



2015

Interim Report 中期報告



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



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. WANG Hui (*Chief Executive Officer*)
Mr. JIANG Chang Lin
Mr. HE Qing Wen (resigned on 16 April 2015)
Mr. SUN Xinhua (re-designated from non-Executive Director to Executive Director on 16 April 2015)

Non-Executive Directors

Mr. WANG Yong
Mr. WANG Di (*Chairman*)
Ms. LI Yiyi (appointed on 16 April 2015)

Independent Non-Executive Directors

Mr. LEUNG Shu Sun Sunny
Mr. ZHANG Gongxue (resigned on 16 April 2015)
Mr. YU Kou
Mr. LIU Xiangming (appointed on 16 April 2015)

COMMITTEES

Audit Committee

Mr. LEUNG Shu Sun Sunny (*Chairman*)
Mr. SUN Xinhua (resigned on 16 April 2015)
Mr. ZHANG Gongxue (resigned on 16 April 2015)
Mr. YU Kou (appointed on 16 April 2015)
Mr. LIU Xiangming (appointed on 16 April 2015)

Remuneration Committee

Mr. ZHANG Gongxue (*Chairman*)
(resigned on 16 April 2015)
Mr. LIU Xiangming (*Chairman*)
(appointed on 16 April 2015)
Mr. WANG Di
Mr. YU Kou

Nomination Committee

Mr. ZHANG Gongxue (*Chairman*)
(resigned on 16 April 2015)
Mr. LIU Xiangming (*Chairman*)
(appointed on 16 April 2015)
Mr. WANG Di
Mr. YU Kou

COMPANY SECRETARY

Miss NG Weng Sin

AUTHORISED REPRESENTATIVES

Mr. WANG Di
Miss NG Weng Sin

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
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

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

www.xiwangsteel.com

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		
	2015 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)	Increase/ (Decrease) Percentage
Operational Results			
Revenue	3,437,653	4,696,743	(26.8%)
Gross profit	313,346	378,546	(17.2%)
Operating profit	276,392	351,426	(21.4%)
Profit for the period	211,182	203,040	4.0%
Financial Position			
	At 30 June 2015 RMB'000 (Unaudited)	At 31 December 2014 RMB'000 (Audited)	Increase/ (Decrease) Percentage
Non-current assets	9,505,434	8,982,420	5.8%
Current assets	1,962,341	2,254,425	(13.0%)
Non-current liabilities	2,022,648	1,159,426	74.5%
Current liabilities	5,452,088	6,266,021	(1.30%)
Total equity	3,993,039	3,811,398	4.8%
Earnings per share (RMB)	10.6 cents	10.2 cents	
Key Ratio Analysis			
Gross profit margin	9.1%	8.1%	
Operating profit margin	8.0%	7.5%	
Net profit margin	6.1%	4.3%	
Current ratio (Note 1)	0.36	0.36	
Asset liability ratio (Note 2)	1.53	1.51	
Gearing ratio (Note 3)	1.87	1.95	

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

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 mold 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, wind power, machinery and equipment sectors.

The Group currently has an aggregate designed annual smelting capacity of electric arc furnaces (“**EAFs**”) and converters of 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 usage of different raw materials.

Our steel production facilities, as of 30 June 2015, 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;
- 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;

GROUP PROFILE

- 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 2015 (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, bearing steel and ingot.

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, bearing steel and ingots. 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.

2. SPECIAL STEEL

Quality carbon structural steel

Our quality carbon structural steel includes steel bars and steel wires with cross sectional diameters ranging from 5.5 millimetres to 350 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 machine processing and equipment manufacturing .

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 bars with cross sectional diameters ranging from 5.5 millimetres to 350 millimetres.

Bearing steel

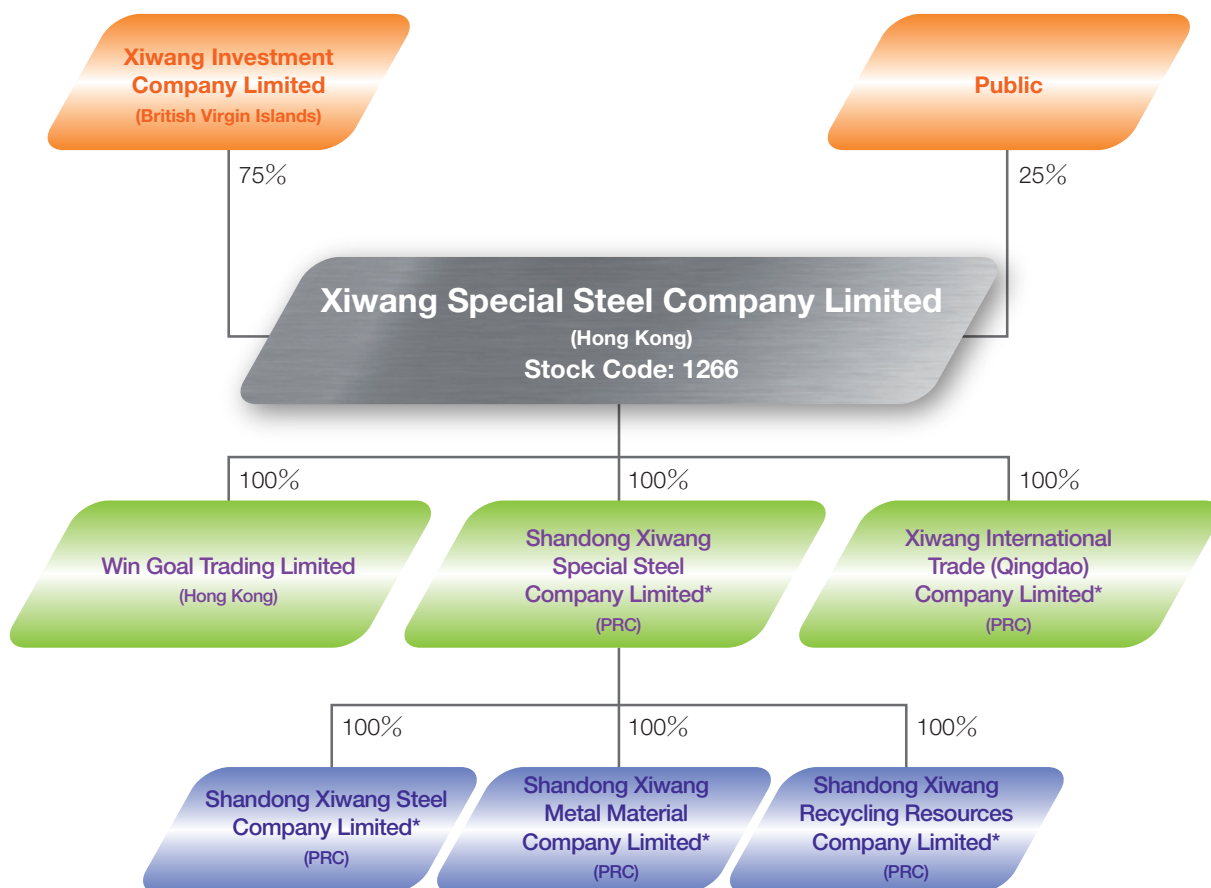
We produce bearing steel bars and wires with cross sectional diameters ranging from 5.5 millimetres to 60 millimetres. They are used in manufacturing rollers or ball bearings for automobile industry. Our bearing steel products are of relatively high level of purity and thus are harder in structure than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

Ingots

Ingots produced by the Company will be used in industries, such as transportation, power and energy, petrochemical, marine engineering, aviation and space and military equipment. Our products include wide-and-thick slabs, round ingots, square ingots, spindle ingots and hollow ingots, with specifications ranging from 3 to 80 tonnes.

GROUP STRUCTURE

As at 30 June 2015:



MANAGEMENT DISCUSSION AND ANALYSIS

I. FINANCIAL REVIEW

Business performance

1. Revenue

Revenue of the Group was RMB3,437,653,000 during the Period (first half of 2014: RMB4,696,743,000), representing a decrease of 26.8% as compared to the corresponding period of last year. The decrease in revenue was mainly attributable to the decrease in sales amount of steel and the diminished commodities trading business. During the Period, with the decrease in the selling price of steel, the average selling price of ordinary steel was RMB2,050 per tonne, representing a decrease of RMB793 or 27.9% as compared to RMB2,843 per tonne for the corresponding period of last year. As to special steel, the average selling price for the Period was RMB2,506 per tonne, representing a decrease of RMB741 or 22.8% as compared to RMB3,247 per tonne for the corresponding period of last year. During the Period, the total sales volume of steel was 1,373,830 tonnes (first half of 2014: 1,232,806 tonnes), representing an increase of 141,024 tonnes or 11.4% as compared to the corresponding period of last year. The revenue of steel represented 87.6% of the total revenue for the Period.

In respect of the geographical distribution of sales of steel, Shandong province was still the No. 1 market of the Group, and Jiangsu province ranked the second. The growth rate of the latter for the Period increased from 7.9% of the sales of steel for the corresponding period of last year to 16.3% for the Period because the demand for steel in the province was higher for the Period, and therefore part of the products were sold to Jiangsu province due to the higher price.

Revenue of the commodities trading business was RMB282,687,000, representing 8.2% of total sales for the Period, and a decrease of RMB655,958,000 or 69.9% as compared to the corresponding period of last year. The commodities trading business has not been the core business of the Group, and it will not be activated unless opportunities arise.

During the Period, the sales of by-products increased by 38.6% to RMB144,734,000. It was mainly attributable to the increase in sales volume for the Period, and by-products derived from production also increased.

MANAGEMENT DISCUSSION AND ANALYSIS

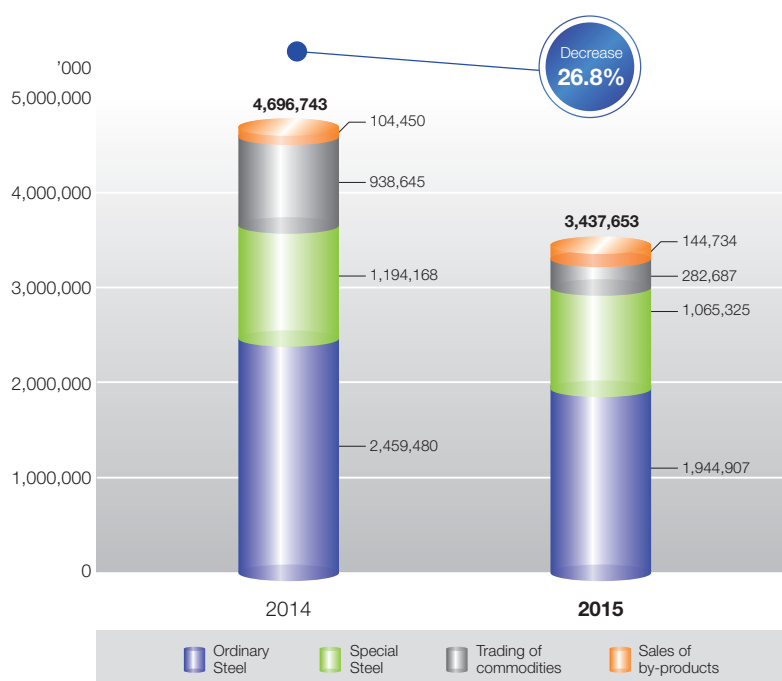
Breakdown of revenue:

	Revenue			
	For the six months ended 30 June 2015		2014	
	RMB'000	Percentage	RMB'000	Percentage
Ordinary Steel				
Rebar	1,203,857	35.0%	1,524,701	32.5%
Wire rod	741,050	21.6%	934,779	19.9%
Subtotal	1,944,907	56.6%	2,459,480	52.4%
Special Steel				
Quality carbon structural steel	869,318	25.3%	1,052,700	22.4%
Alloy structural steel	145,924	4.2%	93,761	2.0%
Bearing steel	19,060	0.6%	47,707	1.0%
Ingot	31,023	0.9%	–	–
Subtotal	1,065,325	31.0%	1,194,168	25.4%
Production and sales of steel	3,010,232	87.6%	3,653,648	77.8%
Trading of commodities[#]	282,687	8.2%	938,645	20.0%
Sales of by-products^{##}	144,734	4.2%	104,450	2.2%
Total	3,437,653	100.0%	4,696,743	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.

Breakdown of revenue

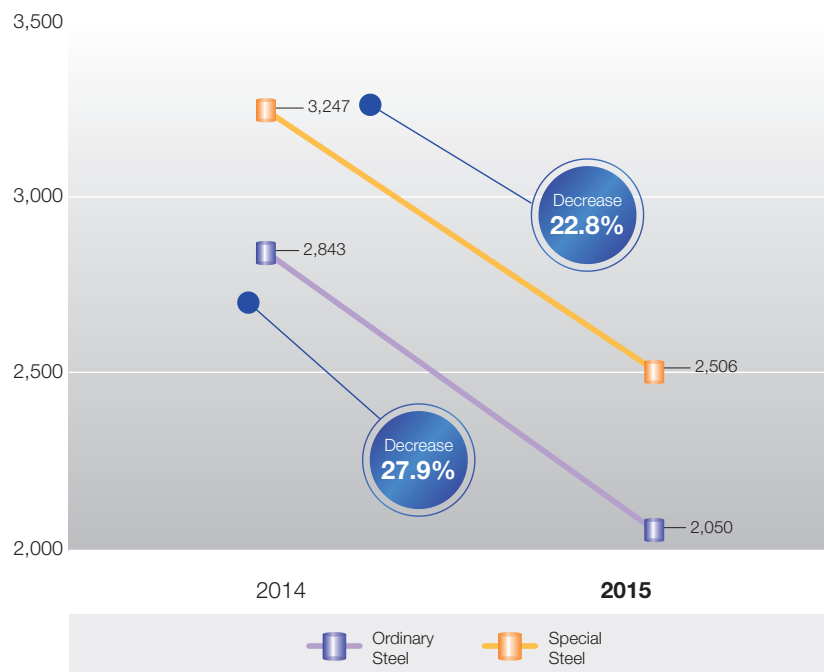


MANAGEMENT DISCUSSION AND ANALYSIS

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

	Average selling price (tax-exclusive) For the six months ended 30 June		
	2015 RMB per tonne	2014 RMB per tonne	Decrease Percentage
Ordinary Steel			
Rebar	1,991	2,770	28.1%
Wire rod	2,153	2,972	27.6%
Average selling price	2,050	2,843	27.9%
Special Steel			
Quality carbon structural steel	2,469	3,224	23.4%
Alloy structural steel	2,582	3,342	22.7%
Bearing steel	2,990	3,602	17.0%
Ingot	3,067	–	–
Average selling price	2,506	3,247	22.8%

Breakdown of average selling price of steel (tax-exclusive) per tonne

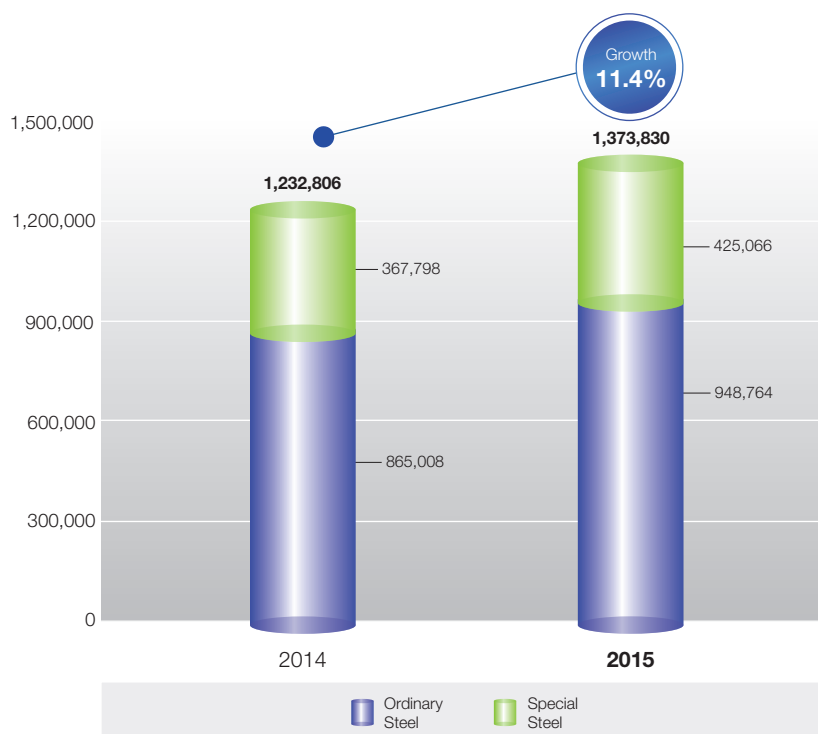


MANAGEMENT DISCUSSION AND ANALYSIS

Breakdown of sales volume of steel:

	Sales volume			
	For the six months ended 30 June 2015		2014	
	Tonnes	Percentage	Tonnes	Percentage
Ordinary Steel				
Rebar	604,596	44.0%	550,504	44.7%
Wire rod	344,168	25.1%	314,504	25.5%
Subtotal	948,764	69.1%	865,008	70.2%
Special Steel				
Quality carbon structural steel	352,056	25.6%	326,496	26.5%
Alloy structural steel	56,522	4.1%	28,057	2.3%
Bearing steel	6,374	0.5%	13,245	1.0%
Ingot	10,114	0.7%	–	–
Subtotal	425,066	30.9%	367,798	29.8%
Total	1,373,830	100.0%	1,232,806	100.0%

Breakdown of sales volume of steel



MANAGEMENT DISCUSSION AND ANALYSIS

Capacity and utilization rate:

		For the six months ended 30 June	
		2015	2014
EAFF I + EAF II + Converter I + Converter II			
Steel Smelting	Total designed capacity ¹ (tonnes)	1,650,000	1,650,000
	Total effective capacity ^{2,3} (tonnes)	1,650,000	1,650,000
	Total actual production ³ (tonnes)	1,379,814	1,281,207
	Overall utilization rate³	83.6%	77.6%
Bar I + Bar II + Bar III + Wire Rolling Line			
Steel Rolling	Total designed capacity ¹ (tonnes)	1,500,000	1,500,000
	Total effective capacity ^{2,3} (tonnes)	1,500,000	1,500,000
	Total actual production ³ (tonnes)	1,401,147	1,348,295
	Overall utilization rate³	93.4%	89.9%
Blast Furnace I + Blast Furnace II			
Iron Smelting	Total designed capacity ¹ (tonnes)	1,050,000	1,050,000
	Total effective capacity ^{2,3} (tonnes)	1,050,000	1,050,000
	Total actual production ³ (tonnes)	1,345,286	1,198,696
	Overall utilization rate³	128.1%	114.2%
Sintering Furnace			
Sintering	Total designed capacity ¹ (tonnes)	1,850,000	1,850,000
	Total effective capacity ^{2,3} (tonnes)	1,850,000	1,850,000
	Total actual production ³ (tonnes)	2,049,178	2,012,254
	Overall utilization rate³	110.8%	108.8%

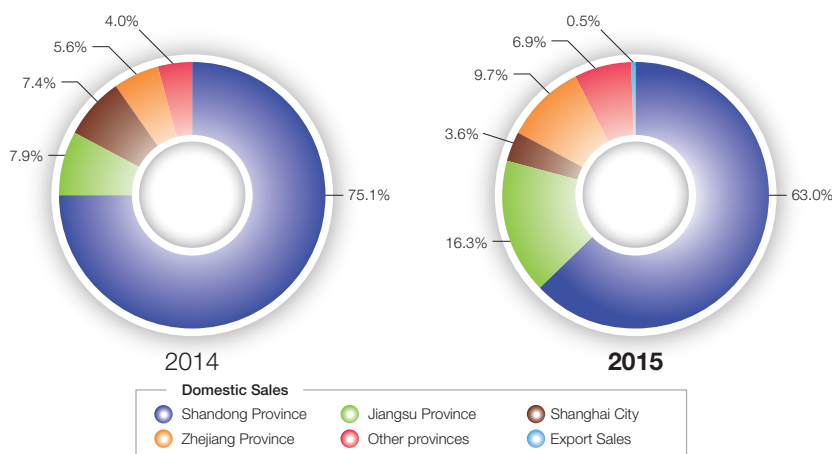
MANAGEMENT DISCUSSION AND ANALYSIS

- 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%.

Breakdown of sales of steel by regions:

	For the six months ended 30 June			
	2015		2014	
	RMB'000	Percentage	RMB'000	Percentage
Domestic sales				
Shandong Province	1,898,415	63.0%	2,745,324	75.1%
Jiangsu Province	489,591	16.3%	288,533	7.9%
Shanghai City	107,365	3.6%	269,448	7.4%
Zhejiang Province	293,093	9.7%	204,391	5.6%
Other provinces in China	207,132	6.9%	145,952	4.0%
Export sales	14,636	0.5%	–	–
	3,010,232	100.0%	3,653,648	100.0%

Breakdown of sales of steel by regions



2. Cost of sales

During the Period, our cost of sales decreased by 27.6% as compared to the corresponding period of last year to RMB3,124,307,000 (first half of 2014: RMB4,318,197,000). It was mainly due to the decrease in production costs of steel despite the increase in sales volume, and the decrease in cost of sales driven by the significant decrease in the sales of trading commodities.

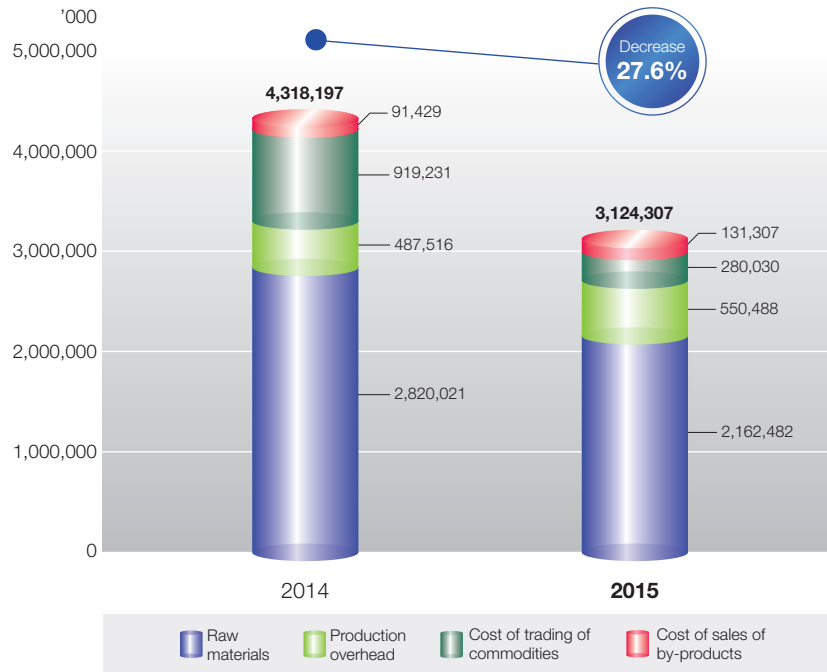
During the Period, the cost of sales of steel decreased by 18.0% as compared to the corresponding period of last year to RMB2,712,970,000 (first half of 2014: RMB3,307,537,000). Since the average cost per tonne decreased from RMB2,682 for the corresponding period of last year to RMB1,974 for the Period, the average cost per tonne decreased by RMB708 or 26.4%. It was because of the decrease in average purchasing cost for the Period as compared to the corresponding period of last year, particularly the decrease in the purchasing prices of major raw materials like iron ore dust and coke. Accordingly, the overall cost of steel decreased despite the increase in sales volume of steel by 141,024 tonnes or 11.4% as compared to the corresponding period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Breakdown of cost of sales:

	For the six months ended 30 June			
	2015		2014	
	RMB'000	Percentage	RMB'000	Percentage
Raw materials				
Iron ore dust	932,388	29.9%	1,354,325	31.4%
Coke	478,656	15.3%	532,677	12.3%
Steel scraps	104,522	3.3%	218,548	5.0%
Coal	116,054	3.7%	120,197	2.8%
Steel billets	56,450	1.8%	99,855	2.3%
Coke powder	36,354	1.2%	52,477	1.2%
Pig iron	–	–	11,538	0.3%
Molten iron	–	–	3,580	0.1%
Others	438,058	14.0%	426,824	9.9%
Subtotal of raw materials	2,162,482	69.2%	2,820,021	65.3%
Production overhead				
Depreciation	227,105	7.3%	198,328	4.6%
Electricity	221,076	7.1%	193,785	4.4%
Labour	79,027	2.5%	92,985	2.2%
Others	23,280	0.7%	2,418	0.1%
Subtotal of production overhead	550,488	17.6%	487,516	11.3%
Total cost of production and sales of steel	2,712,970	86.8%	3,307,537	76.6%
Cost of trading of commodities	280,030	9.0%	919,231	21.3%
Cost of sales of by-products	131,307	4.2%	91,429	2.1%
Total	3,124,307	100.0%	4,318,197	100.0%

Breakdown of cost of sales



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

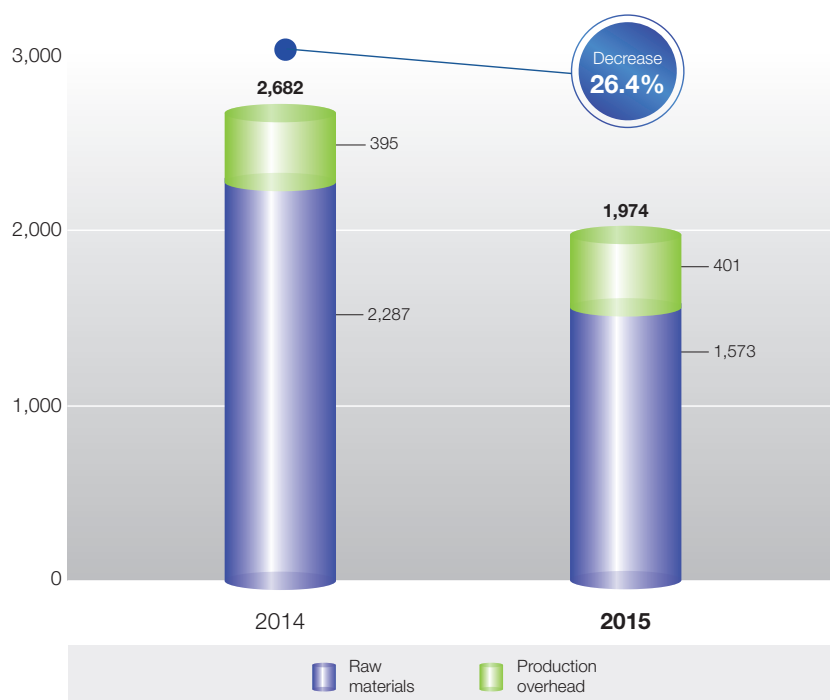
	For the six months ended 30 June			
	2015		2014	
	RMB'000	Percentage	RMB'000	Percentage
Raw materials				
Iron ore dust	679	34.4%	1,099	41.0%
Coke	348	17.6%	432	16.1%
Steel scraps	76	3.9%	177	6.6%
Coal	84	4.3%	97	3.6%
Steel billets	41	2.1%	81	3.0%
Coke powder	26	1.3%	43	1.6%
Pig iron	-	-	9	0.3%
Molten iron	-	-	3	0.1%
Others	319	16.1%	346	12.9%
Subtotal of raw materials	1,573	79.7%	2,287	85.2%

MANAGEMENT DISCUSSION AND ANALYSIS

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

	For the six months ended 30 June			
	2015		2014	
	RMB'000	Percentage	RMB'000	Percentage
Depreciation	165	8.4%	161	6.0%
Electricity	161	8.1%	157	5.9%
Labour	58	2.9%	75	2.8%
Others	17	0.9%	2	0.1%
Subtotal of production overhead	401	20.3%	395	14.8%
Total production costs	1,974	100.0%	2,682	100.0%

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



MANAGEMENT DISCUSSION AND ANALYSIS

The average purchase costs of major raw materials of steel (tax-exclusive):

	For the six months ended 30 June		
	2015 RMB per tonne	2014 RMB per tonne	Decrease Percentage
Iron ore dust	449	698	35.7%
Coke	802	1,058	24.2%
Steel scraps	1,211	1,613	24.9%
Coal	484	654	26.0%
Steel billets	1,826	2,594	29.6%
Coke powder	560	680	17.7%
Pig iron	–	2,175	–
Molten iron	–	2,223	–

3. Gross profit

During the Period, gross profit of the Group was RMB313,346,000 (first half of 2014: RMB378,546,000), representing an decrease of RMB65,200,000 or 17.2% as compared to the corresponding period of last year, which was mainly due to the lowered selling price of steel. The overall gross profit margin was 9.1% for the period (first half of 2014: 8.1%), representing an increase of 1 percentage point as compared to the corresponding period of last year. Main reasons for the increase are as follows:

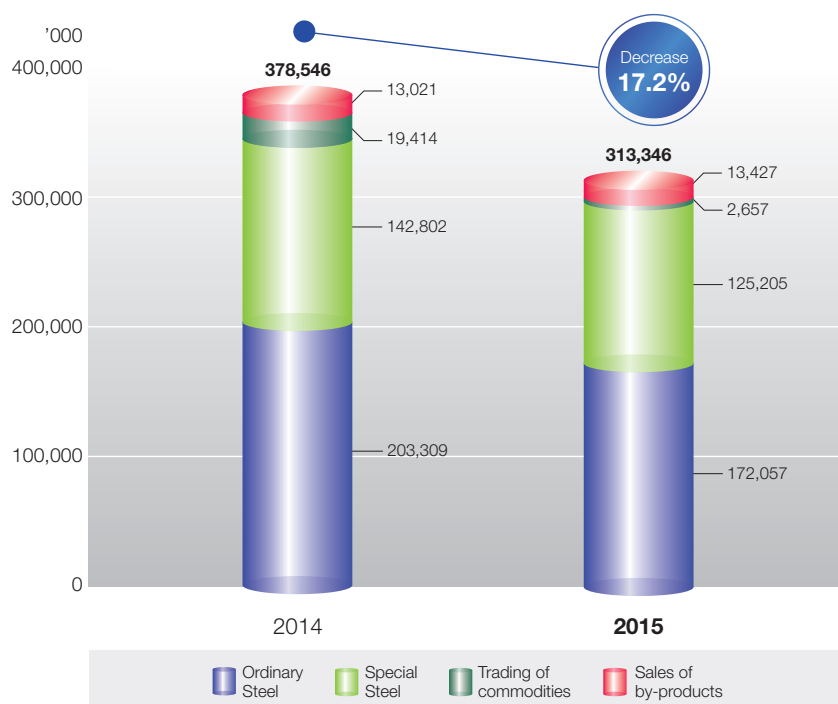
- (i) the gross profit margin of steel was 9.9% (first half of 2014: 9.5%), representing an increase of 0.4 percentage point as compared to the corresponding period of last year. As the price of raw materials decreased and more long-processed production activities were employed during the Period, as a result, fewer raw materials with higher prices such as steel scraps and steel billets were purchased; and
- (ii) the amount of commodities trading significantly decreased. Due to a relatively low gross profit margin of trading commodities, which is 0.9%, as compared to that of steel, the undermining effect on the overall gross profit margin was greatly reduced as compared to the corresponding period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Breakdown of the contribution of gross profit by operating segment:

	For the six months ended 30 June			
	2015		2014	
	RMB'000	Percentage	RMB'000	Percentage
Ordinary steel				
Rebar	103,390	33.0%	117,268	31.0%
Wire rod	68,667	21.9%	86,041	22.7%
	172,057	54.9%	203,309	53.7%
Special steel				
Quality carbon structural steel	113,575	36.2%	134,635	35.6%
Alloy structural steel	10,571	3.4%	2,994	0.8%
Bearing steel	1,059	0.3%	5,173	1.4%
Ingot	–	0.0%	–	–
	125,205	39.9%	142,802	37.8%
Production and sales of steel	297,262	94.8%	346,111	91.5%
Trading of commodities	2,657	0.9%	19,414	5.1%
Sales of by-products	13,427	4.3%	13,021	3.4%
Total	313,346	100.0%	378,546	100.0%

Breakdown of the contribution of gross profit by products and business

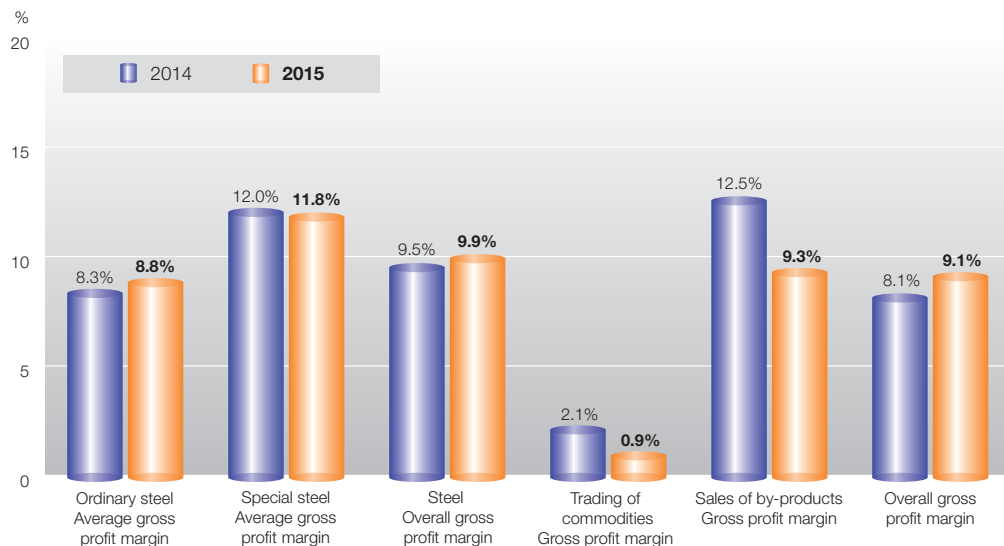


MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit margins by operating segment:

For the six months ended 30 June			
	2015	2014	Increase/ (Decrease) in percentage point
	Percentage	Percentage	
Ordinary steel			
Rebar	8.6%	7.7%	0.9%
Wire rod	9.3%	9.2%	0.1%
Weighted average gross profit margin	8.8%	8.3%	0.5%
Special steel			
Quality carbon structural steel	13.1%	12.8%	0.3%
Alloy structural steel	7.2%	3.2%	4.0%
Bearing steel	5.6%	10.8%	(5.2%)
Ingot	0.0%	–	–
Weighted average gross profit margin	11.8%	12.0%	(0.2%)
Overall gross profit margin of production and sales of steel	9.9%	9.5%	0.4%
Gross profit margin of trading of commodities	0.9%	2.1%	(1.2%)
Gross profit margin of sales of by-products	9.3%	12.5%	(3.2%)
Overall gross profit margin	9.1%	8.1%	1.0%

Gross profit margins of the products and business



4. Other income and gain

The Group's other income and gain for the Period amounted to RMB12,018,000 (first half of 2014: RMB17,678,000), representing a decrease of 32.0% as compared to the corresponding period of last year. Decrease in bank interest income was attributable to the decrease in pledged deposits during the Period.

5. Other expenses

Other expenses of the Group for the Period amounted to RMB9,814,000 (first half of 2014: RMB3,721,000), which mainly represented foreign exchange losses.

6. Selling and distribution expenses

The Group's selling and distribution expenses for the Period amounted to RMB5,109,000 (first half of 2014: RMB4,591,000), representing an increase of 11.3% as compared to the corresponding period of last year. It was attributable to the increase in sales volume during the Period.

7. Administrative expenses

Administrative expenses for the Period amounted to RMB34,049,000 (first half of 2014: RMB36,486,000), representing a decrease of 6.7% 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 decrease in administrative expenses was mainly attributable to the diminished commodities trading business, which in turn decreased the bank handling charges.

8. Finance costs

The Group's finance costs for the Period amounted to RMB44,980,000 (first half of 2014: RMB88,474,000), representing a decrease of 49.2% as compared to the corresponding period of last year. It was mainly due to a decrease in bank borrowings, resulting in a decrease in interest expenses.

9. Income tax expense

Income tax expense of the Group for the Period amounted to RMB20,230,000 (first half of 2014: RMB59,912,000), representing a decrease of 66.2% as compared to the corresponding period of last year. It was mainly attributable to the research and development expense of the Group of RMB271,159,000 in 2014 agreed by the Administration of Taxation to claim "weighted deduction", and was applied to offset the income tax expense for the Period.

10. Profit for the Period

Profit of the Group for the Period amounted to RMB211,182,000 (first half of 2014: RMB203,040,000), representing an increase of 4.0% as compared to the corresponding period of last year, which was primarily due to the decrease in finance cost and income tax expenses.

Financial position

1. Liquidity and capital resources

As at 30 June 2015, cash and cash equivalents of the Group amounted to RMB163,951,000, representing an increase of RMB36,884,000 or 29.0% as compared with RMB127,067,000 as at 31 December 2014. During the Period, net cash outflow used in operating activities, net cash outflow used in investing activities and net cash inflow generated in financing activities were RMB329,612,000, RMB751,484,000 and RMB1,126,335,000, respectively.

Investing activities of the Group during the Period mainly included payment of RMB901,688,000 for the construction of plants and purchase of equipments to implement technical renovation. The cash flow of financing activities mainly included the increase of payment due to the ultimate holding company of RMB1,846,902,000, net outflow from newly raised bank and other borrowings and the repayment of bank and other borrowings of RMB139,665,000, repayment to an independent third party of RMB259,004,000 and the payment of interest of RMB204,596,000. During the Period, the Group mainly used its operating cash flow and due from the ultimate holding company to fund its working capital needs, while the capital requirement for addition of production equipment was satisfied by cash inflows from operating and financing activities.

As at 30 June 2015, the capital commitment of the Group was RMB266,773,000, mainly used for renovation project and purchasing equipments.

2. Capital structure

As at 30 June 2015, the total liabilities and total equity of the Group were RMB7,474,736,000 and RMB3,993,039,000, respectively. The gearing ratio (total liabilities divided by total equity) was 1.87. Total assets was RMB11,467,775,000 and the asset liability ratio (total assets divided by total liabilities) was 1.53. Total bank and other borrowings of the Group was RMB525,152,000, of which RMB495,185,000 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 and Mr. WANG Di (both are directors of the Company), Ms. ZHANG Shufang and independent third parties.

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 this interim report, none of the assets of the Group was pledged as at 30 June 2015.

Contingent liabilities

The Group did not have any contingent liabilities as at 30 June 2015.

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 2015, the Group mainly exposed to risks related to its liabilities denominated in US dollar of RMB160,566,000 and its liabilities denominated in HK dollar of RMB29,967,000.

Employees and remuneration

As at 30 June 2015, the Group had a total of 3,615 employees (as at 30 June 2014: 4,338). Staff-related costs incurred during the Period was RMB102,041,000 (first half of 2014: RMB99,436,000). 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.

II. BUSINESS OUTLOOK

The environment of the steel industry was challenging during the Period. The Group made substantial capital investment in 2013 and 2014 for the long-processed production activities and the improvement of its production capacity, and the beneficial impact of which has started to be realized in 2014. During the Period, due to the lowered prices of raw materials, the production costs decreased while the production efficiency were improved and sales volume increased.

The Group is based in Shandong province. However, it also explored the markets in surrounding regions in an active manner during the Period, of which the market in Jiangsu province achieved initial success. The Group will also be committed to the development of special steel products, and ingots were produced on a trial basis during the Period to meet market demand. In light of the challenges in future, the Group will continue to spare no effort to upgrade product quality and focus on the development of special steel products for the sake of better performance and results.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	Six months ended 30 June	
		2015 RMB'000 Unaudited	2014 RMB'000 Unaudited
REVENUE	3	3,437,653	4,696,743
Cost of sales		(3,124,307)	(4,318,197)
GROSS PROFIT		313,346	378,546
Other income and gain	3	12,018	17,678
Other expenses		(9,814)	(3,721)
Selling and distribution expenses		(5,109)	(4,591)
Administrative expenses		(34,049)	(36,486)
OPERATING PROFIT		276,392	351,426
Finance costs	5	(44,980)	(88,474)
PROFIT BEFORE TAX	4	231,412	262,952
Income tax expense	6	(20,230)	(59,912)
PROFIT FOR THE PERIOD		211,182	203,040
Profit attributable to owners of the parent		211,182	203,040
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	7	RMB10.6 cents	RMB10.2 cents

The notes on pages 32 to 55 are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2015 RMB'000 Unaudited	2014 RMB'000 Unaudited
PROFIT FOR THE PERIOD	211,182	203,040
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	25	1,700
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	25	1,700
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	211,207	204,740
Total comprehensive income attributable to owners of the parent	211,207	204,740

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2015	31 December 2014
	Note	RMB'000	RMB'000
		Unaudited	Audited
NON-CURRENT ASSETS			
Property, plant and equipment	9	9,398,468	8,875,432
Prepaid land lease payments		99,615	100,725
Derivative financial instrument		293	–
Deferred asset		282	352
Deferred tax assets	17	6,776	5,911
Total non-current assets		9,505,434	8,982,420
CURRENT ASSETS			
Inventories	10	716,802	863,155
Trade and bills receivables	11	224,702	297,751
Prepayments, deposits and other receivables	12	237,615	194,970
Due from a fellow subsidiary		23,249	25,256
Pledged deposits		596,022	746,226
Cash and cash equivalents		163,951	127,067
Total current assets		1,962,341	2,254,425
CURRENT LIABILITIES			
Trade and bills payables	13	2,053,719	2,366,445
Receipts in advance, other payables and accruals	14	940,566	2,737,440
Interest-bearing bank and other borrowings	15	495,185	725,105
Due to the ultimate holding company	24(b)(iv)	1,846,902	–
Due to the immediate holding company		4,037	230,140
Due to fellow subsidiaries		95,413	155,000
Income tax payable		16,266	51,891
Total current liabilities		5,452,088	6,266,021
NET CURRENT LIABILITIES		(3,489,747)	(4,011,596)
TOTAL ASSETS LESS CURRENT LIABILITIES		6,015,687	4,970,824

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2015 RMB'000 Unaudited	31 December 2014 RMB'000 Audited
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	15	29,967	29,977
Other payable	18	838,516	–
Due to the ultimate holding company	24(c)(ii)	1,134,014	1,109,939
Deferred tax liability	17	20,151	19,093
Derivative financial instrument		–	417
Total non-current liabilities		2,022,648	1,159,426
Net assets		3,993,039	3,811,398
EQUITY			
Equity attributable to owners of the parent			
Share capital and other statutory capital reserve	19	955,833	955,833
Other reserves	20	3,037,206	2,825,565
Proposed final dividend		–	30,000
Total equity		3,993,039	3,811,398

WANG Di
Director

WANG Hui
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company											
	Share capital	Share premium account	Contributed surplus	Other reserve	Statutory surplus reserve	Warrant reserve	Share option reserve	Special reserve	Exchange fluctuation reserve	Retained profit	Proposed final dividend	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	955,833	-	78,938	297,069	449,571	1,189	777	119,570	3,825	1,874,626	30,000	3,811,398
Profit for the Period	-	-	-	-	-	-	-	-	-	211,182	-	211,182
Other comprehensive income for the Period:												
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	25	-	-	25
Total comprehensive income for the Period	-	-	-	-	-	-	-	-	25	211,182	-	211,207
Lapsed of warrant (note 19)	-	-	-	-	-	(1,189)	-	-	-	1,189	-	-
Dividend paid	-	-	-	-	-	-	-	-	-	-	(30,000)	(30,000)
Profit appropriated to reserve	-	-	-	-	-	-	-	3,028	-	(3,028)	-	-
Utilisation of reserve for safety production	-	-	-	-	-	-	-	(726)	-	726	-	-
Equity-settled share option expense	-	-	-	-	-	-	434	-	-	-	-	434
At 30 June 2015 (Unaudited)	955,833	-	78,938*	297,069*	449,571*	-	1,211*	121,872*	3,850*	2,084,695*	-	3,993,039
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 19)	-	-	-	-	-	1,091	-	-	-	-	-	1,091
Dividend paid	-	-	-	-	-	-	-	-	-	-	(30,000)	(30,000)
Profit appropriated to reserve	-	-	-	-	5,402	-	-	15,339	-	(20,741)	-	-
Transition to no-par value regime (note 19)	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

* These reserve accounts comprise the consolidated other reserves of RMB3,037,206,000 (30 June 2014: RMB2,353,568,000) in the condensed consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Six months ended 30 June	
		2015 RMB'000 Unaudited	2014 RMB'000 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		231,412	262,952
Adjustments for:			
Finance costs	5	44,980	88,474
Interest income	3	(6,492)	(17,647)
Exchange loss, net	4	8,394	3,721
Depreciation	4	238,833	202,166
Recognition of prepaid land lease payments	4	1,111	1,111
Equity-settled share option expense	4	434	–
		518,672	540,777
Decrease/(increase) in inventories		146,353	(353,098)
Decrease/(increase) in trade and bills receivables		73,049	(137,114)
Decrease in prepayments, deposits and other receivables		(2,118)	(303,853)
Decrease in amounts due from a fellow subsidiary		2,007	–
(Decrease)/increase in trade and bills payables		(312,726)	1,393,109
(Decrease)/increase in receipts in advance, other payables and accruals		(375,844)	135,832
Decrease in derivative financial instrument		(710)	–
Decrease in an amount due to the immediate holding company		(226,103)	–
Decrease in an amount due to fellow subsidiaries		(59,587)	–
Increase in an amount due to a related party		–	20,558
Cash (used in)/generated from operations		(237,007)	1,296,211
Interest received		3,084	17,499
Interest element of finance lease rental payments		(2,785)	(9,548)
The People's Republic of China (the "PRC") tax paid		(92,904)	(89,872)
Net cash flows (used in)/from operating activities		(329,612)	1,214,290

CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2015 RMB'000 Unaudited	2014 RMB'000 Unaudited
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(901,688)	(1,092,432)
Purchases of prepaid land lease payments	–	(14,249)
Decrease in pledged deposits	150,204	86,142
Net cash flows used in investing activities	(751,484)	(1,020,539)
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank and other loans	283,795	103,583
Increase in amount due to the ultimate holding company	1,846,902	1,399,900
Repayment of an amount due to an independent third party	(259,004)	(694,333)
Capital element of finance lease rental payments	(87,302)	(73,623)
Proceeds from issue of warrants	–	1,191
Warrant issue expenses	–	(100)
Repayment of bank loans	(423,460)	(766,584)
Dividends paid	(30,000)	(30,000)
Interest paid	(204,596)	(75,517)
Net cash flows from/(used in) financing activities	1,126,335	(135,483)
NET INCREASE IN CASH AND CASH EQUIVALENTS	45,239	58,268
Cash and cash equivalents at beginning of period	127,067	93,316
Effect of foreign exchange rate changes, net	(8,355)	2,053
CASH AND CASH EQUIVALENTS AT END OF PERIOD	163,951	153,637

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1.1 CORPORATE INFORMATION

The Company is a limited company and was incorporated in Hong Kong on 6 August 2007. The Company's registered office is located at Unit 2110, 21/F, Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong. The shares of the Company have been listed on the Stock Exchange since 23 February 2012. The Group is principally engaged in the production and sale of steel products in the PRC.

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

1.2 BASIS OF PREPARATION

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

The accounting policies and method of computation used in the preparation of these condensed consolidated interim financial statements are consistent with those adopted in the annual financial statements for the year ended 31 December 2014.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the Group's audited 2014 annual financial statements, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

As at 30 June 2015, the Group had net current liabilities of approximately RMB3,489,747,000. 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 2014, except for the adoption of the new interpretation and amendments as of 1 January 2015, noted below:

Amendments to HKFRS	Annual Improvements to HKFRS 2010-2012 Cycle
Amendments to HKFRS	Annual Improvements to HKFRS 2011-2013 Cycle
Amendments to HKAS 19	Defined Benefits Plans – Employee Contributions

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 2015, 100% (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 2015, no (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.

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 2015 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		1,944,907	1,065,325	282,687	144,734	3,437,653
Cost of sale		(1,772,850)	(940,120)	(280,030)	(131,307)	(3,124,307)
Gross profit		172,057	125,205	2,657	13,427	313,346
Reconciliation:						
Other income and gain	3					12,018
Other expenses						(9,814)
Selling and distribution expenses						(5,109)
Administrative expenses						(34,049)
Finance costs	5					(44,980)
Profit before tax						231,412

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 income and gain	3					17,678
Other expenses						(3,721)
Selling and distribution expenses						(4,591)
Administrative expenses						(36,486)
Finance costs	5					(88,474)
Profit before tax						262,952

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	
	2015 RMB'000 Unaudited	2014 RMB'000 Unaudited
Revenue		
Sale of ordinary steel	1,944,907	2,459,480
Sale of special steel	1,065,325	1,194,168
Trading of commodities	282,687	938,645
Sale of by-products	144,734	104,450
	3,437,653	4,696,743
Other income and gain		
Bank interest income	6,492	17,647
Fair value gain on forward foreign exchange contract	710	–
Others	4,816	31
	12,018	17,678

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
	Unaudited	Unaudited
Cost of inventories sold [^]	3,124,307	4,318,197
Depreciation [^]	238,833	202,166
Amortisation of prepaid land lease payments [^]	1,111	1,111
Employee benefit expense (including directors' remuneration) [^] :		
Wages and salaries	94,902	92,169
Pension scheme contributions [#]	4,682	4,618
Equity-settled share option expenses	434	–
Staff welfare expenses	2,023	2,649
	102,041	99,436
Foreign exchange loss ^{##}	8,394	3,721

[^] 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 RMB307,422,000 (six months ended 30 June 2014: RMB292,423,000). 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 loss is included in "other expenses" in the interim condensed consolidated statement of profit or loss for the six months ended 30 June 2015 and for the six months ended 30 June 2014.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
	Unaudited	Unaudited
Interest on bank borrowings wholly repayable within five years	21,475	54,089
Interest on a finance lease	2,785	9,548
Interest on an amount due to the ultimate holding company*	24,075	13,891
Interest on an amount due to an independent third party (notes 14 and 18)	16,650	69,635
Total interest expense on financial liabilities not at fair value through profit or loss	64,985	147,163
Less: Interest capitalised	(20,005)	(58,689)
	44,980	88,474

* Included notional interest of RMB24,075,000 (six months ended 30 June 2014: nil) on an amount due to the ultimate holding company (note 24(b)(iii)).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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	
	2015	2014
	RMB'000	RMB'000
	Unaudited	Unaudited
Current – the PRC		
Charge for the Period	20,037	61,466
Deferred (note 17)	193	(1,554)
Total tax charge for the Period	20,230	59,912

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

The calculation of the basic earnings per share amounts is for the six months ended 30 June 2015 based on the profit attributable to ordinary equity holders of the parent for the Period, and the weighted average number of 2,000,000,000 (six months ended 30 June 2014: 2,000,000,000) ordinary shares in issue during the Period.

The calculation of the diluted earnings per share amounts for the six months ended 30 June 2015 is based on the profit for the period attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of the adjustment for the effect of deemed exercise of all share options at the beginning of the Period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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 antidilutive effect on the basic earnings per share amounts presented.

The calculation of the basic and diluted earnings per share for the six months ended 30 June 2015 is based on:

	Six months ended 30 June 2015 RMB'000 Unaudited
Earnings	
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	211,182
	Number of shares 30 June 2015 Unaudited
Shares	
Weighted average number of ordinary shares in issue during the Period used in the basic earnings per share calculation	2,000,000,000
Effect of dilution on weighted average number of ordinary shares – Share Options	1,196,911
Weighted average number of ordinary shares used in the diluted earnings per share calculation	2,001,196,911

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. DIVIDENDS

A final dividend for the year ended 31 December 2014 of RMB0.015 per share, payable in cash, totaling approximately RMB30 million, was approved at the annual general meeting held on 29 May 2015 and paid in June 2015.

No interim dividend was proposed for the Period (six months ended 30 June 2014: nil).

9. PROPERTY, PLANT AND EQUIPMENT

The Group's capital expenditure for the Period was approximately RMB760 million (six months ended 30 June 2014: RMB1,054 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 RMB446,608,000 (31 December 2014: RMB475,456,000) as at 30 June 2015 was held under finance lease.

10. INVENTORIES

	30 June 2015 RMB'000 Unaudited	31 December 2014 RMB'000 Audited
Steel		
Raw materials	174,502	178,185
Work in progress	81,692	100,686
Finished goods	444,252	440,060
	700,446	718,931
Trading commodities	16,356	144,224
	716,802	863,155

Certain of the Group's inventories with a carrying amount of RMB214,600,000 as at 31 December 2014 were pledged as security for the Group's issuance of bills payable (note 13).

No inventory was pledged as security as at 30 June 2015.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. TRADE AND BILLS RECEIVABLES

	30 June 2015 RMB'000 Unaudited	31 December 2014 RMB'000 Audited
Trade receivables	220,217	221,045
Bills receivables	4,485	76,706
	224,702	297,751

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 2015 RMB'000 Unaudited	31 December 2014 RMB'000 Audited
Within 3 months	43,582	271,296
3 to 6 months	161,673	25,604
6 months to 1 year	19,447	91
Over 1 year	–	760
	224,702	297,751

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 2015 RMB'000 Unaudited	31 December 2014 RMB'000 Audited
Prepayments	169,024	123,489
Bank interest receivables	7,533	4,125
VAT recoverable	–	53,218
Deposits and other receivables	58,837	11,794
Current portion of prepaid land lease payments	2,221	2,344
	237,615	194,970

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 2015 RMB'000 Unaudited	31 December 2014 RMB'000 Audited
Bills payable	1,258,962	1,570,039
Trade payables	794,757	796,406
	2,053,719	2,366,445

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 2015 RMB'000 Unaudited	31 December 2014 RMB'000 Audited
Within 1 month	328,440	367,764
1 to 3 months	968,595	1,072,619
3 to 6 months	560,855	742,260
6 to 12 months	130,177	151,224
Over 12 months	65,652	32,578
	2,053,719	2,366,445

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

Bills payables are bank acceptance bills with maturity period within six months. These are issued under the ordinary course of business and mainly secured by the Group's pledged time deposits of approximately RMB543,272,000 (31 December 2014: RMB612,080,000).

The Group also pledged inventory of RMB214,600,000 as a security for the bills payable as at 31 December 2014.

14. RECEIPTS IN ADVANCE, OTHER PAYABLES AND ACCRUALS

	30 June 2015 RMB'000 Unaudited	31 December 2014 RMB'000 Audited
Advances from customers	151,507	273,490
Salaries and welfare payables	35,876	63,124
Other tax payables	34,192	12,375
Construction and equipment payables	698,017	854,486
Other payables	20,974	1,533,965
	940,566	2,737,440

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. RECEIPTS IN ADVANCE, OTHER PAYABLES AND ACCRUALS (Continued)

The amounts are non-interest-bearing and have an average term of six months.

Included in the Group's other payable as at 31 December 2014 is an amount of RMB836.7 million due to an independent third party which is unsecured, bears interest at 7.0% per annum and is repayable on 31 March 2015. On 16 March 2015, the Group entered into a supplemental agreement with the lender and agreed to extend the repayment date to 30 September 2016.

15. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2015			31 December 2014		
	Unaudited			Audited		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Finance lease payables	7.13	2015	51,992	7.13	2015	142,079
Interest-bearing bank loans	LIBOR+1.25%			LIBOR+1%		
– secured	~7.58	2015	443,193	~8.40	2015	333,026
Current portion of long term interest-bearing other loan – secured	-	-	-	7.24	2015	250,000
			<u>495,185</u>			<u>725,105</u>
Non-current						
Long term interest-bearing bank loans						
– secured	HIBOR+2.8%	2017	29,967	HIBOR+2.8%	2017	29,977
			<u>29,967</u>			<u>29,977</u>
			<u>525,152</u>			<u>755,082</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

	30 June 2015 RMB'000 Unaudited	31 December 2014 RMB'000 Audited
Analysed into:		
Bank and other loans repayable:		
Within one year	495,185	725,105
In the second year	29,967	–
In the third year	–	29,977
	525,152	755,082

Notes:

- (i) Certain of the Group's bank loans are secured by certain of the Group's leasehold land with a carrying amount of RMB89,005,000 as at 30 June 2015 (31 December 2014: RMB88,604,000) and pledged time deposits of RMB52,750,000 (31 December 2014: RMB134,146,000).

In addition, Xiwang Group guaranteed of the Group's bank loans of RMB496,295,000 as at 30 June 2015 (31 December 2014: RMB381,068,000) (note 24(b)(ii)). Mr. Wang Yong and Ms. Zhang Shufang guaranteed of the Group's bank loans of RMB27,000,000 jointly and severally as at 31 December 2014. Mr. Wang Yong guaranteed of the Group's bank loans of RMB283,795,000 as at 30 June 2015 (31 December 2014: RMB350,000,000). An independent third party guaranteed of the Group's bank loans of RMB175,000,000 as at 30 June 2015 (31 December 2014: RMB100,000,000). Leasehold land of Shandong Xiwang Logistics Company Limited ("Xiwang Logistics") (山東西王物流有限公司) were pledged to secure the Group's bank loans of RMB27,000,000 as at 30 June 2015 (31 December 2014: RMB27,000,000) (note 24(b)(ii)).

- (ii) The carrying amounts of the Group's interest-bearing bank and other borrowings approximate to their fair values.

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 one year.

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 2015, deferred asset of RMB282,000 (31 December 2014: RMB352,000) will be amortised over the lease term.

At 30 June 2015, the total future minimum lease payments under finance lease and their present values were as follows:

	Minimum lease payments 30 June 2015 RMB'000 Unaudited	Minimum lease payments 31 December 2014 RMB'000 Audited	Present value of minimum lease payments 30 June 2015 RMB'000 Unaudited	Present value of minimum lease payments 31 December 2014 RMB'000 Audited
Amounts payable:				
Within one year	54,849	160,614	44,612	132,887
In the second year	-	-	-	-
In the third to the fourth year	-	-	-	-
Total minimum finance lease payments	54,849	160,614	44,612	132,887
Future finance charges	(2,857)	(18,535)		
Total net finance lease payables	51,992	142,079		
Portion classified as current liabilities (note 15)	(51,992)	(142,079)		
Non-current portion	-	-		

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

	2015 RMB'000	2014 RMB'000
At 1 January (Audited)	5,911	4,764
Deferred tax debited to the income statement during the Period (note 6)	865	2,624
Gross deferred tax assets at 30 June (Unaudited)	6,776	7,388

Deferred tax assets represented the unrealised profit arising from intra-group sales during the six months ended 30 June 2015.

Deferred tax liability

	Withholding tax on the distributable profits	
	2015 RMB'000	2014 RMB'000
At 1 January (Audited)	19,093	17,060
Deferred tax credited to the income statement during the Period (note 6)	1,058	1,070
At 30 June (Unaudited)	20,151	18,130

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 established in the PRC in respect of earnings generated from 1 January 2008.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. OTHER PAYABLE

Included in the Group's other payable as at 30 June 2015 is an amount of RMB838.5 million due to an independent third party, which is unsecured, bears interest at 7.0% per annum.

19. 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 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, at 1 January 2015 and 30 June 2015	-	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. The warrant was lapsed on 18 June 2015.

20. 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

21. SHARE OPTION SCHEME

The Company operates a share option scheme (the “**Scheme**”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include any employees of the Group, any non-executive directors (including independent non-executive directors) and any suppliers and customers of the Group, as absolutely determined by the directors. The Scheme became effective on 3 September 2014 and, unless otherwise cancelled or amended, will remain in force for 10 years from the date.

The maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company’s shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders’ approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and may commence on the date of grant of the share options and end on a date which is not later than ten years from the date of grant of the share options.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the stock exchange closing price of the Company’s shares on the date of grant of the share options; (ii) the average stock exchange closing price of the Company’s shares for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings.

On 16 September 2014, a total of 10,000,000 share options were granted to an employee and two non-executive directors of the Company at an exercise price of HK\$1.064 per share pursuant to the Scheme.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

21. SHARE OPTION SCHEME (Continued)

No share options were exercised during the Period. The exercise price and exercise period of the share options outstanding as at the end of the reporting period are as follows:

Number of options*	Exercise price* HK\$ per share	Exercise period
3,333,333	1.064	19 September 2014 to 18 September 2015
3,333,333	1.064	19 September 2015 to 18 September 2016
3,333,334	1.064	19 September 2016 to 18 September 2017
10,000,000		

* The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of the share options granted in 2014 was HK\$2,156,000, of which the Group recognised a share option expense of HK\$551,000 (six months ended 30 June 2014: nil) (equivalent to RMB434,000 (six months ended 30 June 2014: nil)) during the six months ended 30 June 2015.

The fair value of equity-settled share options granted during the Period was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Dividend yield (%)	3.69
Expected volatility (%)	42.0
Risk-free interest rate (%)	0.84
Expected life of options (year)	1.00 – 3.00

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 10,000,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 10,000,000 additional ordinary shares of the Company and additional share capital of HK\$12,796,000 (equivalent to RMB10,468,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 10,000,000 share options outstanding under the Scheme, which represented approximately 0.5% of the Company's shares in issue as at that date.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

22. 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 2015 RMB'000 Unaudited	31 December 2014 RMB'000 Audited
Within one year	1,168	1,168
In the second to fifth years, inclusive	4,672	4,672
After five years	13,165	14,538
	19,005	20,378

23. COMMITMENTS

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

	30 June 2015 RMB'000 Unaudited	31 December 2014 RMB'000 Audited
Contracted, but not provided for: Property, plant and equipment	266,773	314,247

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 2015 RMB'000 Unaudited	31 December 2014 RMB'000 Audited
Contracted, but not provided for: Consulting services	2,400	2,700

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

24. 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:

	Notes	Six months ended 30 June	
		2015	2014
		RMB'000	RMB'000
		Unaudited	Unaudited
Rental expenses to Xiwang Group	(i)	184	184
Rental expenses to Xiwang Logistics	(i)	3,606	–
Interest expenses to Xiwang Group	(ii)	24,075	13,891
Sale of steam to Shandong Xiwang Sugar Industry Company Limited (“ Shandong Xiwang Sugar ”) (a fellow subsidiary)	(iii)	15,180	–

- (i) The rental expenses to Xiwang Group and Xiwang Logistics were recognised at a price based on mutual agreement between both parties.
- (ii) The interest expenses to Xiwang Group included the interest of RMB49,289,000 on the amount due to Xiwang Group for the period from 8 April 2014 to 6 November 2014 and the notional interest of RMB7,108,000 on the amount due to Xiwang Group for the period from 7 November 2014 to 31 December 2014. The notional interest paid during the six months ended 30 June 2015 was RMB24,075,000.
- (iii) The selling price of steam to Shandong Xiwang Sugar was recognised at a price based on mutual agreement between both parties.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

24. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(b) Other related party transactions:

- (i) Xiwang Group guaranteed certain of the Group's bills payable of RMB803,962,000 as at 30 June 2015 (30 June 2014: RMB1,042,022,000). Mr. Wang Yong and Ms. Zhang Shufang guaranteed of the Group's bills payable of RMB155,000,000 jointly and severally as at 30 June 2015 (30 June 2014: RMB240,000,000). Mr. Wang Yong guaranteed of the Group's bills payable of RMB549,548,000 as at 30 June 2015 (30 June 2014: RMB548,982,000). Mr. Wang Di guaranteed of the Group's bills payable of RMB349,548,000 as at 30 June 2015 (30 June 2014: RMB235,794,000). Leasehold land of Xiwang Logistics were pledged to secure the Group's bills payable of RMB155,000,000 as at 30 June 2015 (30 June 2014: nil). The guarantees provided by the related parties will expire from 13 July 2015 to 18 April 2017.
- (ii) As detailed in note 15, Xiwang Group guaranteed of the Group's bank loans of RMB496,295,000 as at 30 June 2015 (30 June 2014: RMB890,207,000). Mr. Wang Yong guaranteed of the Group's bank loans of RMB283,795,000 as at 30 June 2015 (30 June 2014: RMB601,507,000). Leasehold land of Xiwang Logistics were pledged to secure the Group's bank loans of RMB27,000,000 as at 30 June 2015 (30 June 2014: nil). The guarantees provided by the related parties will expire from 4 July 2015 to 18 April 2017.
- (iii) Pursuant to a supplemental loan agreement entered into between the Group and Xiwang Group on 7 November 2014, the principal amounts of RMB670,000,000 and RMB729,900,000 became interest-free with effect from 7 November 2014, the maturity dates of which were extended to 8 April 2020 and 8 June 2020, respectively.

Upon initial recognition, an amount of RMB297,069,000, being the excess of the aggregate principal amount of RMB1,399,900,000 over its fair value as at 7 November 2014, was accounted for as contribution from the ultimate holding company and credited to "Other reserve" in the consolidated statement of financial position accordingly. As at 30 June 2015, the amortised cost of the amount due to Xiwang Group is RMB1,134,014,000.

- (iv) During the Period, the Group has additional amount of RMB1,846,902,000 due to Xiwang Group. The amount due is unsecured, interest free and payable on demand.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

24. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

- (c) Outstanding balances with related parties:
- (i) Except disclosed in note 24(c)(ii), the amount due to the ultimate holding company, amounts due to the immediate holding company and amounts due from/to fellow subsidiaries as at 30 June 2015 (31 December 2014) are unsecured, interest-free and payable on demand.
 - (ii) The amount due to Xiwang Group is unsecured. Pursuant to the original loan agreements dated 8 April 2014 and 8 June 2014, respectively, the principal amounts of RMB670,000,000 and RMB729,900,000, which bear interest at 7.0% per annum, are repayable on 9 April 2016 and 9 June 2016, respectively. On 7 November 2014, the Group and Xiwang Group entered into a supplemental loan agreement, the principal amounts of RMB670,000,000 and RMB729,900,000 became interest-free with effect from 7 November 2014, the maturity dates of which were extended to 8 April 2020 and 8 June 2020, respectively. As at 30 June 2015, the amortised cost of the amount due to Xiwang Group is RMB1,134,014,000 (31 December 2014: RMB1,109,939,000).

In addition, the amounts due to Xiwang Group will be subordinated in the right of payment to the Notes.

25. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the Board on 18 August 2015.

OTHER INFORMATION

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the Period (corresponding period in 2014: nil).

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

As at 30 June 2015, 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:

Name of Director	Name of company/ associated corporation	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 2015
WANG Yong	Company	Interest of controlled corporations (Note 2)	1,500,000,000 ordinary shares (L) (Note 4)	75%
	Xiwang Investment	Interest of controlled corporations (Notes 2, 3)	3 shares (L)	100%
	Xiwang Holdings	Beneficial owner (Note 2)	6,738 shares (L)	3.37%
		Interest of controlled corporations (Note 2)	190,000 shares (L)	95%
	Xiwang Hong Kong	Interest of controlled corporations (Note 2)	694,132,000 shares (L)	100%
	Xiwang Group	Beneficial owner (Note 2)	RMB1,322,730,084 (L)	66.14%
	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%

Name of Director	Name of company/ associated corporation	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 2015
WANG Di	Xiwang Holdings	Beneficial owner	177 shares (L)	0.09%
	Xiwang Group	Beneficial owner	RMB35,400,000 (L)	1.77%
SUN Xinhui	Xiwang Holdings	Beneficial owner	89 shares (L)	0.04%
	Xiwang Group	Beneficial owner	RMB17,800,000 (L)	0.89%

Notes:

- (1) The letter "L" represents the Director's long position in the shares of the relevant corporation.
- (2) As at 30 June 2015, Xiwang Group is the ultimate holding company of the Company. Xiwang Group is owned as to 66.14% by Mr. WANG Yong and remaining 33.86% by 23 individuals. Further, these 23 individuals are accustomed to act in accordance with the directions of Mr. WANG Yong in respect of the exercise by such 23 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 22 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 2015, 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.

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 2015, 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 2015
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 22 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.

(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 2015, 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.

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. YU Kou and Mr. LIU Xiangming. Mr. LEUNG Shu Sun Sunny is the chairman of the Audit Committee.

The Group’s unaudited condensed consolidated financial statements and the interim results announcement 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