



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

(incorporated in Hong Kong with limited liability)

(於香港註冊成立之有限公司)

Stock Code 股份代號: 1266

2014

INTERIM REPORT

中期報告



Contents

Corporate Information	2
Financial Highlights	4
Group Structure	5
Management Discussion and Analysis	6
Condensed Consolidated Statement of Profit or Loss	21
Condensed Consolidated Statement of Comprehensive Income	22
Condensed Consolidated Statement of Financial Position	23
Condensed Consolidated Statement of Changes In Equity	25
Condensed Consolidated Statement of Cash Flows	26
Notes to the Condensed Consolidated Financial Statements	27
Other Information	45
Corporate Governance	50



西王特钢

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. WANG Hui (*Chief Executive Officer*)
Mr. JIANG Chang Lin
Mr. HE Qing Wen

Non-Executive Directors

Mr. WANG Yong (*Chairman*)
Mr. WANG Di
Mr. SUN Xihu

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 Xihu
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
(resigned on 25 July 2014)
Miss NG Weng Sin
(appointed on 25 July 2014)

AUTHORISED REPRESENTATIVES

Mr. WANG Di
Ms. LAM Wai Lin
(resigned on 25 July 2014)
Miss NG Weng Sin
(appointed on 25 July 2014)

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

CORPORATE INFORMATION

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
China Construction Bank
Industrial and Commercial Bank of China

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 Capital Limited (expired on 30 April 2014)
20/F, China Building
29 Queen's Road Central
Hong Kong

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

INVESTOR RELATIONS CONTACT

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WEBSITE

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FINANCIAL HIGHLIGHTS

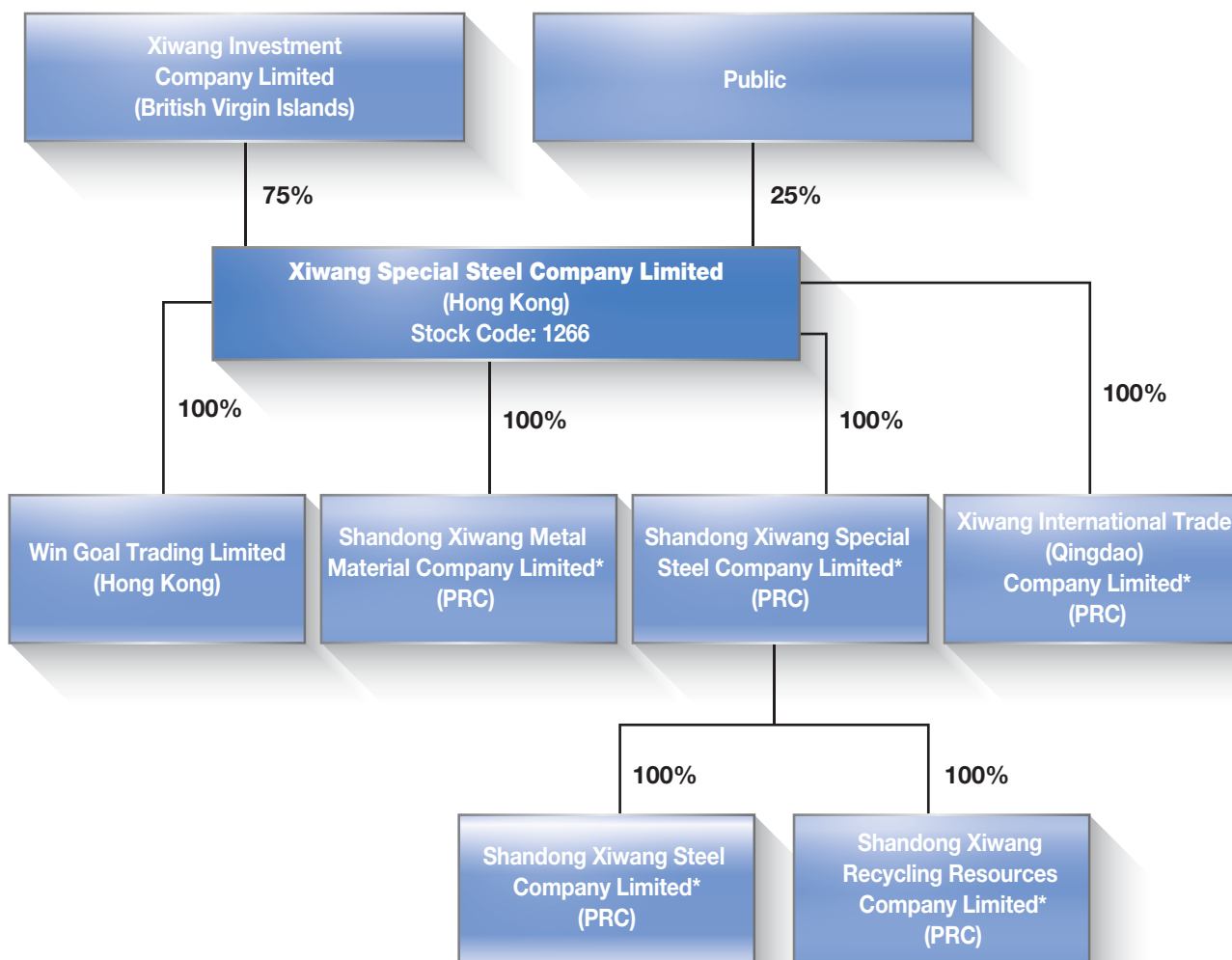
	For the six months ended 30 June		
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)	Increase/ (Decrease) Percentage
Operational Results			
Revenue	4,696,743	3,596,340	30.6%
Gross profit	378,546	318,332	18.9%
Operating profit	351,426	316,291	11.1%
Profit for the period	203,040	181,725	11.7%
	At 30 June 2014 RMB'000 (Unaudited)	At 31 December 2013 RMB'000 (Audited)	Increase/ (Decrease) Percentage
Financial Position			
Non-current assets	8,518,670	7,914,268	7.6%
Current assets	3,264,715	2,494,102	30.9%
Non-current liabilities	1,770,055	516,125	243.0%
Current liabilities	6,703,929	6,758,675	(0.8%)
Total equity	3,309,401	3,133,570	5.6%
Earnings per share (RMB)	10.2 cents	9.1 cents	
Key Ratio Analysis			
Gross profit margin	8.1%	8.9%	
Operating profit margin	7.5%	8.8%	
Net profit margin	4.3%	5.1%	
Current ratio (Note 1)	0.49	0.37	
Asset liability ratio (Note 2)	1.39	1.43	
Gearing ratio (Note 3)	256.1%	232.2%	

Notes:

1. Current ratio: Current assets divided by current liabilities.
2. Asset liability ratio: Total assets divided by total liabilities.
3. Gearing ratio: Total liabilities divided by total equity.

GROUP STRUCTURE

As at 30 June 2014:



MANAGEMENT DISCUSSION AND ANALYSIS

I. INTRODUCTION

Xiwang Special Steel Company Limited (the “**Company**”) and its subsidiaries (collectively, the “**Group**”) is a leading high-end special steel manufacturer located in Shandong Province of the People’s Republic of China (the “**PRC**” or “**China**”).

Founded in 2003, the Group was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 23 February 2012. Our production base is located in Xiwang Industrial Area, Zouping County, Shandong Province of China. We operate an integrated production process from iron smelting and 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 automobile, shipbuilding, chemical and petrochemical, machinery and equipment sectors.

Currently, the Group has an aggregate designed annual smelting capacity of electric arc furnaces (“**EAFs**”) and converters of approximately 3.3 million tonnes, and an aggregate designed annual rolling capacity of 3.0 million tonnes. The total designed annual capacity of our blast furnaces and sintering furnaces are 2.1 million tonnes and 3.7 million tonnes, respectively.

The Group possesses two production flows, which are (1) steel scraps as raw materials for steel production through EAFs; (2) sintering furnace turning iron ores into sinter for blast furnaces to produce molten iron which was then converted into steel by converters. This provides us with more flexibility in production flow, as we could control our cost and product mix through the utilization of different raw materials.

Our steel production facilities, as of 30 June 2014, consisted of:

- a sintering furnace, with a designed annual capacity of 3.7 million tonnes, supplies sinter for the two blast furnaces;
- two blast furnaces, with a designed annual capacity of 1.05 million tonnes each, use iron ore to convert sinter into molten iron and pig iron for production purposes of the EAFs and converters;
- two converters, i.e. Converter I and Converter II, with a designed annual capacity of 1.15 million tonnes each, convert raw materials including steel scraps, molten iron and pig iron into molten steel and then cast into ordinary steel billets and special steel billets;

MANAGEMENT DISCUSSION AND ANALYSIS

- two EAFs, i.e. EAF I and EAF II, with a designed annual capacity of 500,000 tonnes each. The two EAFs convert raw materials, including steel scraps, molten iron and pig iron into molten steel and then cast into 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 850,000 tonnes each upon the addition of equipment and improvement of technology for the six months ended 30 June 2014 (the “**Period**”). Bar I and Bar II manufacture small to medium-sized steel bars, including rebars, quality carbon structural steel and alloy structural steel;
- a large bar rolling line, Bar III, with a designed annual capacity of 650,000 tonnes upon the addition of equipment and improvement of technology during the Period. Bar III manufactures large bar of special steel products including quality carbon structural steel, alloy structural steel and bearing steel; and
- a wire rolling line with a designed annual capacity of 650,000 tonnes upon the addition of equipment and improvement of technology during the Period. This wire rolling line manufactures steel products in the form of wire rod, which include wire rod, quality carbon structural steel and bearing steel.

The Group produced and sold ordinary steel and special steel and mainly traded raw materials, such as iron ore dust and pellet, during the Period. Ordinary steel mainly includes rebar and wire rod. Special steel includes quality carbon structural steel, alloy structural steel and bearing steel. Details are as follows:

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 of which 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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, steel bars and steel wires with cross sectional diameters ranging from 6.5 millimetres to 60 millimetres. Quality carbon structural steel contains less than 0.8% carbon and has less sulfur, phosphorus and non-metallic contents than ordinary carbon structural steel. Because of its higher purity, quality carbon structural steel has better mechanical properties, such as yield strength and tensile strength, than ordinary carbon structural steel. This product is mainly used for buildings and infrastructures.

Alloy structural steel

Alloy structural steel is mostly used in machineries. In order to get the desired steel properties, manganese, silicon, nickel, chromium and molybdenum were added to adjust the chemical composition. 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 in 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.

MANAGEMENT DISCUSSION AND ANALYSIS

II. FINANCIAL REVIEW**Business performance****1. Revenue**

Revenue of the Group was RMB4,696,743,000 during the Period (first half of 2013: RMB3,596,340,000), representing an increase of 30.6% as compared to the corresponding period of last year. The increase in revenue was mainly attributable to the significant growth of commodities trading business during the Period. Sales of commodities trading business amounted to RMB938,645,000, accounting for 20.0% of the total revenue. Moreover, we expanded our production capacity during the Period, and the sales volume of steel amounted to 1,232,806 tonnes (first half of 2013: 1,071,628 tonnes), representing an increase of 161,178 tonnes or 15.0% as compared with the corresponding period of last year. However, revenue derived from production and sales of steel increased from RMB3,530,960,000 in the corresponding period of last year to RMB3,653,648,000 for the Period, representing an increase of only RMB122,688,000 or 3.5%. The mild growth in revenue was mainly due to the drop of selling price of steel, with the selling price of special steel experiencing a more significant decline than that of ordinary steel in general. The decrease in the selling price of steel was resulted from keen market competition and lower raw material price. Due to the increase in production volume, revenue of by-products increased to RMB104,450,000 for the Period (first half of 2013: RMB65,380,000), representing an increase of 59.8% as compared to the corresponding period of last year.

During the Period, the distribution of the sales of steel of the Group by regions was similar to that in the corresponding period of last year. Proportion of sales in Shandong province continued to increase and accounted for 75.1% during the Period (first half of 2013: 63.9%).

MANAGEMENT DISCUSSION AND ANALYSIS

Breakdown of revenue:

	Revenue			
	For the six months ended 30 June			
	2014		2013	
	RMB'000	Percentage	RMB'000	Percentage
Ordinary Steel				
Rebar	1,524,701	32.5%	1,134,424	31.5%
Wire rod	934,779	19.9%	1,141,867	31.8%
Subtotal	2,459,480	52.4%	2,276,291	63.3%
Special Steel				
Quality carbon structural steel	1,052,700	22.4%	1,061,874	29.5%
Alloy structural steel	93,761	2.0%	41,990	1.2%
Bearing steel	47,707	1.0%	127,485	3.5%
Stainless steel	–	–	23,320	0.7%
Subtotal	1,194,168	25.4%	1,254,669	34.9%
Production and sales of steel	3,653,648	77.8%	3,530,960	98.2%
Trading of commodities[#]	938,645	20.0%	–	–
Sales of by-products^{##}	104,450	2.2%	65,380	1.8%
Total	4,696,743	100.0%	3,596,340	100.0%

[#] Trading of commodities mainly includes the trading of iron ore dust, pellet, steel billets and coke.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Sales volume and price of steel:

	Sales volume				Average selling price (tax-exclusive)		
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		
	2014		2013		2014	2013	
	Tonnes	Percentage	Tonnes	Percentage	RMB per tonne	RMB per tonne	Decrease Percentage
Ordinary steel							
Rebar	550,504	44.7%	383,220	35.8%	2,770	2,960	(6.4%)
Wire rod	314,504	25.5%	349,973	32.6%	2,972	3,263	(8.9%)
Subtotal	865,008	70.2%	733,193	68.4%			
Special steel							
Quality carbon structural steel	326,496	26.5%	292,711	27.3%	3,224	3,628	(11.1%)
Alloy structural steel	28,057	2.3%	11,582	1.1%	3,342	3,625	(7.8%)
Bearing steel	13,245	1.0%	31,619	3.0%	3,602	4,032	(10.7%)
Stainless steel	-	-	2,523	0.2%	-	9,243	N/A
Subtotal	367,798	29.8%	338,435	31.6%			
Total	1,232,806	100.0%	1,071,628	100.0%			

MANAGEMENT DISCUSSION AND ANALYSIS

Capacity and utilization rate for the Period:

		For the six months ended 30 June	
		2014	2013
		EAFF I + EAFF II + Converter I + Converter II	
		EAFF I + EAFF II	
Steel Smelting	Total designed capacity ¹ (tonnes)	1,650,000	500,000
	Total effective capacity ^{2,4} (tonnes)	1,650,000	500,000
	Total actual production ⁴ (tonnes)	1,281,207	239,089
	Overall utilization rate³	77.6%	47.8%
		Bar I + Bar II + Bar III + Wire Rolling Line	
Steel Rolling	Total designed capacity ¹ (tonnes)	1,500,000	1,050,000
	Total effective capacity ^{2,4} (tonnes)	1,500,000	1,050,000
	Total actual production ⁴ (tonnes)	1,348,295	1,098,068
	Overall utilization rate³	89.9%	104.6%
		Blast Furnace I + Blast Furnace II	
Iron Smelting	Total designed capacity ¹ (tonnes)	1,050,000	Nil
	Total effective capacity ^{2,4} (tonnes)	1,050,000	Nil
	Total actual production ⁴ (tonnes)	1,198,696	Nil
	Overall utilization rate³	114.2%	Nil
		Sintering Furnace	
Sintering	Total designed capacity ¹ (tonnes)	1,850,000	Nil
	Total effective capacity ^{2,4} (tonnes)	1,850,000	Nil
	Total actual production ⁴ (tonnes)	2,012,254	Nil
	Overall utilization rate³	108.8%	Nil

MANAGEMENT DISCUSSION AND ANALYSIS

- ¹ Designed capacity for the Period represents the full annual capacity designed by the provider of the manufacturing facilities divided by 2. It is based on the assumption that the line commenced full calendar year production without any interruption.
- ² Effective capacity is calculated based on the designed annual capacity divided by 12 and multiplied by the number of months that such production line had been in normal operation during the Period. "Normal operation" refers to a status of operation that excludes either: (i) the monthly production is less than 5% of the designed capacity of the line during trial production, or (ii) such production line is under the process of technical upgrading with monthly production mostly less than 5% of its designed capacity.
- ³ Utilization rate equals actual production volume divided by effective capacity times 100%.
- ⁴ The Group had additions of two blast furnaces, two converters and one sintering furnace in 2013. Each of the blast furnaces and converters has designed capacity of 1,050,000 tonnes and 1,150,000 tonnes respectively. One of the blast furnaces, one of the converters and the sintering furnace started normal operation in late 2013, while the remaining blast furnace and converter started trial production also at the end of 2013.

Breakdown of sales of steel by regions:

	For the six months ended 30 June			
	2014		2013	
	RMB'000	Percentage	RMB'000	Percentage
Shandong Province	2,745,324	75.1%	2,255,948	63.9%
Jiangsu Province	288,533	7.9%	478,739	13.6%
Shanghai	269,448	7.4%	129,271	3.7%
Zhejiang Province	204,391	5.6%	426,849	12.0%
Other provinces in China	145,952	4.0%	240,153	6.8%
	3,653,648	100.0%	3,530,960	100.0%

MANAGEMENT DISCUSSION AND ANALYSIS

2. Cost of sales

During the Period, our cost of sales increased by 31.7% as compared to the corresponding period of last year to RMB4,318,197,000 (first half of 2013: RMB3,278,008,000) due to the significant growth of commodities trading business during the Period. The cost of production and sales of steel increased by 1.4% to RMB3,307,537,000 (first half of 2013: RMB3,260,783,000) due to the increase in the sales volume of steel by 161,178 tonnes or 15.0% as compared to the corresponding period of last year. The effect was partially offset by the decrease in price of raw materials of steel during the Period.

Cost of sales:

	For the six months ended 30 June			
	2014		2013	
	RMB'000	Percentage	RMB'000	Percentage
Raw materials				
Iron ore dust	1,354,325	31.4%	–	N/A
Coke	532,677	12.3%	–	N/A
Steel scraps	218,548	5.0%	390,492	11.9%
Coal	120,197	2.8%	32,979	1.0%
Steel billets	99,855	2.3%	2,369,850	72.3%
Coke powder	52,477	1.2%	–	N/A
Pig iron	11,538	0.3%	17	0.0%
Molten iron	3,580	0.1%	104,855	3.2%
Others	426,824	9.9%	128,394	3.9%
Subtotal of raw materials	2,820,021	65.3%	3,026,587	92.3%
Production overhead				
Depreciation	198,328	4.6%	94,139	2.9%
Electricity	193,785	4.4%	85,860	2.6%
Labour	92,985	2.2%	44,259	1.4%
Others	2,418	0.1%	9,938	0.3%
Subtotal of production overhead	487,516	11.3%	234,196	7.2%
Total cost of production and sales of steel	3,307,537	76.6%	3,260,783	99.5%
Cost of trading of commodities	919,231	21.3%	–	N/A
Cost of sales of by-products	91,429	2.1%	17,225	0.5%
	4,318,197	100.0%	3,278,008	100%

MANAGEMENT DISCUSSION AND ANALYSIS

The average purchase costs of major raw materials of steel:

	For the six months ended 30 June		
	2014 RMB per tonne Tax-exclusive	2013 RMB per tonne Tax-exclusive	Decrease Percentage
Iron ore dust	698	N/A	N/A
Coke	1,058	N/A	N/A
Steel scraps	1,613	1,803	(10.5%)
Coal	654	684	(4.4%)
Steel billets	2,594	2,684	(3.4%)
Coke powder	680	N/A	N/A
Pig iron	2,175	3,348	(35.0%)
Molten iron	2,223	2,586	(14.0%)

3. Gross profit

During the Period, gross profit of the Group was RMB378,546,000 (first half of 2013: RMB318,332,000), representing an increase of RMB60,214,000 or 18.9% as compared to the corresponding period of last year. The increase was mainly due to the increase in sales volume of steel by 161,178 tonnes or 15.0% as compared to the corresponding period of last year and the decrease in the selling price of steel because of the keen market competition and decrease in the purchase price of raw materials. During the Period, gross profit of production and sales of steel increased by RMB75,934,000 or 28.1% to RMB346,111,000 as compared to the corresponding period of last year.

During the Period, the gross profit margin of the Group was 8.1%, representing a decrease of 0.8 percentage points as compared to 8.9% in the corresponding period of last year. The Group recorded significant increase in sales of commodities trading business during the Period, which accounted for 20% (first half of 2013: nil) of the total revenue. Gross profit margin of the commodities trading business was 2.1%, which was lower than that of production and sales of steel, resulting in decrease in gross profit margin. The overall gross profit margin of the production and sales of steel, the principal business of the Group, increased to 9.5%, representing an increase of 1.8 percentage points as compared to 7.7% of the corresponding period of last year. During the Period, the Group upgraded its production facilities and commenced the operation of its converters so that iron ore dust, with lower cost can be used as one of the raw materials to produce steel. Therefore, the overall gross profit margin of production and sales of steel increased.

MANAGEMENT DISCUSSION AND ANALYSIS

Breakdown of the contribution of gross profit by products and business:

	For the six months ended 30 June			
	2014		2013	
	RMB'000	Percentage	RMB'000	Percentage
Ordinary steel				
Rebar	117,268	31.0%	861	0.3%
Wire rod	86,041	22.7%	84,773	26.6%
	203,309	53.7%	85,634	26.9%
Special steel				
Quality carbon structural steel	134,635	35.6%	158,346	49.7%
Alloy structural steel	2,994	0.8%	5,249	1.7%
Bearing steel	5,173	1.4%	21,927	6.9%
Stainless steel	–	–	(979)	(0.3%)
	142,802	37.8%	184,543	58.0%
Production and sales of steel	346,111	91.5%	270,177	84.9%
Trading of commodities	19,414	5.1%	–	–
Sales of by-products	13,021	3.4%	48,155	15.1%
Total	378,546	100.0%	318,332	100.0%

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit margins of the products and business:

	For the six months ended 30 June		
	2014 Percentage	2013 Percentage	Increase/ (decrease) in percentage point
Ordinary steel			
Rebar	7.7%	0.1%	7.6%
Wire rod	9.2%	7.4%	1.8%
Weighted average gross profit margin	8.3%	3.8%	4.5%
Special steel			
Quality carbon structural steel	12.8%	14.9%	(2.1%)
Alloy structural steel	3.2%	12.5%	(9.3%)
Bearing steel	10.8%	17.2%	(6.4%)
Stainless steel	–	(4.2%)	N/A
Weighted average gross profit margin	12.0%	14.7%	(2.7%)
Overall gross profit margin of production and sales of steel	9.5%	7.7%	1.8%
Gross profit margin of trading of commodities	2.1%	–	N/A
Gross profit margin of sales of by- products	12.5%	73.7%	(61.2%)
Overall gross profit margin	8.1%	8.9%	(0.8%)

MANAGEMENT DISCUSSION AND ANALYSIS

4. Other income and gain

The Group's other income and gain for the Period amounted to RMB17,678,000 (first half of 2013: RMB22,306,000), representing a decrease of 20.7% as compared to the corresponding period of last year. Other income and gain mainly include bank interest income. The decrease was mainly due to the decrease in pledged bank deposits during the Period.

5. Other expenses

Other expenses of the Group for the Period amounted to RMB3,721,000 (first half of 2013: nil), which represented foreign exchange losses arising from commodities trading business.

6. Selling and distribution expenses

The Group's selling and distribution expenses for the Period amounted to RMB4,591,000 (first half of 2013: RMB3,612,000), representing an increase of 27.1% as compared to the corresponding period of last year. The increase was mainly attributable to the increase in sales commission due to the significant growth of commodities trading business during the Period since its launch in the second half of 2013.

7. Administrative expenses

Administrative expenses for the Period amounted to RMB36,486,000 (first half of 2013: RMB20,735,000), representing an increase of 76.0% as compared to the corresponding period of last year. Administrative expenses include general office expenses, salaries of administrative staff, professional and legal fees and bank service charges.

The increase in administrative expenses was mainly attributable to the increase of employees and the general administrative expenses in line with the development of commodities trading businesses as well as the general increase in salaries. In addition, it was attributable to the increase in bank service charges due to additional trade transactions.

8. Finance costs

The Group's finance costs for the Period amounted to RMB88,474,000 (first half of 2013: RMB80,143,000), representing an increase of 10.4% as compared to the corresponding period of last year. The increase was mainly due to the increase in interest expenses in relation to borrowings and amount due to Xiwang Group Company Limited* (西王集團有限公司) ("Xiwang Group"), the ultimate holding company of the Company from 15 February 2014 to present, during the Period as compared to the corresponding period of last year.

9. Income tax expense

Income tax expense of the Group for the Period amounted to RMB59,912,000 (first half of 2013: RMB54,423,000), representing an increase of 10.1% as compared to the corresponding period of last year, which was primarily due to the increase in profit before tax.

10. Profit for the Period

Profit of the Group for the Period amounted to RMB203,040,000 (first half of 2013: RMB181,725,000), representing an increase of 11.7% as compared to the corresponding period of last year, which was primarily due to the increase in gross profit.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial position

1. Liquidity and capital resources

As at 30 June 2014, cash and cash equivalents of the Group amounted to RMB153,637,000, representing an increase of RMB60,321,000 or 64.6% as compared with RMB93,316,000 as at 31 December 2013. Net cash inflow from operating activities, net cash outflow used in investing activities and net cash outflow used in financing activities were RMB1,214,290,000, RMB1,020,539,000 and RMB135,483,000, respectively.

Investing activities of the Group during the Period mainly included payment of RMB1,092,432,000 for the construction of plants and purchase of equipments to improve production capacity. Financing activities mainly included the repayment of net bank borrowings of RMB766,584,000, the repayment of borrowings of RMB694,333,000 to an independent third party, and new borrowings of RMB1,399,900,000 from Xiwang Group, the ultimate holding company of the Company from 15 February 2014 to present. The Group mainly used its operating cash inflow to fund its working capital needs, while the capital requirement for addition of production equipments was mainly satisfied by cash inflows from operating and financing activities.

As at 30 June 2014, the capital commitment of the Group was RMB173,796,000, mainly used for renovation project and purchasing equipments to expand the production capacity. The Group also entered into a technical cooperation agreement with 洛陽軸承研究所有限公司 (Luoyang Bearing Research Centre Company Limited*) to enhance its product quality. As at 30 June 2014, the technology-related capital commitment of the Group was RMB3,000,000.

During the Period, the Company raised net proceeds of approximately RMB1,091,000 from the issue of warrants which was utilized as general working capital of the Group.

2. Capital structure

As at 30 June 2014, the total liabilities and total equity of the Group were RMB8,473,984,000 and RMB3,309,401,000, respectively. The gearing ratio (total liabilities divided by total equity) was 2.56. Total assets of the Group was RMB11,783,385,000 and the asset liability ratio (total assets divided by total liabilities) was 1.39. Total bank and other borrowings of the Group was RMB944,182,000, RMB664,020,000 of which will be repaid within one year. All of the bank and other borrowings were secured by non-current assets, restricted bank deposits and/or guaranteed by Mr. WANG Yong, the chairman of the board of directors (the “**Board**”) of the Company.

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Pledge of assets

Save as disclosed in the interim report, none of the assets of the Group was pledged as at 30 June 2014.

Contingent liabilities

The Group did not have any contingent liabilities as at 30 June 2014.

Foreign exchange risk

The majority of the operating income, costs and expenditures of the Group were denominated in RMB. As such, the Group has not been exposed to material foreign exchange risk during its operation. As at 30 June 2014, the Group mainly exposed to risks related to its liabilities denominated in US dollar of RMB175,320,000.

Employees and remuneration

As at 30 June 2014, the Group had a total of 4,338 employees (as at 30 June 2013: 3,509). Staff-related costs incurred during the Period was RMB99,436,000 (first half of 2013: RMB52,962,000). The remuneration was determined based on the performance and professional experience of employees as well as the prevailing market conditions. The management will regularly review the remuneration policy and arrangement of the Group. In addition to pensions, the Group will also distribute discretionary bonus to certain employees as incentives according to their performance.

III. BUSINESS OUTLOOK

The economy of China continues its growth momentum. In the first half of 2014, gross domestic product (“**GDP**”) amounted to RMB26.9 trillion with a growth rate of 7.4%. The Chinese government is committed to boosting the development of urbanization, which is important for fueling domestic demand. Ordinary steels produced by the Group can satisfy the market demand of construction industry, and its special steel products also face great demand for its applications in machines, equipments and auto spare parts.

In response to the intense competition in steel industry and market condition in recent years, the Group has expanded its production facilities and improved the production technology to boost its revenue and gross profits. The Group has strengthened its capacity to cope with the competition in the market. According to the announcement of the Ministry of Industry and Information Technology of the PRC dated 3 January 2014, the list of enterprises fulfilling the steel industry specification was published. Shandong Xiwang Special Steel Company Limited (“**Shandong Xiwang Special Steel**”), a wholly-owned subsidiary of the Group, was on the list in recognition of the operation and technology level of the Group. In June 2014, Shandong Xiwang Special Steel entered into a technical cooperation agreement with 洛陽軸承研究所有限公司 (Luoyang Bearing Research Centre Company Limited*) in respect of the establishment of the “Bearing Steel Research and Development Centre” for the research and development and improvement of the quality of its bearing steel products. In addition, the Group has expanded its source of income by developing the commodities trading business.

The market demand of the steel industry will remain strong despite various challenges. The management is confident of the business outlook of the Group through enhancement in production efficiency and effective response to market changes.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	Six months ended 30 June	
		2014 RMB'000 Unaudited	2013 RMB'000 Unaudited
REVENUE	2	4,696,743	3,596,340
Cost of sales		(4,318,197)	(3,278,008)
GROSS PROFIT		378,546	318,332
Other income and gain	3	17,678	22,306
Other expenses		(3,721)	–
Selling and distribution expenses		(4,591)	(3,612)
Administrative expenses		(36,486)	(20,735)
OPERATING PROFIT		351,426	316,291
Finance costs	5	(88,474)	(80,143)
PROFIT BEFORE TAX	4	262,952	236,148
Income tax expense	6	(59,912)	(54,423)
PROFIT FOR THE PERIOD		203,040	181,725
Profit attributable to owners of the parent		203,040	181,725
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	7	RMB10.2 cents	RMB9.1 cents

The notes on pages 27 to 44 are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2014 RMB'000 Unaudited	2013 RMB'000 Unaudited
PROFIT FOR THE PERIOD	203,040	181,725
OTHER COMPREHENSIVE INCOME/(LOSS)		
Exchange differences on translation of foreign operations	1,700	(2,347)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	1,700	(2,347)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	204,740	179,378
Total comprehensive income attributable to equity holders of the parent	204,740	179,378

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2014 RMB'000 Unaudited	31 December 2013 RMB'000 Audited
	Note		
NON-CURRENT ASSETS			
Property, plant and equipment	9	8,408,742	7,817,528
Prepaid land lease payments		101,836	90,919
Deferred asset	16	704	1,057
Deferred tax assets	17	7,388	4,764
Total non-current assets		8,518,670	7,914,268
CURRENT ASSETS			
Inventories	10	1,267,843	914,745
Trade and bills receivables	11	243,617	106,503
Prepayments, deposits and other receivables	12	566,872	260,650
Pledged deposits		1,032,746	1,118,888
Cash and cash equivalents		153,637	93,316
Total current assets		3,264,715	2,494,102
CURRENT LIABILITIES			
Trade and bills payables	13	3,181,212	1,776,705
Receipts in advance, other payables and accruals	14	2,583,351	3,435,299
Interest-bearing bank and other borrowings	15	843,664	1,443,121
Due to a related party	22(b)(ii)	89,992	69,434
Income tax payable		5,710	34,116
Total current liabilities		6,703,929	6,758,675
NET CURRENT LIABILITIES		(3,439,214)	(4,264,573)
TOTAL ASSETS LESS CURRENT LIABILITIES		5,079,456	3,649,695

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2014 RMB'000 Unaudited	31 December 2013 RMB'000 Audited
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	15	352,025	499,065
Due to the ultimate holding company	22(b)(i)	1,399,900	–
Deferred tax liability	17	18,130	17,060
Total non-current liabilities		1,770,055	516,125
Net assets		3,309,401	3,133,570
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	18	955,833	165,903
Share premium	18	–	789,930
Other reserves	19	583,530	559,998
Retained earnings			
– Proposed final dividend		–	30,000
– Others		1,770,038	1,587,739
Total equity		3,309,401	3,133,570

WANG Yong
Director

WANG Hui
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company									
	Share capital RMB'000	Share premium RMB'000	Contributed surplus RMB'000	Statutory surplus reserve RMB'000	Warrant 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 2014	165,903	789,930	78,938*	400,899*	-	78,525*	1,636*	1,587,739	30,000	3,133,570
Profit for the Period	-	-	-	-	-	-	-	203,040	-	203,040
Other comprehensive income for the Period:										
Exchange differences on translation of foreign operations	-	-	-	-	-	-	1,700	-	-	1,700
Total comprehensive income for the Period	-	-	-	-	-	-	1,700	203,040	-	204,740
Issue of warrants, net of issue expenses (note 18)	-	-	-	-	1,091	-	-	-	-	1,091
Dividend paid	-	-	-	-	-	-	-	-	(30,000)	(30,000)
Profit appropriated to reserve	-	-	-	5,402	-	15,339	-	(20,741)	-	-
Transfer to share capital (note 18)	789,930	(789,930)	-	-	-	-	-	-	-	-
At 30 June 2014 (Unaudited)	955,833	-	78,938*	406,301*	1,091*	93,864*	3,336*	1,770,038	-	3,309,401
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 (Unaudited)	165,903	789,930	78,938	398,631	-	51,804	4,122	1,444,649	-	2,933,977

* These reserve accounts comprise the consolidated other reserves of RMB583,530,000 (2013: RMB559,998,000) in the condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2014 RMB'000 Unaudited	2013 RMB'000 Unaudited
Net cash flows from operating activities	1,214,290	617,023
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(1,092,432)	(1,531,605)
Purchases of prepaid land lease payments	(14,249)	–
Decrease in pledged deposits	86,142	564,561
Net cash flows used in investing activities	(1,020,539)	(967,044)
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank and other loans	103,583	513,607
Increase in amount due to the ultimate holding company	1,399,900	–
Repayment of an amount due to an independent third party	(694,333)	–
Capital element of finance lease rental payments	(73,623)	(83,320)
Proceeds from issue of warrants	1,191	–
Warrant issue expenses	(100)	–
Repayment of bank loans	(766,584)	(42,454)
Dividends paid	(30,000)	(30,000)
Interest paid	(75,517)	(80,143)
Net cash flows (used in)/from financing activities	(135,483)	277,690
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	58,268	(72,331)
Cash and cash equivalents at beginning of period	93,316	370,172
Effect of foreign exchange rate changes, net	2,053	–
CASH AND CASH EQUIVALENTS AT END OF PERIOD	153,637	297,841

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.

During the Period, 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). The ultimate holding company of the Company was Xiwang Holdings for the period from 1 January 2014 to 14 February 2014 and Xiwang Group, through its wholly-owned subsidiary, Xiwang Hong Kong Company Limited ("**Xiwang Hong Kong**"), for the remaining period.

1.2 BASIS OF PREPARATION

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

The accounting policies and method of computation used in the preparation of these condensed consolidated interim financial statements are consistent with those adopted in the annual financial statements for the year ended 31 December 2013.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the Group's audited 2013 annual financial statements, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

As at 30 June 2014, the Group had net current liabilities of approximately RMB3,439,214,000. 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 interim condensed consolidated financial statements on a going concern basis notwithstanding the net current liabilities position.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 2013, except for the adoption of the new interpretation and amendments as of 1 January 2014, noted below:

HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – <i>Investment Entities</i>
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> – <i>Offsetting Financial Assets and Financial Liabilities</i>
HKAS 36 Amendments	Amendments to HKAS 36 <i>Impairment of Assets</i> – <i>Recoverable Amount Disclosures for Non-Financial Assets</i>
HKAS 39 Amendments	Amendments to HKAS 39 <i>Financial Instruments: Recognition and Measurement</i> – <i>Novation of Derivatives and Continuation of Hedge Accounting</i>
HK(IFRIC)-Int 21	<i>Levies</i>

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. OPERATING SEGMENT INFORMATION

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

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

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

Geographical information

The Group operates within one geographical area. For the six months ended 30 June 2014, 100% of its revenue was generated in the PRC and the principal assets and capital expenditure of the Group were located and incurred in the PRC. Accordingly, no geographical information is presented.

Information about major customers

For the six months ended 30 June 2014, no revenue from transactions with a single external customer amounted to 10% or more of the Group’s total revenue.

For the six months 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 2014 are as follows:

	Note	Ordinary steel RMB'000	Special steel RMB'000	Trading of commodities RMB'000	By- products RMB'000	Consolidated RMB'000
Segment revenue:						
Sales to external customers		2,459,480	1,194,168	938,645	104,450	4,696,743
Cost of sale		(2,256,171)	(1,051,366)	(919,231)	(91,429)	(4,318,197)
Gross profit		203,309	142,802	19,414	13,021	378,546
Reconciliation:						
Other expenses						(3,721)
Other income and gain	3					17,678
Selling and distribution expenses						(4,591)
Administrative expenses						(36,486)
Finance costs	5					(88,474)
Profit before tax						262,952

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	By- products RMB'000	Consolidated RMB'000
Segment revenue:					
Sales to external customers		2,276,291	1,254,669	65,380	3,596,340
Cost of sales		(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 expenses					(3,612)
Administrative expenses					(20,735)
Finance costs	5				(80,143)
Profit before tax					236,148

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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	
	2014	2013
	RMB'000	RMB'000
	Unaudited	Unaudited
Revenue		
Sale of ordinary steel	2,459,480	2,276,291
Sale of special steel	1,194,168	1,254,669
Trading of commodities	938,645	–
Sale of by-products	104,450	65,380
	4,696,743	3,596,340
Other income		
Bank interest income	17,647	19,722
Others	31	1,033
	17,678	20,755
Gain		
Foreign exchange gain, net	–	1,551
	17,678	22,306

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. PROFIT BEFORE TAX

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

	Note	Six months ended 30 June	
		2014 RMB'000 Unaudited	2013 RMB'000 Unaudited
Cost of inventories sold [^]		4,318,197	3,278,008
Depreciation [^]		202,166	95,127
Amortisation of prepaid land lease payments [^]		1,111	989
Employee benefit expense (including directors' remuneration) [^] :			
Wages and salaries		92,169	48,918
Pension scheme contributions [#]		4,618	2,222
Staff welfare expenses		2,649	1,822
		99,436	52,962
Foreign exchange differences, net ^{##}		3,721	(1,551)
Bank interest income	3	(17,647)	(19,722)

[^] 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 RMB292,423,000 (six months ended 30 June 2013: RMB138,434,000). 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.

^{##} The foreign exchange differences, net are included in "other expenses" in the interim condensed consolidated statement of profit or loss for the six months ended 30 June 2014 and in "other income and gain" in the interim condensed consolidated statement of profit or loss for the six months ended 30 June 2013.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	Unaudited	Unaudited
Interest on bank borrowings wholly repayable within five years	54,089	78,851
Interest on a finance lease	9,548	16,254
Interest on an amount due to the ultimate holding company	13,891	–
Interest on an amount due to an independent third party	69,635	–
Total interest expense on financial liabilities not at fair value through profit or loss	147,163	95,105
Less: Interest capitalised	(58,689)	(14,962)
	88,474	80,143

6. INCOME TAX EXPENSE

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

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

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	Unaudited	Unaudited
Current – the PRC		
Charge for the Period	61,466	54,040
Deferred (note 17)	(1,554)	383
Total tax charge for the Period	59,912	54,423

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

No adjustment has been made to the basic earnings per share amounts presented for the six months ended 30 June 2014 in respect of a dilution as the impact of the warrants has an anti-dilutive effect on the basic earnings per share amounts presented.

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

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Earnings Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	203,040	181,725

	Number of shares	
	30 June 2014	30 June 2013
Shares Weighted average number of ordinary shares in issue during the Period used in the basic earnings per share calculation	2,000,000,000	2,000,000,000

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. DIVIDENDS

A final dividend for the year ended 31 December 2013 of RMB0.015 per share, payable in cash, totaling approximately RMB30 million, was approved at the annual general meeting held on 22 May 2014 and paid in June 2014.

No interim dividend was proposed for the Period (six months ended 30 June 2013: Nil).

9. PROPERTY, PLANT AND EQUIPMENT

The Group's capital expenditure for the Period was approximately RMB1,054 million (six months ended 30 June 2013: RMB1,555 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 construction of blast furnaces, sintering furnaces and converters.

Certain machinery and equipment of the Group with a net carrying amount of RMB482,937,000 (31 December 2013: RMB514,119,000) as at 30 June 2014 was held under finance lease.

10. INVENTORIES

	30 June 2014 RMB'000 Unaudited	31 December 2013 RMB'000 Audited
Steel		
Raw materials	390,421	443,285
Work in progress	56,996	127,815
Finished goods	623,664	343,645
	1,071,081	914,745
Commodities	196,762	–
	1,267,843	914,745

Certain of the Group's inventories with a carrying amount of RMB572,950,000 as at 30 June 2014 (31 December 2013: RMB866,036,000) were pledged as security for the Group's issuance of bills payable (note 13).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. TRADE AND BILLS RECEIVABLES

	30 June 2014 RMB'000 Unaudited	31 December 2013 RMB'000 Audited
Trade receivables	66,017	98,150
Bills receivables	177,600	8,353
	243,617	106,503

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

	30 June 2014 RMB'000 Unaudited	31 December 2013 RMB'000 Audited
Within 3 months	160,479	81,354
3 to 6 months	19,534	24,941
6 months to 1 year	63,604	208
	243,617	106,503

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2014 RMB'000 Unaudited	31 December 2013 RMB'000 Audited
Prepayments	465,364	216,151
Bank interest receivables	12,585	12,437
Value-added tax recoverable	81,121	24,942
Deposits and other receivables	5,581	5,144
Current portion of prepaid land lease payments	2,221	1,976
	566,872	260,650

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 2014 RMB'000 Unaudited	31 December 2013 RMB'000 Audited
Trade payables	1,010,235	99,463
Bills payables	2,170,977	1,677,242
	3,181,212	1,776,705

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13. TRADE AND BILLS PAYABLES (continued)

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

	30 June 2014 RMB'000 Unaudited	31 December 2013 RMB'000 Audited
Within 1 month	532,118	51,200
1 to 3 months	1,930,120	554,580
3 to 6 months	670,000	1,080,393
6 to 12 months	48,974	36,622
Over 12 months	–	53,910
	3,181,212	1,776,705

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 approximately RMB820,100,000 and certain inventories of approximately RMB572,950,000.

14. RECEIPTS IN ADVANCE, OTHER PAYABLES AND ACCRUALS

	30 June 2014 RMB'000 Unaudited	31 December 2013 RMB'000 Audited
	Note	
Advances from customers	344,425	133,928
Salaries and welfare payables	33,656	35,567
Other tax payables	6,291	999
Amount due to an independent third party	992,801	1,687,134
Equipment payables	1,029,504	1,333,897
Electricity payables	89,825	67,669
Other payables	86,849	176,105
	2,583,351	3,435,299

(i) The amount is unsecured, bears interest at 7.0% per annum and repayable on 31 March 2015.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2014 Unaudited			31 December 2013 Audited		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Finance lease payable (note 16)	7.13	2015	179,644	7.13	2014	185,938
Interest-bearing bank and other loans – secured	2.50-10.00	2014-2015	664,020	2.50-10.00	2014	1,257,183
			843,664			1,443,121
Non-current						
Finance lease payable (note 16)	7.13	2015	71,863	7.13	2015	149,065
Long term interest- bearing bank and other loans – secured	3.01-7.24	2015	280,162	7.24	2015	350,000
			352,025			499,065
			1,195,689			1,942,186

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 two 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 2014, deferred asset of RMB704,000 (31 December 2013: RMB1,057,000) will be amortised over the lease term.

At 30 June 2014, the unaudited total future minimum lease payments under finance lease and their present values were as follows:

	Minimum lease payments 30 June 2014 RMB'000 Unaudited	Minimum lease payments 31 December 2013 RMB'000 Audited	Present value of minimum lease payments 30 June 2014 RMB'000 Unaudited	Present value of minimum lease payments 31 December 2013 RMB'000 Audited
Amounts payable:				
Within one year	211,529	211,529	179,644	185,938
In the second year	54,849	160,614	44,612	132,887
Total minimum finance lease payments	266,378	372,143	224,256	318,825
Future finance charges	(14,871)	(37,140)		
Total net finance lease payable	251,507	335,003		
Portion classified as current liability	(179,644)	(185,938)		
Non-current portion	71,863	149,065		

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

17. DEFERRED TAX

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

Deferred tax assets

	2014 RMB'000	2013 RMB'000
At 1 January (Audited)	4,764	2,969
Deferred tax debited to the income statement during the Period (note 6)	2,624	(383)
Gross deferred tax assets at 30 June (Unaudited)	7,388	2,586

Deferred tax assets represented the unrealised profit arising from intra-group sales during the six months ended 30 June 2014.

Deferred tax liability

	Withholding tax on the distributable profits	
	2014 RMB'000	2013 RMB'000
At 1 January (Audited)	17,060	15,140
Deferred tax credited to the income statement during the Period (note 6)	1,070	–
At 30 June (Unaudited)	18,130	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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. SHARE CAPITAL

Shares

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

	Number of Shares		Share capital RMB'000 Unaudited	Share premium RMB'000 Unaudited	Total RMB'000 Unaudited
	Authorised	Issued and fully paid			
At 1 January 2013 and 1 January 2014	100,000,000,000	2,000,000,000	165,903	789,930	955,833
Transfer to share capital (note)		–	789,930	(789,930)	–
At 30 June 2014	–	2,000,000,000	955,833	–	955,833

Note: Pursuant to the transitional provisions for the abolition of the nominal value of share capital included in the new Hong Kong Companies Ordinance which became effective on 3 March 2014, the balance of the share premium account as at 3 March 2014 has been transferred to share capital.

Warrants

On 16 May 2014, the Company entered into a warrant subscription agreement (the “**Warrant Subscription Agreement**”) with an independent third party (the “**Subscriber**”) in relation to the subscription of a total of 150,000,000 warrants at the Issue Price of HK\$0.01. Pursuant to the Warrant Subscription Agreement, the Subscriber is entitled to subscribe 150,000,000 warrant shares at the exercise price of HK\$1.2 per warrant for a period commencing on the date falling six months after the date of issue of the warrants and ending on the date falling 12 months after the date of the issue of the warrants. On 18 June 2014, the issue of the 150,000,000 warrants was completed.

During the six months ended 30 June 2014, no warrants were exercised. The net proceeds from the warrant subscription of RMB1,091,000 were recorded as a component of shareholders' equity in warrant reserve.

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

20. OPERATING LEASE ARRANGEMENTS

The Group leases certain land from Xiwang Group and independent third parties 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 2014 RMB'000 Unaudited	31 December 2013 RMB'000 Audited
Within one year	1,168	1,168
In the second to fifth years, inclusive	4,672	4,672
After five years	15,131	15,706
	20,971	21,546

21. COMMITMENTS

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

	30 June 2014 RMB'000 Unaudited	31 December 2013 RMB'000 Audited
Contracted, but not provided for: Property, plant and equipment	173,796	42,737

The Group entered into a technical cooperation agreement with Luoyang Bearing Research Centre Company Limited (洛陽軸承研究所有限公司) on 6 June 2014, pursuant to which the Group would pay RMB600,000 annually for its services provided in the five years commencing from 6 June 2014. The Group had the following commitment under the technical cooperation agreement at the end of the reporting period:

	30 June 2014 RMB'000 Unaudited	31 December 2013 RMB'000 Audited
Contracted, but not provided for: Consulting services	3,000	-

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

22. RELATED PARTY TRANSACTIONS AND BALANCES

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

	Note	Six months ended 30 June	
		2014 RMB'000 Unaudited	2013 RMB'000 Unaudited
Rental expenses to: Xiwang Group	(i)	184	184
Interest expenses to: Xiwang Group	22(b)(i)	13,891	–

- (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.

- (b) The Group had the following balance with related parties:

	Note	30 June	31 December
		2014 RMB'000 Unaudited	2013 RMB'000 Audited
Due to the ultimate holding company Xiwang Group	(i)	1,399,900	–
Due to a related party Zouping Xiwang Power Co., Ltd (“ Xiwang Power ”) (鄒平縣西王動力有限公司)	(ii)	89,992	69,434

- (i) The amount is unsecured and bears interest at 7.0% per annum. Amounts of RMB500,000,000, RMB170,000,000 and RMB729,900,000 are repayable on 9 April 2016, 10 April 2016 and 9 June 2016, respectively.

- (ii) 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 28 August 2014.

OTHER INFORMATION

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the Period (corresponding period in 2013: Nil).

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

As at 30 June 2014, the Directors or chief executive of the Company and their respective associates had the following interests in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO; or notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Name of Director	Name of company/ associated corporation	Capacity	Number and class of securities held/interested and interests in debentures in the relevant corporation (Note 1)	Approximate percentage shareholding in the same class of securities in the relevant corporation as at 30 June 2014
WANG Yong	Company	Interest of controlled corporations (Note 2)	1,500,000,000 ordinary shares (L) (Notes 4, 6)	75%
	Xiwang Investment	Interest of controlled corporations (Notes 2, 3)	3 shares (L) Promissory note with outstanding amount of RMB44,805,000 (Note 5)	100% N/A
	Xiwang Holdings	Beneficial owner (Note 2)	6,525 shares (L)	3.26%
		Interest of controlled corporations (Note 2)	190,000 shares (L)	95%

OTHER INFORMATION

Name of Director	Name of company/ associated corporation	Capacity	Number and class of securities held/interested and interests in debentures in the relevant corporation (Note 1)	Approximate percentage shareholding in the same class of securities in the relevant corporation as at 30 June 2014
WANG Yong	Xiwang Hong Kong	Interest of controlled corporations (Note 2)	694,132,000 shares (L)	100%
	Xiwang Group	Beneficial owner (Note 2)	147,200,000 shares (L)	65.25%
	Xiwang Property	Interest of controlled corporations (Note 3)	810,903,622 ordinary shares (L) (Note 3)	65.62%
			678,340,635 convertible preference shares (L) (Note 3)	99.68%
WANG Di	Xiwang Holdings	Beneficial owner	177 shares (L)	0.09%
	Xiwang Group	Beneficial owner	4,000,000 shares (L)	1.77%
SUN Xinqu	Xiwang Holdings	Beneficial owner	89 shares (L)	0.04%
	Xiwang Group	Beneficial owner	2,000,000 shares (L)	0.89%

OTHER INFORMATION

Notes:

- (1) The letter “L” represents the Director’s long position in the shares of the relevant corporation.
- (2) As at 30 June 2014, Xiwang Group is the ultimate holding company of the Company. Xiwang Group is owned as to 65.25% by Mr. WANG Yong and remaining 34.75% by 24 individuals. Further, these 24 individuals are accustomed to act in accordance with the directions of Mr. WANG Yong in respect of the exercise by such 24 individuals of their voting powers as a shareholder of Xiwang Group. Accordingly, Mr. WANG Yong is deemed to be interested in all the shares of the Company in which Xiwang Group is interested.

Xiwang Hong Kong is a wholly-owned subsidiary of Xiwang Group. Xiwang Hong Kong directly holds 95% and Mr. WANG Yong and 24 individuals directly hold 5% of the issued share capital of Xiwang Holdings, respectively. Xiwang Investment is a wholly-owned subsidiary of Xiwang Holdings. Therefore, Xiwang Holdings, Xiwang Hong Kong and Xiwang Group are deemed to be interested in the number of shares of the Company held by Xiwang Investment.

- (3) As at 30 June 2014, Xiwang Investment, where the entire issued shares are deemed to be interested by Mr. WANG Yong, held 65.62% of ordinary shares of Xiwang Property Holdings Company Limited (“**Xiwang Property**”) and 99.68% of convertible preference shares of Xiwang Property.
- (4) These shares are registered in the name of Xiwang Investment. Mr. WANG Yong is deemed to have interest in all shares of the Company held by Xiwang Investment.
- (5) Promissory note (the “**Promissory Note**”) with principal amount of RMB441,223,765 was issued by Xiwang Investment in favour of Xiwang Property on 29 June 2013 to satisfy part of the consideration of the disposal of the entire issued share capital of Master Team International Limited by Xiwang Property to Xiwang Investment in 2013 (the “**Disposal**”). Details of the Disposal and the Promissory Note can be found in the circular of Xiwang Property dated 13 June 2013.

As at 30 June 2014, the outstanding amount under the Promissory Note was RMB44,805,000.

- (6) Xiwang Investment has charged all its shares in the Company in favour of Xiwang Property as security for its indebtedness owned to Xiwang Property under the Promissory Note. Mr. WANG Yong is deemed to have interest in the security interest over the shares of Xiwang Investment in the Company through his interest in Xiwang Property and Xiwang Holdings.

OTHER INFORMATION

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 2014, so far as it is known to the Directors of the Company, the following persons (other than the Directors and chief executive of the Company) had or were deemed or taken to have interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of substantial shareholder	Capacity	Number of shares of the Company held/interested (Note 1)	Approximate percentage of interest in the Company as at 30 June 2014
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%
Xiwang Hong Kong	Interest of controlled corporations (Notes 2, 3)	1,500,000,000 ordinary shares (L)	75%
Xiwang Group	Interest of controlled corporations (Notes 2, 3)	1,500,000,000 ordinary shares (L)	75%
ZHANG Shufang	Interest of spouse (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 Holdings directly holds 100% of the issued share capital of Xiwang Investment and therefore is deemed to be interested in the number of shares of the Company held by Xiwang Investment.
- (3) Xiwang Hong Kong directly holds 95% and Mr. WANG Yong and 24 individuals directly hold 5% of the issued share capital of Xiwang Holdings, respectively. Xiwang Hong Kong is in turn wholly-owned by Xiwang Group. Therefore, Xiwang Hong Kong and Xiwang Group are deemed to be interested in the number of shares of the Company held by Xiwang Investment.
- (4) Ms. ZHANG Shufang, being the spouse of Mr. WANG Yong, is deemed to be interested in all the shares of the Company in which Mr. WANG Yong is deemed to be interested.

OTHER INFORMATION

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

Save as disclosed in the paragraph headed “Directors’ interests in shares, underlying shares and debentures of the Company and its associated corporations” and paragraph (a) above, as at 30 June 2014, no other person had interests or short positions in the shares or underlying shares of the Company which are recorded in the register required to be kept by the Company under section 336 of the SFO.

SHARE OPTION SCHEME

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

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.

CORPORATE GOVERNANCE

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 responsibilities of the Audit Committee are to monitor the integrity of the Group’s financial statements and reports and review significant financial reporting judgements contained in them, to exercise independent judgment in reviewing and supervising the Company’s financial reporting process and internal control procedures; to provide recommendations to the Board for the improvements of the Group’s financial reporting system and internal control procedures and system, overseeing the independence and performance of the external auditors of the Company and to provide recommendations to the Board for the appointment and renewal of external auditors. The terms of reference of the Audit Committee are available on the Company’s website and the website of the Stock Exchange. The Audit Committee consists of three members who are Mr. LEUNG Shu Sun Sunny, Mr. SUN Xinhua 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.

* For identification purpose only



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