306	13,895

4. PROFIT BEFORE TAX

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

	Note	Six months ended 30 June 2013 RMB'000 Unaudited	2012 RMB'000 Unaudited
Cost of inventories sold^		**3,278,008**	2,980,881
Depreciation^		**95,127**	52,687
Amortisation of prepaid land lease payments^		**989**	988
Employee benefit expense (including directors' remuneration)^:			
Wages and salaries		**48,918**	38,173
Pension scheme contributions*		**2,222**	1,125
Staff welfare expenses		**1,822**	536
		52,962	39,834
Foreign exchange differences, net	3	**(1,551)**	(1,074)
Bank interest income	3	**(19,722)**	(12,420)

^ 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 RMB138,434,000 (first half of 2012: RMB83,364,000). 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 2013 RMB'000 Unaudited	2012 RMB'000 Unaudited
Interest on bank borrowings wholly repayable within five years	**78,851**	35,385
Interest on a finance lease	**16,254**	–
Total interest expense on financial liabilities not at fair value through profit or loss	**95,105**	35,385
Less: Interest capitalised	**(14,962)**	(14,612)
	80,143	20,773

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 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 Shandong Xiwang Steel Company Ltd. (山東西王鋼鐵有限公司), Shandong Xiwang Special Steel Company Ltd. (山東西王特鋼有限公司), Shandong Xiwang Recycling Resources Company Ltd. (山東西王再生資源有限公司) and Shandong Xiwang Metal Material Company Ltd. (山東西王金屬材料有限公司) is 25% in 2013.

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	Unaudited	Unaudited
Current – the PRC		
Charge for the period	**54,040**	42,678
Deferred (note 17)	**383**	(13,640)
Total tax charge for the period	**54,423**	29,038

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	
	2013	2012
	RMB'000	RMB'000
	Unaudited	Unaudited
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	**181,725**	169,777
Shares		
Weighted average number of ordinary shares in issue used in the basic earnings per share calculation	**2,000,000,000**	1,870,329,670
Basic earnings per share (RMB per share)	**0.091**	0.091

Note:

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 2012 of RMB0.015 per share, payable in cash, totaling approximately RMB30 million, was approved at the annual general meeting held on 22 May 2013 and paid in June 2013.

No interim dividend was proposed for the Period (six months ended 30 June 2012: Nil).

9. PROPERTY, PLANT AND EQUIPMENT

The Group's capital expenditure for the Period was approximately RMB1,555 million (first half of 2012: RMB368 million) which was mainly incurred for technological renovation of EAFs, mainly for the improvements of the supply and the efficiency of the inputs of raw materials and the foundation work of high-duty alloy pipe production line.

Certain machinery and equipment of the Group with a net carrying amount of RMB543,464,000 (31 December 2012: RMB552,781,000) as at 30 June 2013 was held under finance lease.

10. INVENTORIES

	30 June 2013 RMB'000 Unaudited	31 December 2012 RMB'000 Audited
Raw materials	227,642	278,617
Work in progress	4,227	4,227
Finished goods	273,550	289,990
	505,419	572,834

The cost of inventories recognized as expenses and included in cost of goods sold amounted to approximately RMB3,278,008,000 for the Period (first half of 2012: RMB2,980,881,000).

Certain of the Group's inventories with a carrying amount of RMB576,928,000 as at 30 June 2013 (31 December 2012: RMB418,982,000), were pledged as security for the Group's issuance of bills payable (note 13).

Certain of the Group's inventories with a carrying amount of RMB187,537,000 as at 30 June 2013 (31 December 2012: RMB152,401,000), were pledged as security for the Group's bank borrowings (note 15).

11. TRADE AND BILLS RECEIVABLES

	30 June 2013 RMB'000 Unaudited	31 December 2012 RMB'000 Audited
Trade receivables	**29,715**	19,517
Bills receivable	**1,878**	29,681
	31,593	49,198

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 2013 RMB'000 Unaudited	31 December 2012 RMB'000 Audited
Within 3 months	**29,113**	36,117
3 to 6 months	**1,878**	12,577
6 months to 1 year	**602**	504
	31,593	49,198

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. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2013 RMB'000 Unaudited	31 December 2012 RMB'000 Audited
Prepayments	**125,496**	402,360
Bank interest receivables	**7,286**	8,408
VAT recoverable	**85,520**	62,496
Deposits and other receivables	**929**	758
Current portion of prepaid land lease payments	**1,698**	1,976
	220,929	475,998

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

13. TRADE AND BILLS PAYABLES

	30 June 2013 RMB'000 Unaudited	31 December 2012 RMB'000 Audited
Trade payables	**301,125**	218,739
Bills payable	**1,430,000**	2,211,000
	1,731,125	2,429,739

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

	30 June 2013 RMB'000 Unaudited	31 December 2012 RMB'000 Audited
Within 1 month	**154,668**	598,387
1 to 3 months	**1,119,086**	1,182,340
3 to 6 months	**418,185**	623,808
6 to 12 months	**14,791**	20,492
Over 12 months	**24,395**	4,712
	1,731,125	2,429,739

13. TRADE AND BILLS PAYABLES (continued)

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 of RMB725,000,000, certain inventories and certain land lease payments with carrying amounts of approximately RMB576,928,000 and RMB57,918,000 respectively.

14. RECEIPTS IN ADVANCE, OTHER PAYABLES AND ACCRUALS

	30 June 2013 RMB'000 Unaudited	31 December 2012 RMB'000 Audited
Advances from customers	**114,554**	104,023
Salaries and welfare payables	**22,506**	24,674
Other tax payables	**7,328**	4,616
Other payables	**1,043,848**	319,291
	1,188,236	452,604

15. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2013 Unaudited			31 December 2012 Audited		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Finance lease payable (note 16)	**7.13**	**2013-2014**	**192,453**	7.13	2013	199,195
Interest-bearing bank loans-secured	**6.48-7.8**	**2013**	**120,000**	6.60-7.57	2013	590,000
Interest-bearing bank loans-unsecured	**2.5**	**2013**	**527,265**	–	–	–
			839,718			789,195
Non-current						
Finance lease payable (note 16)	**7.13**	**2015**	**225,993**	7.13	2015	318,825
Long term interest-bearing bank loans – secured	**10.5**	**2014**	**700,000**	10.5	2014	700,000
Long term interest-bearing other loan – secured	**10.0**	**2015**	**350,281**	–	–	–
			1,276,274			1,018,825
			2,115,992			1,808,020

Certain of the Group's bank loans are secured by certain of the Group's inventories totaling RMB187,537,000 as at 30 June 2013 (2012: RMB152,401,000) (note 10).

16. FINANCE LEASE

The Group entered into a sale and leaseback arrangement in respect of certain of its machinery and equipment. This lease is classified as a finance lease and has remaining lease term within three 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 2013, deferred asset of RMB1,408,000 (31 December 2012: RMB1,760,000) will be amortised over the lease term.

At 30 June 2013, the unaudited total future minimum lease payments under finance lease and their present values were as follows:

Group	Minimum lease payments 30 June 2013 RMB'000 Unaudited	Minimum lease payments 31 December 2012 RMB'000 Audited	Present value of minimum lease payments 30 June 2013 RMB'000 Unaudited	Present value of minimum lease payments 31 December 2012 RMB'000 Audited
Amounts payable:				
Within one year	**211,529**	211,529	**192,453**	199,195
In the second year	**211,529**	211,529	**179,645**	185,938
In the third to fourth years	**54,849**	160,614	**46,348**	132,887
Total minimum finance lease payments	**477,907**	583,672	**418,446**	518,020
Future finance charges	**(59,461)**	(65,652)		
Total net finance lease payable	**418,446**	518,020		
Portion classified as current liability	**(192,453)**	(199,195)		
Non-current portion	**225,993**	318,825		

17. DEFERRED TAX

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

Deferred tax assets

	30 June 2013 RMB'000 Unaudited	31 December 2012 RMB'000 Audited
At 1 January	**2,969**	1,370
Deferred tax (debited)/credited to the income statement during the period (note 6)	**(383)**	1,599
Gross deferred tax assets at the end of the period	**2,586**	2,969

Deferred tax assets represented the unrealized profit arising from intra-group sales in 2012.

Deferred tax liability

	Withholding tax on the distributable profits	
	30 June 2013 RMB'000 Unaudited	31 December 2012 RMB'000 Audited
At 1 January	**15,140**	27,280
Deferred tax credited to the income statement during the period	**–**	(12,140)
At end of the period	**15,140**	15,140

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. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable tax rate is 5%. 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.

18. SHARE CAPITAL

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

	Number of Shares				
	Authorised	Issued and fully paid	Share capital RMB'000 Unaudited	Share premium RMB'000 Unaudited	Total RMB'000 Unaudited
At 1 January 2012	100,000,000,000	1,600,000,000	133,392	1,119	134,511
At 1 January 2013 and 30 June 2013	**100,000,000,000**	**2,000,000,000**	**165,903**	**789,930**	**955,833**

19. RESERVES

The amounts of the Group's reserves and the movements therein for the Period are presented in the interim condensed consolidated statement of changes in equity.

20. 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 2013 RMB'000 Unaudited	31 December 2012 RMB'000 Audited
Within one year	**369**	369
In the second to fifth years, inclusive	**1,475**	1,475
After five years	**4,917**	4,886
	6,761	6,730

21. COMMITMENTS

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

	30 June 2013 RMB'000 Unaudited	31 December 2012 RMB'000 Audited
Contracted, but not provided for:		
Property, plant and equipment	**907,080**	928,172

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 2013 RMB'000 Unaudited	31 December 2012 RMB'000 Audited
Contracted, but not provided for:		
Consulting services	**573**	573

22. RELATED PARTY TRANSACTIONS AND BALANCES

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

		Six months ended 30 June	
	Note	2013 RMB'000 Unaudited	2012 RMB'000 Unaudited
Rental expenses to:			
A related company	(i)	**184**	185

(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.

22. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(b) The Group had the following balance with a related party:

	Group	
	30 June 2013 RMB'000 Unaudited	31 December 2012 RMB'000 Audited
Due to a related party Zouping Xiwang Power Co., Ltd ("**Xiwang Power**") （鄒平縣西王動力有限公司）	**22,817**	22,099

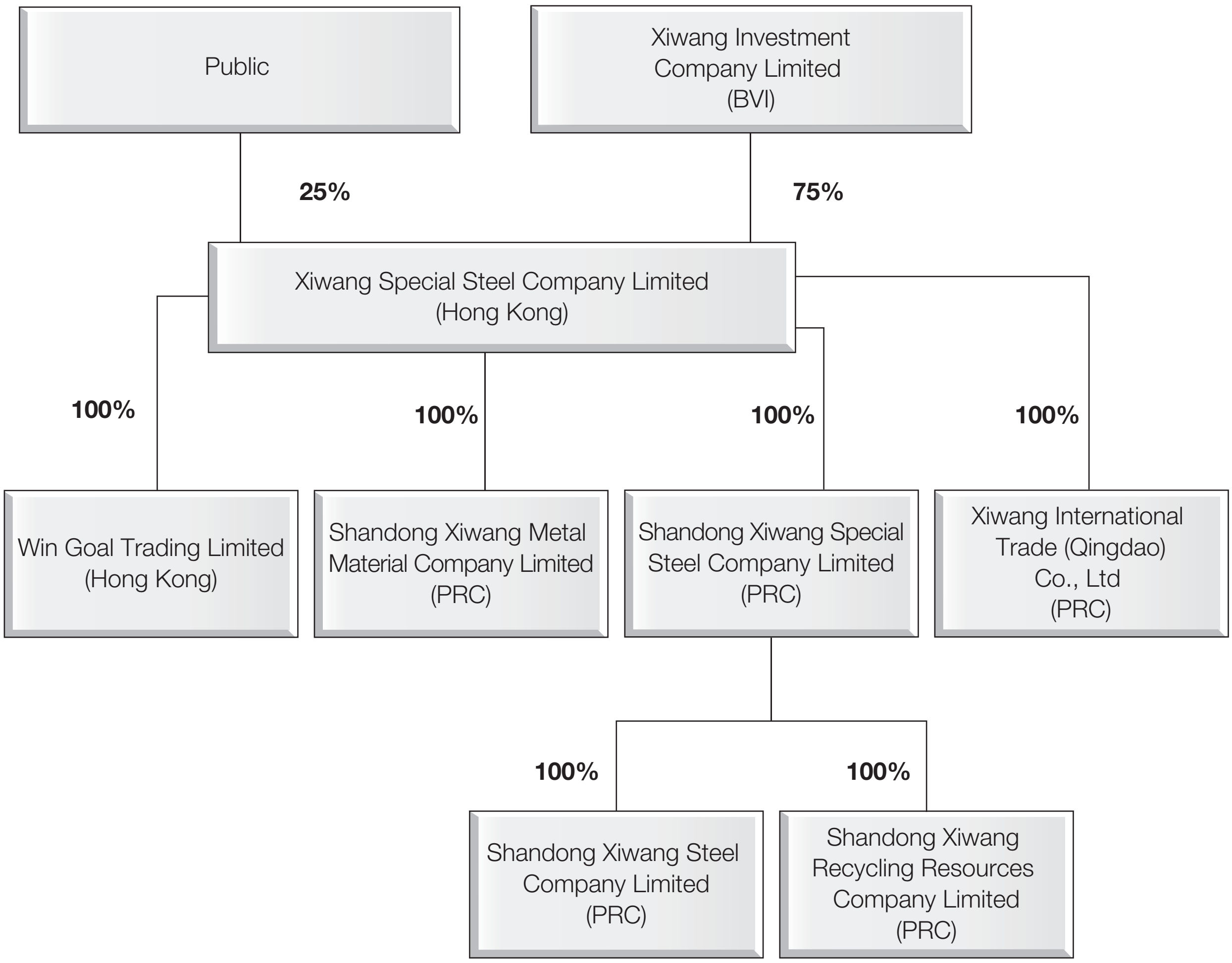
The amount was arisen from the payments made by Xiwang Power on behalf of the Group, which is unsecured, interest-free and has no fixed terms of repayment.

23. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the Board on 20 August 2013.

Organization Structure

As at the date of this interim report:



CORPORATE GOVERNANCE PRACTICES

The Company has complied throughout the Period with all the code provisions set out in the "Corporate Governance Code and Corporate Governance Report" (the "**CG Code**") set out in Appendix 14 to the Listing Rules.

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.

AUDIT COMMITTEE

We established an Audit Committee with written terms of reference based upon the code provisions 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 during the Period.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the Period (corresponding period in 2012: 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 2013, 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 (Chapter 571 of the Laws of Hong Kong) ("**SFO**")) 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/interested (Note 1)	Approximate percentage shareholding in the same class of securities in the relevant corporation as at 30 June 2013
Company	WANG Yong	Interest of controlled corporations (Note 2)	1,500,000,000 ordinary shares (L) (Note 4)	75%
Xiwang Holdings	WANG Yong	Beneficial owner (Note 2)	128,722 shares (L)	64.36%
		Other (Note 2)	71,278 shares (L)	35.64%
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)	584,790,077 ordinary shares (L) (Note 3)	57.97%
			904,454,180 convertible preference shares (L) (Note 3)	99.67%
			promissory note in the principal amount of RMB441,223,765 (Note 3)	N/A
			promissory note in the principal amount of RMB901,734,144 (Note 3)	N/A
Xiwang Holdings	WANG Di	Beneficial owner (Note 2)	3,546 shares (L)	1.77%
Xiwang Holdings	WANG Liang	Beneficial owner (Notes 2 and 5)	4,610 shares (L)	2.31%
Xiwang Holdings	WANG Gang	Beneficial owner (Notes 2 and 5)	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 and Mr. WANG Gang and 0.89% by Mr. SUN Xinhu.

(3) As at 30 June 2013, Xiwang Investment, which is deemed to be wholly owned by Mr. WANG Yong, held 57.97% of ordinary shares of Xiwang Sugar, a company publicly listed on the Main Board of the Stock Exchange, (stock code: 2088), and 99.67% of convertible preference shares of Xiwang Sugar.

Two promissory notes with principal amounts of RMB904,454,180 and RMB441,223,765 respectively were issued by Xiwang Investment to Xiwang Sugar on 29 June 2013, for partial settlement of the consideration of the acquisition of corn processing business (the "**Acquisition**"). Xiwang Investment has charged all its shareholdings in the Company in favour of Xiwang Sugar as security for the promissory note with principal amount of RMB441,223,765. The promissory note with principal amount of RMB904,454,180 was settled in July 2013.

(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.

(5) Each of Mr. WANG Liang and Mr. WANG Gang resigned as an executive Director on 15 July 2013.

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 2013, so far as known to the Directors 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/interested (Note 1)	Approximate percentage of interest in the Company as at 30 June 2013
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%
Xiwang Sugar	Corporation having a security interest in shares (Note 4)	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.

(4) Xiwang Investment has charged all its shareholdings in the Company in favour of Xiwang Sugar as security for a promissory note in the principal amount of RMB441,223,765.

(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 2013, 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.