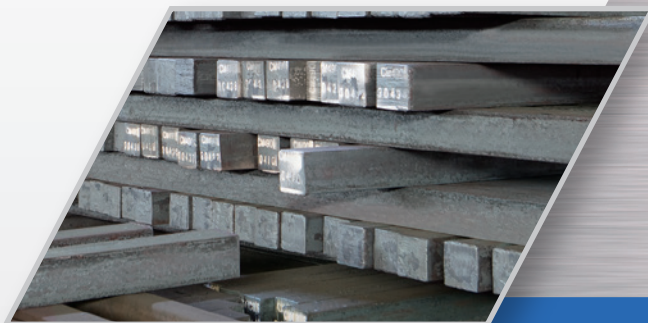


2016

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. ZHANG Jian (*Chief Executive Officer*)
Mr. SUN Xinhui
Ms. Li Hai Xia

Non-Executive Directors

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

Independent Non-Executive Directors

Mr. LEUNG Shu Sun Sunny
Mr. YU Kou
Mr. LI Bangguang (appointed on 31 March 2016)
Mr. LIU Xiangming (resigned on 31 March 2016)

COMMITTEES

Audit Committee

Mr. LEUNG Shu Sun Sunny (*Chairman*)
Mr. YU Kou
Mr. LI Bangguang (appointed on 31 March 2016)
Mr. LIU Xiangming (resigned on 31 March 2016)

Remuneration Committee

Mr. LI Bangguang (*Chairman*)
(appointed on 31 March 2016)
Mr. LIU Xiangming (*Chairman*)
(resigned on 31 March 2016)
Mr. WANG Di
Mr. YU Kou

Nomination Committee

Mr. LI Bangguang (*Chairman*)
(appointed on 31 March 2016)
Mr. LIU Xiangming (*Chairman*)
(resigned on 31 March 2016)
Mr. WANG Di
Mr. YU Kou

COMPANY SECRETARY

Mr. Wong Kai Hing

AUTHORISED REPRESENTATIVES

Mr. WANG Di
Mr. Wong Kai Hing

REGISTERED OFFICE

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

HEADQUARTERS

Xiawang 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

Boardroom Share Registrars (HK) Limited
31/F, 148 Electric Road,
North Point,
Hong Kong

INVESTOR RELATIONS CONTACT

Mr. WANG Chao
Tel: (86) 543 489 1888
Email: wangchao@xiwang.com.cn

WEBSITE

www.xiwangsteel.com

MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS REVIEW

During the six months ended 30 June 2016 (“the **Period**”), the Group’s main source of revenue was the production and sales of steel. Geographically, the Group’s primary production department was in Shandong province, which remained as the main sales region of the Group. Revenue attributable to the region constitutes 64.0% of the total sales of steel during the Period (first half of 2015: 63.0%). In addition, the Group has been actively developing markets in other provinces. During the Period, Jiangsu had a relatively large demand for steel, and was the second largest contributor to the Group’s revenue, which attributed to 9.8% of the total revenue during the Period (first half of 2015: 16.3%).

Production and Sales of Steel

The ordinary steel products manufactured by the Group included rebars and wire rods, mainly used for construction and infrastructure projects, constituting 71.2% of the total sales amount of steel during the Period (first half of 2015: 64.6%). The special steel products of the Group mainly included quality carbon structural steel used for mechanical processing and equipment production, and alloy structural steel used for machineries, bearing steel used for automobile manufacturing and ingots used in transportation, marine engineering and weaponries, constituting 28.8% of the total sales amount of steel during the Period (first half of 2015: 35.4%). The Group aims to increase the proportion of income from sales of higher-margin special steel to 60% within three years.

II. FINANCIAL REVIEW

Business Performance

1. Revenue

Revenue of the Group was RMB3,333,868,000 during the Period (first half of 2015: RMB3,437,653,000), representing a decrease of 3.0% as compared to the corresponding period of last year. The decrease in revenue was mainly attributable to the decline in average selling price of steel. The average selling price of ordinary steel and special steel for the Period was RMB1,892 and RMB2,034 per tonne respectively, representing a decrease of 7.7% and 18.8% as compared to RMB2,050 and RMB2,506 per tonne respectively for the corresponding period of last year. During the Period, the total sales volume of steel was 1,346,006 tonnes, representing a decrease of 2.0% as compared to 1,373,830 tonnes for the corresponding period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue of commodities trading increased to RMB620,150,000 for the Period from RMB282,687,000 for the corresponding period of last year, representing an increase of 1.2 times. However, the increase in the revenue of trading of commodities was offset by the decline in the revenue of steel and resulted in a slight decrease in total revenue of the Group of 3.0% as compared to the corresponding period of last year.

Breakdown of revenue:

	Revenue			
	For the six months ended 30 June			
	2016		2015	
	RMB'000	Percentage	RMB'000	Percentage
Ordinary Steel				
Rebar	1,322,371	39.7%	1,203,857	35.0%
Wire rod	527,298	15.8%	741,050	21.6%
Subtotal	1,849,669	55.5%	1,944,907	56.6%
Special Steel				
Quality carbon structural steel	564,416	16.9%	869,318	25.3%
Alloy structural steel	92,407	2.8%	145,924	4.2%
Bearing steel	27,591	0.8%	19,060	0.6%
Ingot	64,725	1.9%	31,023	0.9%
Subtotal	749,139	22.4%	1,065,325	31.0%
Production and sales of steel	2,598,808	77.9%	3,010,232	87.6%
Trading of commodities[#]	620,150	18.6%	282,687	8.2%
Sales of by-products^{##}	114,910	3.5%	144,734	4.2%
Total	3,333,868	100.0%	3,437,653	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

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

	Average selling price (tax-exclusive) For the six months ended 30 June		
	2016 RMB per tonne	2015 RMB per tonne	Decrease Percentage
Ordinary Steel			
Rebar	1,870	1,991	(6.1%)
Wire rod	1,951	2,153	(9.4%)
Average selling price	1,892	2,050	(7.7%)
Special Steel			
Quality carbon structural steel	1,984	2,469	(19.6%)
Alloy structural steel	1,887	2,582	(26.9%)
Bearing steel	2,158	2,990	(27.8%)
Ingot	2,924	3,067	(4.7%)
Average selling price	2,034	2,506	(18.8%)

Breakdown of sales volume of steel:

	Sales volume For the six months ended 30 June			
	2016		2015	
	Tonnes	Percentage	Tonnes	Percentage
Ordinary Steel				
Rebar	707,327	52.6%	604,596	44.0%
Wire rod	270,291	20.1%	344,168	25.1%
Subtotal	977,618	72.7%	948,764	69.1%
Special Steel				
Quality carbon structural steel	284,509	21.1%	352,056	25.6%
Alloy structural steel	48,961	3.6%	56,522	4.1%
Bearing steel	12,784	1.0%	6,374	0.5%
Ingot	22,134	1.6%	10,114	0.7%
Subtotal	368,388	27.3%	425,066	30.9%
Total	1,346,006	100.0%	1,373,830	100.0%

MANAGEMENT DISCUSSION AND ANALYSIS

2. Cost of sales

During the Period, our cost of sales decreased by 4.7% as compared to the corresponding period of last year to RMB2,860,111,000 (first half of 2015: RMB3,000,386,000). It was mainly attributable to the decrease in average production costs per tonne from RMB1,885 per tonne for the corresponding period of last year to RMB1,585 per tonne for the Period, representing a decrease of RMB300 per tonne and 15.9% of production costs.

Cost structure of steel was unchanged during the Period since the major raw materials used were iron ore dust and coke which represented 53.6% (first half of 2015: 53.1%) of steel production cost. Since there was no significant change in the production procedure of the Group, the composition of the total production cost between raw materials and production overhead remained stable during the Period. The raw materials and production overhead represented 79.1% and 20.9% (first half of 2015: 80.2% and 19.8%) to the total production costs respectively.

Breakdown of cost of sales:

	For the six months ended 30 June			
	2016		2015	
	RMB'000	Percentage	RMB'000 (Restated)	Percentage (Restated)
Raw materials				
Iron ore dust	733,953	25.6%	908,648	30.3%
Coke	411,000	14.4%	466,469	15.5%
Steel scraps	70,992	2.5%	101,861	3.4%
Coal	71,876	2.5%	113,099	3.8%
Steel billets	–	–	55,013	1.8%
Coke powder	32,922	1.1%	35,428	1.2%
Pig iron	24,585	0.9%	–	–
Others	342,979	12.0%	396,608	13.2%
Subtotal of raw materials	1,688,307	59.0%	2,077,126	69.2%
Production overhead				
Depreciation	151,884	5.3%	210,340	7.0%
Electricity	182,692	6.4%	215,392	7.2%
Labour	82,142	2.9%	62,911	2.1%
Others	28,942	1.0%	23,280	0.8%
Subtotal of production overhead	445,660	15.6%	511,923	17.1%
Total cost of production and sales of steel	2,133,967	74.6%	2,589,049	86.3%
Cost of trading of commodities	612,201	21.4%	280,030	9.3%
Cost of sales of by-products	113,943	4.0%	131,307	4.4%
	2,860,111	100.0%	3,000,386	100.0%

MANAGEMENT DISCUSSION AND ANALYSIS

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

	For the six months ended 30 June			
	2016		2015	
	RMB'000	Percentage	RMB'000 (Restated)	Percentage (Restated)
Raw materials				
Iron ore dust	545	34.4%	661	35.1%
Coke	305	19.2%	340	18.0%
Steel scraps	53	3.3%	74	3.9%
Coal	53	3.4%	82	4.4%
Steel billets	–	–	40	2.1%
Coke powder	24	1.5%	26	1.4%
Pig iron	18	1.2%	–	–
Others	255	16.1%	289	15.3%
Subtotal of raw materials	1,253	79.1%	1,512	80.2%
Depreciation	113	7.1%	153	8.1%
Electricity	136	8.6%	157	8.3%
Labour	61	3.8%	46	2.5%
Others	22	1.4%	17	0.9%
Subtotal of production overhead	332	20.9%	373	19.8%
Total production costs	1,585	100.0%	1,885	100.0%

MANAGEMENT DISCUSSION AND ANALYSIS

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

	For the six months ended 30 June		
	2016 RMB per tonne	2015 RMB per tonne	Decrease Percentage
Iron ore dust	355	449	(20.9%)
Coke	712	802	(11.2%)
Steel scraps	1,200	1,211	(0.9%)
Coal	394	484	(18.6%)
Steel billets	–	1,826	(100%)
Coke powder	443	560	(20.9%)
Pig iron	1,566	–	–

3. Gross profit

During the Period, gross profit of the Group was RMB473,757,000 (first half of 2015: RMB437,267,000), representing an increase of RMB36,490,000 or 8.3% as compared to the corresponding period of last year. During the Period, steel has contributed RMB464,841,000 to the Group's overall gross profit, which accounted for 98.1% of the Group's overall gross profit, of which RMB383,554,000 and RMB81,287,000 was from ordinary steel and special steel, respectively, accounted for 80.9% and 17.2% of the Group's overall gross profit, respectively. Overall gross profit margin of the Group was 14.2% (first half of 2015: 12.7%), representing an increase of 1.5 percentage point as compared to the corresponding period of last year. The increase was mainly attributable to the greater decline in the cost of ordinary steel than the decline in the selling price of ordinary steel.

During the first half of 2016, production capacity of several key projects in Shandong Province including metro construction, high-speed railway and express construction is high with substantial investment amount from government. These projects need to meet tighter schedules and even take ahead, which contribute increased demand for construction materials (i.e. ordinary steel) and motivate the market sector of ordinary steel, as well as a better margin profit. Compared to ordinary steel, there is no significant news as to the market sector of special steel and demand remains steady. Therefore, gross profit margin of ordinary steel is better than special steel during the first half of 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Breakdown of the contribution of gross profit by operating segment:

	For the six months ended 30 June			
	2016		2015	
	RMB'000	Percentage	RMB'000 (Restated)	Percentage (Restated)
Ordinary steel				
Rebar	272,485	57.5%	158,584	36.3%
Wire rod	111,069	23.4%	98,514	22.5%
	383,554	80.9%	257,098	58.8%
Special steel				
Quality carbon structural steel	87,104	18.4%	151,528	34.7%
Alloy structural steel	(1,432)	(0.3%)	11,491	2.6%
Bearing steel	(3,537)	(0.7%)	1,066	0.2%
Ingot	(848)	(0.2%)	–	–
	81,287	17.2%	164,085	37.5%
Production and sales of steel	464,841	98.1%	421,183	96.3%
Trading of commodities	7,949	1.7%	2,657	0.6%
Sales of by-products	967	0.2%	13,427	3.1%
Total	473,757	100.0%	437,267	100.0%

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit margins by operating segment:

	For the six months ended 30 June		
	2016 Percentage	2015 Percentage (Restated)	Increase/ (Decrease) in percentage point (Restated)
Ordinary steel			
Rebar	20.6%	13.2%	7.4%
Wire rod	21.1%	13.3%	7.8%
Weighted average gross profit margin	20.7%	13.2%	7.5%
Special steel			
Quality carbon structural steel	15.4%	17.4%	(2.0%)
Alloy structural steel	(1.5%)	7.9%	(9.4%)
Bearing steel	(12.8%)	5.6%	(18.4%)
Ingot	(1.3%)	–	(1.3%)
Weighted average gross profit margin	10.9%	15.4%	(4.5%)
Overall gross profit margin of production and sales of steel	17.9%	14.0%	3.9%
Gross profit margin of trading of commodities	1.3%	0.9%	0.4%
Gross profit margin of sales of by-products	0.8%	9.3%	(8.5%)
Overall gross profit margin	14.2%	12.7%	1.5%

MANAGEMENT DISCUSSION AND ANALYSIS

4. **Selling and distribution expenses**

The Group's selling and distribution expenses for the Period amounted to RMB5,651,000 (first half of 2015: RMB5,109,000), representing an increase of 10.6% as compared to the corresponding period of last year. It was attributable to the increase in transportation costs during the Period.

5. **Administrative expenses**

Administrative expenses for the Period amounted to RMB29,603,000 (first half of 2015: RMB34,049,000), representing a decrease of 13.1% 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 was mainly attributable to the decline in the bank charges of trade financing during the Period as compared to the corresponding period of last year.

6. **Finance costs**

The Group's finance costs for the Period amounted to RMB167,241,000 (first half of 2015: RMB44,980,000), representing an increase of 2.7 times as compared to the corresponding period of last year. The increase was mainly due to the increase in borrowings and lending rate during the Period.

7. **Profit for the Period**

Profit of the Group for the Period amounted to RMB162,085,000 (first half of 2015: RMB211,182,000), representing a decrease of 23.2% as compared to the corresponding period of last year, which was primarily due to the increase in finance costs.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial position

Liquidity and capital resources

As at 30 June 2016, cash and cash equivalents of the Group amounted to RMB75,565,000, representing a decrease of RMB196,199,000 as compared with RMB271,764,000 as at 31 December 2015. The Group mainly used its operating cash inflow to fund its working capital needs, while the capital requirement for addition of production equipment was mainly satisfied by cash inflows from operating and financing activities.

The table below sets forth our short-term and long-term borrowings as at 30 June 2016.

	As at	
	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Bank and other borrowings	1,702,925	1,014,386
Interest-bearing bank loans – secured	296,925	515,386
Interest-bearing other loan – secured	499,000	499,000
Interest-bearing other loans – unsecured	907,000	–
	1,702,925	1,014,386
Carrying amount repayable:		
Within one year	1,493,925	593,550
Between one to two years	209,000	420,836
	1,702,925	1,014,386
Less: Amounts due within one year shown under current liabilities	(1,493,925)	(593,550)
	209,000	420,836

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2016, the gearing ratio, being the ratio of total liabilities divided by total equity was 2.01 (31 December 2015: 1.95). The annual interest rate of the banks and other borrowings for the period ended 30 June 2016 varied from 1.13% to 9% (31 December 2015: 3.03% to 9%). As at 30 June 2016, the bank and other borrowings are denominated in Renminbi, Hong Kong dollar and United States dollar. Bank and other borrowings amounted to RMB795,925,000 were secured by non-current assets, restricted bank deposits and/or guaranteed by Mr. WANG Yong, and/or Mr. WANG Di, the chairman of the board of directors of the Company (the “Board”).

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

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

Pledge of assets

As at 30 June 2016, leasehold land with a carrying amount of RMB85,709,000 (31 December 2015: RMB86,674,000) and pledged deposits of RMB33,656,000 (31 December 2015: RMB36,169,000) were pledged as security for bank borrowings. As at 30 June 2016, time deposits of RMB505,160,000 (31 December 2015: RMB425,998,000) were pledged as security for bills payable.

Capital commitments and contingent liabilities

As at 30 June 2016, the capital commitment of the Group was RMB153,744,088 (31 December 2015: RMB177,031,000), mainly used for renovation project and purchasing equipments. The Group also entered into a technical cooperation agreement with 洛陽軸承研究有限公司 (Luoyang Bearing Research Centre Company Limited*) to enhance its product quality. As at 30 June 2016, commitment in respect of this technical consultation service amounted to RMB1,800,000 (31 December 2015: RMB2,100,000).

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 2016, the Group mainly exposed to risks related to its liabilities denominated in US dollar of RMB230,170,000 (31 December 2015: RMB303,207,000) and its liabilities denominated in HK dollar of RMB32,477,000 (31 December 2015: RMB 31,836,000).

Employees and remuneration

As at 30 June 2016, the Group had a total of 3,502 employees (as at 30 June 2015: 3,615). Staff-related costs incurred during the Period was RMB105,127,000 (first half of 2015: RMB102,041,000). 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

During the second half of 2016, the steel sector will experience even more rigorous situation as a result of security and environmental protection nationally. Failing to meet the requirements relevant to these aspects, several steel companies have given up this market sector step by step and the supply of steel reduced correspondingly leading to a bounce of steel prices rapidly. Meanwhile, as capacity of the steel industry compressed, demand for iron ore dust decreased and prices of main raw materials declined to improve margin profit.

As more infrastructure projects commencing construction with higher speed, the Group is a qualified supplier of certain key infrastructure projects such as Jinan-Qingdao High Speed Railway, Jinan-Qingdao Express and Jinan Metro.

The project under co-operation between the Group and the Institute of Metal Research, Chinese Academy of Sciences has come into operation and contributed to new profit growth. Benefited from enhancement of brand presence, we can also strengthen the value of other products by brand effect.

The Group is based in Shandong province. However, it also explored the markets in surrounding regions in an active manner during the Period. The Group will also be committed to the development of special steel products 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.

OTHER INFORMATION

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the Period (corresponding period in 2015: nil).

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

As at 30 June 2016, 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) (the “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 of Hong Kong Limited (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 (Note 1)	Approximate percentage shareholding in the same class of securities in the relevant corporation as at 30 June 2016
WANG Yong	Company	Interest of controlled corporations (Note 2)	1,500,000,000 ordinary shares (L) (Note 4)	74.75%
	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)	65.57%
			678,340,635 convertible preference shares (L) (Note 3)	99.81%

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 2016
WANG Di	Company	Beneficial owner	4,000,000 shares (L)	0.20%
	Company	Beneficial owner	2,000,000 share option (L)	0.10%
	Xiwang Holdings	Beneficial owner	177 shares (L)	0.09%
	Xiwang Group	Beneficial owner	RMB35,460,000 (L)	1.77%
SUN Xinhui	Company	Beneficial owner	400,000 shares (L)	0.02%
	Company	Beneficial owner	1,000,000 share option (L)	0.05%
	Xiwang Holdings	Beneficial owner	89 shares (L)	0.04%
	Xiwang Group	Beneficial owner	RMB17,730,000 (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 2016, 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 2016, Xiwang Investment, where the entire issued shares are deemed to be interested by Mr. WANG Yong, held 65.57% of ordinary shares of Xiwang Property Holdings Company Limited ("**Xiwang Property**") and 99.81% 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 2016, 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 2016
Xiwang Investment	Beneficial owner	1,500,000,000 ordinary shares (L)	74.75%
Xiwang Holdings	Interest of a controlled corporation (Note 2)	1,500,000,000 ordinary shares (L)	74.75%
Xiwang Hong Kong	Interest of controlled corporations (Notes 2, 3)	1,500,000,000 ordinary shares (L)	74.75%
Xiwang Group	Interest of controlled corporations (Notes 2, 3)	1,500,000,000 ordinary shares (L)	74.75%
ZHANG Shufang	Interest of spouse (Note 4)	1,500,000,000 ordinary shares (L)	74.75%

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 2016, 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 operates a share option scheme for the purpose of providing incentives and rewards to eligible participants for their contribution or would be contribution to the Group so as to encourage them to participate in the long-term development of the Group and to share common interests and objectives with the Group and/or to enable the Group to recruit and retain high calibre employees and attract human resources that are valuable to the Group. The share option scheme became effective on 3 September 2014, 333,334 share options were lapsed during the six months ended 30 June 2016.

(1) Period of the Share Option Scheme

The share option scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme becomes unconditional.

As at 30 June 2016, options to subscribe for 3,000,000 ordinary shares of the Company were outstanding, details of which are set out below:

Class of grantee	Date of grant	Outstanding as at	During the Period			Outstanding as at	Exercise price per Share (HK\$)	Exercise period
		1 January 2016	Granted	Exercised	Lapsed	30 June 2016		
Directors								
WANG Di	19 September 2014	2,000,000	–	–	–	2,000,000	1.064	(Note 2, 3)
SUN Xinhui	19 September 2014	1,000,000	–	–	–	1,000,000	1.064	(Note 2, 3)
An employee (Note 1)	19 September 2014	333,334	–	–	(333,334)	–	1.064	(Note 2, 3)
		3,333,334	–	–	–	3,000,000		

OTHER INFORMATION

Notes:

- (1) Employee include employee of the Group (other than the directors) working under employment contracts with the Group which are regarded as “continuous contracts” for the purpose of the Employment Ordinance (Chapter 57 of the Laws of Hong Kong).
- (2) The closing price of the ordinary shares as stated in the Stock Exchange’s daily quotations sheet on 18 September 2014, being the trading day immediately preceding the date of grant of options, was HK\$1.05 per share.
- (3) These options can only be exercised by the grantees in the following manner:

Period for exercise of the share options	Maximum cumulative number of ordinary shares under the options that can be subscribed for pursuant to the exercise of the options
19 September 2014 to 18 September 2015	3,333,333
19 September 2015 to 18 September 2016	3,333,333
19 September 2016 to 18 September 2017	3,333,334

- (4) The share options represent personal interests held by the relevant Directors as beneficial owners.
- (5) No share options were cancelled under the Share Option Scheme during the Period.

Save as disclosed above, at no time during the Period was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

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

The Company has adopted the code provisions in the Corporate Governance Code and Corporate Governance Report (the “**CG Code**”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (“**Listing Rules**”) as its own code of corporate governance. The Board considers that the Company was in compliance with all applicable code provisions set out in the CG Code throughout the Period except for the deviation from paragraphs A.6.7 and E.1.2 of the CG Code as LI Bangguang and YU Kou, independent non-executive directors, WANG Yong, the non-executive director, and WANG Di, the non-executive director and chairman of the Board, were absent from the annual general meeting of the Company held on 17 June 2016 due to their overseas or other business engagements.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions of the Directors. Having made specific enquiries with all Directors, all Directors confirmed that they have complied with the required standards set out in the Model Code during the Period.

PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the Directors, as at the date of the report, there was sufficient public float of not less than 25% of the Company’s issued shares as required under the Listing Rules.

AUDIT COMMITTEE

The Group’s unaudited interim financial statements and the interim report for the Period have been reviewed by the Audit Committee of the Company, 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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Six months ended 30 June 2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited) (Restated)
	Notes		
REVENUE	3	3,333,868	3,437,653
Cost of sales		(2,860,111)	(3,000,386)
GROSS PROFIT		473,757	437,267
Other income and gain	3	8,399	12,018
Selling and distribution expenses		(5,651)	(5,109)
Administrative expenses		(29,603)	(34,049)
Other expenses		(1,285)	(9,814)
Research and development costs		(92,683)	(123,921)
OPERATING PROFIT		352,934	276,392
Finance costs	5	(167,241)	(44,980)
PROFIT BEFORE TAX	4	185,693	231,412
Income tax expense	6	(23,608)	(20,230)
PROFIT FOR THE PERIOD		162,085	211,182
Profit attributable to owners of the parent		162,085	211,182
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	7	RMB8.08 cents	RMB10.6 cents

The notes on pages 28 to 48 are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
PROFIT FOR THE PERIOD	162,085	211,182
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	(4,693)	25
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	(4,693)	25
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	157,392	211,207
Total comprehensive income attributable to owners of the parent	157,392	211,207

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	9,866,922	9,733,333
Prepaid land lease payments		97,393	98,504
Available-for-sale investment		100,000	100,000
Deferred tax assets		7,307	5,824
Total non-current assets		10,071,622	9,937,661
CURRENT ASSETS			
Inventories	10	614,065	659,367
Trade and bills receivables	11	141,096	61,089
Prepayments, deposits and other receivables	12	179,933	195,327
Derivative financial instrument		963	2,159
Income tax recoverable		3,589	50,388
Pledged deposits		544,151	462,167
Cash and cash equivalents		75,565	271,764
Total current assets		1,559,362	1,702,261
CURRENT LIABILITIES			
Trade and bills payables	13	2,066,959	1,484,540
Receipts in advance, other payables and accruals	14	905,387	3,857,672
Interest-bearing bank and other borrowings	15	1,493,925	593,550
Borrowings from the ultimate holding company	19(c)(ii)	1,530,502	–
Total current liabilities		5,996,773	5,935,762
NET CURRENT LIABILITIES		(4,437,411)	(4,233,501)
TOTAL ASSETS LESS CURRENT LIABILITIES		5,634,211	5,704,160

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	15	209,000	420,836
Borrowing from the ultimate holding company	19(c)(ii)	1,399,900	1,158,916
Deferred tax liability		2,768	18,442
Other long term payable		161,000	161,000
Total non-current liabilities		1,772,668	1,759,194
Net assets		3,861,543	3,944,966
EQUITY			
Equity attributable to owners of the parent			
Share capital		962,949	962,949
Other reserves		2,898,594	2,982,017
Total equity		3,861,543	3,944,966

WANG Di
Director

WANG Yong
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company										Total equity
	Share capital	Contributed surplus	Other reserve	Statutory surplus reserve	Warrant reserve	Share option reserve	Special reserve	Exchange fluctuation reserve	Retained profit	Proposed final dividend	
	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 2016	962,949	78,938	297,069	459,185	-	406	156,355	(8,576)	1,998,640	-	3,944,966
Profit for the Period	-	-	-	-	-	-	-	-	162,085	-	162,085
Other comprehensive income for the Period:											
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(4,693)	-	-	(4,693)
Total comprehensive income for the Period	-	-	-	-	-	-	-	(4,693)	162,085	-	157,392
Profit appropriated to reserve	-	-	-	19,825	-	-	16,366	-	(36,191)	-	-
Utilised special reserve	-	-	-	-	-	-	(883)	-	883	-	-
Modification on the terms of the borrowing from the ultimate holding company	-	-	(240,984)	-	-	-	-	-	-	-	(240,984)
Equity-settled share option expense	-	-	-	-	-	169	-	-	-	-	169
At 30 June 2016 (Unaudited)	962,949	78,938*	56,085*	479,010*	-	575*	171,838*	(13,269)*	2,125,417*	-	3,861,543
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)	-	-
Utilised special reserve	-	-	-	-	-	-	(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

* These reserve accounts comprise the consolidated other reserves of RMB2,898,594,000 (30 June 2015: RMB3,037,206,000) in the condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cash generated from/(used in) operations	1,063,131	(237,007)
Interest received	2,560	3,084
Interest element of finance lease rental payments	–	(2,785)
The People's Republic of China (the "PRC") tax paid	(29,581)	(92,904)
The PRC tax refunded	35,624	–
Net cash flows from/(used in) operating activities	1,071,734	(329,612)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(304,100)	(901,688)
Receipt of government grants	2,000	–
(Increase)/decrease in pledged deposits	(81,984)	150,204
Net cash flows used in investing activities	(384,084)	(751,484)
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank and other loans	1,320,471	283,795
(Decrease)/increase in borrowing from the ultimate holding company	(655,978)	1,846,902
Repayment of an amount due to an independent third party	(740,075)	(259,004)
Capital element of finance lease rental payments	–	(87,302)
Repayment of bank and other loans	(632,574)	(423,460)
Dividends paid	–	(30,000)
Interest paid	(172,653)	(204,596)
Net cash flows (used in)/from financing activities	(880,809)	1,126,335
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(193,159)	45,239
Cash and cash equivalents at beginning of period	271,764	127,067
Effect of foreign exchange rate changes, net	(3,040)	(8,355)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	75,565	163,951

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 2015.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the Group's audited 2015 annual financial statements, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

As at 30 June 2016, the Group had net current liabilities of approximately RMB4,437.4 million (31 December 2015: RMB4,233.5 million). The Directors are of the opinion that the Group will have sufficient working capital to finance its operations and to maintain its operating existence in the foreseeable future and accordingly have prepared the interim condensed consolidated financial statements on a going concern basis notwithstanding the net current liabilities position.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1.3 CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

Changes in accounting estimates

In accordance with the HKAS 16 – Property, Plant and Equipment and HKAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, the Group adjusted the useful lives of buildings and machinery and equipment to ensure that the adjusted useful lives to meet the estimates on the period that the assets bring future economic benefits to the Group. The impact on the change in the useful lives will not result in a restatement. The new useful lives applied from 1 January 2016.

From 1 January 2016, the Group adjusted the useful lives of buildings and machinery and equipment:

	Buildings	Machinery and equipment
Useful life before changes	30	15
Useful life after changes	40	20

The major impact on the financial statements for the period ended 30 June 2016 by the change in accounting estimates are as follows:

	Before change in accounting estimates Period end/ Current period RMB'000	Change in depreciation RMB'000	After change in accounting estimates Period end/ Current period RMB'000
Net book value of fixed assets	9,793,819	73,103	9,866,922
Depreciation of fixed assets	244,153	(73,103)	171,050
Profit before tax	112,590	73,103	185,693
Income tax	7,626	15,982	23,608
Net profit	104,964	57,121	162,085
Retained profits	2,068,296	57,121	2,125,417

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1.4 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 2015, except for the adoption of the new interpretation and amendments as of 1 January 2016, noted below:

Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to IFRS 11	Joint Arrangements: Accounting for Acquisitions of Interests
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs issued in September 2014

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 condensed consolidated interim financial statements.

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

2. OPERATING SEGMENT INFORMATION

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. OPERATING SEGMENT INFORMATION (Continued)

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 2016, 100% (six months ended 30 June 2015: 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 2016, revenue of RMB384,140,000 (six months ended 30 June 2015: nil) from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

The unaudited segment results and other segment items included in profit before tax for the six months ended 30 June 2016 are as follows:

	Notes	Ordinary steel RMB'000	Special steel RMB'000	Trading of commodities RMB'000	By- products RMB'000	Consolidated RMB'000
Segment revenue:						
Sales to external customers		1,849,669	749,139	620,150	114,910	3,333,868
Cost of sale		(1,466,115)	(667,852)	(612,201)	(113,943)	(2,860,111)
Gross profit		383,554	81,287	7,949	967	473,757
Reconciliation:						
Other income and gain	3					8,399
Selling and distribution expenses						(5,651)
Administrative expenses						(29,603)
Other expenses						(1,285)
Research and development costs						(92,683)
Finance costs	5					(167,241)
Profit before tax						185,693

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. OPERATING SEGMENT INFORMATION (Continued)

Information about major customers (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:

	Notes	Ordinary steel RMB'000	Special steel RMB'000	Trading of commodities RMB'000	By- products RMB'000	Consolidated RMB'000
(Restated)						
Segment revenue:						
Sales to external customers		1,944,907	1,065,325	282,687	144,734	3,437,653
Cost of sale		(1,687,809)	(901,240)	(280,030)	(131,307)	(3,000,386)
Gross profit		257,098	164,085	2,657	13,427	437,267
Reconciliation:						
Other income and gain	3					12,018
Selling and distribution expenses						(5,109)
Administrative expenses						(34,049)
Other expenses						(9,814)
Research and development costs						(123,921)
Finance costs	5					(44,980)
Profit before tax						231,412

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	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue		
Sale of ordinary steel	1,849,669	1,944,907
Sale of special steel	749,139	1,065,325
Trading of commodities	620,150	282,687
Sale of by-products	114,910	144,734
	3,333,868	3,437,653
Other income and gain		
Bank interest income	3,088	6,492
Interest income from a fellow subsidiary	124	–
Foreign exchange differences, net	1,052	–
Fair value gain on derivative financial instrument	–	710
Others	4,135	4,816
	8,399	12,018

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	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited) (Restated)
Cost of inventories sold	2,860,111	3,000,386
Depreciation	171,050	238,833
Amortisation of prepaid land lease payments	1,111	1,111
Research and development costs	92,683	123,921
Employee benefit expense (including directors' remuneration):		
Wages and salaries	94,322	94,902
Pension scheme contributions [#]	5,673	4,682
Equity-settled share option expenses	169	434
Staff welfare expenses	4,963	2,023
	105,127	102,041
Foreign exchange differences, net ^{##}	–	8,394
Fair value loss on derivative financial instrument ^{###}	1,228	–

[#] 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 are included in "Other income and gain" and "Other expenses" in the interim condensed consolidated statement of profit or loss for the six months ended 30 June 2016 and for the six months ended 30 June 2015.

^{###} The fair value loss on derivative financial instrument is included in "Other expenses" in the interim condensed consolidated statement of profit or loss for the six months ended 30 June 2016. The fair value gain on derivative financial instrument is included in "Other income and gain" in the interim condensed consolidated statement of profit or loss for the six months ended 30 June 2015.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on bank borrowings	32,223	21,475
Interest on a finance lease	–	2,785
Finance cost on bills discounted*	12,013	–
Interest on an amount due to the ultimate holding company**	102,948	24,075
Interest on borrowings from an independent third party	17,995	16,650
Interest on borrowings from a fellow subsidiary	26,114	–
Total interest expense on financial liabilities not at fair value through profit or loss	191,293	64,985
Less: Interest capitalised	(24,052)	(20,005)
	167,241	44,980

* Included interest of RMB9,436,000 (six months ended 30 June 2015: Nil) on the bills discounted to a fellow subsidiary.

** Included notional interest of nil (six months ended 30 June 2015: RMB24,075,000) on borrowings from the ultimate holding company.

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	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current – the PRC		
Charge for the Period	24,065	20,037
Deferred	(457)	193
Total tax charge for the Period	23,608	20,230

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 2016 based on the profit attributable to ordinary equity holders of the parent for the Period, and the weighted average number of 2,006,666,666 (six months ended 30 June 2015: 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 2016 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.

No adjustment has been made to the basic earnings per share amounts presented for the six months ended 30 June 2016 in respect of a dilution as the impact of share options would not have dilutive effect on basic earnings per share amounts presented.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The calculation of the basic and diluted earnings per share for the six months ended 30 June 2016 is based on:

	Six months ended 30 June 2016 RMB'000 (Unaudited)	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	162,085	211,182
	Number of shares 30 June 2016 (Unaudited)	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	2,006,666,666	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	2,006,666,666	2,001,196,911

8. DIVIDENDS

No interim dividend was proposed for the Period (six months ended 30 June 2015: nil).

9. PROPERTY, PLANT AND EQUIPMENT

The Group's capital expenditure for the Period was approximately RMB409 million (six months ended 30 June 2015: RMB760 million) which was mainly incurred for development of high-end tool and die steel and marine steel, technological renovation of electric arc furnaces, 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10. INVENTORIES

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Raw materials	174,905	222,998
Work in progress	111,030	62,297
Finished goods	179,324	228,017
Trading commodities	148,806	146,055
	614,065	659,367

11. TRADE AND BILLS RECEIVABLES

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Trade receivables	113,676	60,137
Bills receivables	27,420	952
	141,096	61,089

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 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Within 3 months	110,149	31,017
3 to 6 months	12,434	20,375
6 months to 1 year	16,911	9,697
Over 1 year	1,602	–
	141,096	61,089

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. TRADE AND BILLS RECEIVABLES (Continued)

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.

Included in the Group's trade receivables are amount due from a fellow subsidiary of RMB3,233,000 (31 December 2015: Nil), which is repayable on credit terms similar to those offered to the major customers of the Group.

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Prepayments	124,224	107,827
Bank interest receivables	3,358	2,706
VAT recoverable	3,003	42,720
Deposits and other receivables	47,127	39,853
Current portion of prepaid land lease payments	2,221	2,221
	179,933	195,327

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 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Bills payable	1,490,984	848,752
Trade payables	575,975	635,788
	2,066,959	1,484,540

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 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Within 1 month	310,278	263,475
1 to 3 months	820,198	805,743
3 to 6 months	774,622	223,766
6 to 12 months	84,641	109,780
Over 12 months	77,220	81,776
	2,066,959	1,484,540

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

Bills payables of RMB995,984,000 (31 December 2015: RMB848,752,000) 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 RMB505,160,000 (31 December 2015: RMB425,998,000). Bills payables of RMB495,000,000 (31 December 2015: Nil) are bills discounted to a fellow subsidiary with maturity period within six months (note 19(c)(v)).

Included in trade and bills payables are trade payables of RMB37,309,000 (31 December 2015: RMB23,054,000) due to fellow subsidiaries which are non-interest-bearing and repayable on demand.

14. RECEIPTS IN ADVANCE, OTHER PAYABLES AND ACCRUALS

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Advances from customers	186,766	146,157
Salaries and welfare payables	30,196	37,193
Other tax payables	13,755	14,739
Construction and equipment payables	566,405	588,236
Due to the ultimate holding company	15,958	2,186,480
Deferred revenue	3,000	1,000
Other payables	89,307	883,867
	905,387	3,857,672

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Included in the Group's other payable as at 30 June 2016 is an amount of RMB91,388,000 (31 December 2015: RMB837,138,000) due to an independent third party which is unsecured, bears interest at 7.0% per annum and is repayable on 30 September 2016.

Included in receipts in advance, other payables of RMB37,352,000 (31 December 2015: RMB26,517,000) due to fellow subsidiaries which are non-interest bearing and repayable on demand.

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

15. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2016 Unaudited			31 December 2015 Audited		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Interest-bearing bank loans – secured	LIBOR+ 0.7-5.52	2016/2017	296,925	4.36-6.44	2016	483,550
Current portion of long term interest-bearing other loan – secured	9	2017	290,000	9	2016	110,000
Interest-bearing other loan – unsecured	6.6	2016/2017	907,000	–	–	–
			1,493,925			593,550
Non-current						
Long term interest-bearing bank loans – secured	–	–	–	HIBOR +2.8%	2017	31,836
Long term interest-bearing other loan – secured	9	2017	209,000	9	2017	389,000
			209,000			420,836
			1,702,925			1,014,386

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Analysed into:		
Bank and other loans repayable:		
Within one year	1,493,925	593,550
In the second year	209,000	420,836
	1,702,925	1,014,386

Notes:

- (i) Certain of the Group's bank loans are secured by certain of the Group's leasehold land with a carrying amount of RMB85,709,000 as at 30 June 2016 (31 December 2015: RMB86,674,000) and pledged time deposits of RMB33,656,000 (31 December 2015: RMB36,169,000).

In addition, Xiwang Group guaranteed of the Group's bank loans and other loan of RMB563,098,000 as at 30 June 2016 (31 December 2015: RMB628,207,000) (note 19(b)(iii)). Mr. Wang Yong and Ms. Zhang Shufang guaranteed of the Group's bank loans and other loan of RMB526,000,000 jointly and severally as at 30 June 2016 (31 December 2015: RMB526,000,000) (note 19(b)(iii)). Mr. Wang Yong and Mr. Wang Di guaranteed certain of the Group's bank loan of nil jointly and severally as at 30 June 2016 (31 December 2015: RMB75,000,000) (note 19(b)(ii)). Mr. Wang Yong, Mr. Wang Di and Xiwang Group guaranteed certain of the Group's bank loan of nil jointly and severally as at 30 June 2016 (31 December 2015: RMB42,768,000) (note 19(b)(iii)). Mr. Wang Yong guaranteed of the Group's bank loans of RMB100,000,000 as at 30 June 2016 (31 December 2015: RMB100,000,000) (note 19(b)(ii)). An independent third party guaranteed of the Group's bank loans of RMB100,000,000 as at 30 June 2016 (31 December 2015: RMB175,000,000). 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 2016 (31 December 2015: RMB27,000,000) (note 19(b)(iii)).

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

16. 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

17. 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 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Within one year	982	7,550
In the second to fifth years, inclusive	3,927	16,754
After five years	10,973	11,464
	15,882	35,768

18. COMMITMENTS

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

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Contracted, but not provided for: Property, plant and equipment	153,744	177,031

The Group entered into a technical cooperation agreement with Luoyang Bearing Research Centre Company Limited (洛陽軸承研究有限公司) 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 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Contracted, but not provided for: Consulting services	1,800	2,100

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19. 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	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Rental expenses to Xiwang Group	(i)	91	184
Rental expenses to Xiwang Logistics	(i)		
– Lease of land		396	396
– Lease of vehicles		1,602	3,210
Delivery expenses to Xiwang Logistics	(i)	30,737	–
Interest expenses to Xiwang Group	(ii)	102,948	24,075
Interest expenses to Xiwang Finance Company (“Xiwang Finance”) (fellow subsidiary)	(iii)	26,114	–
Interest income from Xiwang Finance	(iv)	124	–
Finance cost on bills discounted to Xiwang Finance	(v)	9,436	–
Sale of steam to Shandong Xiwang Sugar Industry Company Limited (“Shandong Xiwang Sugar”) (fellow subsidiary)	(vi)	13,775	15,180

- (i) The rental expenses to Xiwang Group and Xiwang Logistics and the delivery expenses to Xiwang Logistics were recognised at a price based on mutual agreement between both parties.
- (ii) The interest expenses to Xiwang Group for the six months ended 30 June 2016 amounted to RMB102,948,000 were charged at interest rate of 6.6% per annum and the interest expenses to Xiwang Group for the six months ended 30 June 2015 amount to RMB24,075,000 represent notional interest (note 19(c)(ii)).
- (iii) The interest expenses to Xiwang Finance for the six months ended 30 June 2016 amounted to RMB26,114,000 (six months ended 30 June 2015: Nil) were charged at interest rate of 6.6% per annum (note 19(c)(iii)).



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(a) (Continued)

- (iv) The interest rate on deposit placed in Xiwang Finance was determined with reference to the benchmark interest rate as announced by People's Bank of China (note 19(c)(iv)).
- (v) The interest rate on bills discounted to Xiwang Finance was determined by reference to the relevant rates to be charged by other independent commercial banks in the PRC for comparable financing services during the same period (note 19(c)(v)).
- (vi) The selling price of steam to Shandong Xiwang Sugar was recognised at a price based on mutual agreement between both parties.

(b) Other related party transactions:

- (i) Xiwang Group guaranteed certain of the Group's bills payable of RMB138,059,000 as at 30 June 2016 (31 December 2015: RMB448,752,000). Mr. Wang Yong and Ms. Zhang Shufang guaranteed the Group's bills payable of RMB132,860,000 jointly and severally as at 30 June 2016 (31 December 2015: RMB155,000,000). Mr. Wang Yong guaranteed certain of the Group's bills payable of RMB300,000,000 as at 30 June 2016 (31 December 2015: RMB200,000,000). Mr. Wang Yong, Mr. Wang Di and Xiwang Group guaranteed certain of the Group's bills payable of RMB425,065,000 jointly and severally as at 30 June 2016 (31 December 2015: RMB311,284,000). Certain leasehold land of Xiwang Logistics were pledged to secure the Group's bills payable of RMB132,860,000 as at 30 June 2016 (31 December 2015: RMB155,000,000). The guarantees provided by the related parties will expire from 28 July 2016 to 15 December 2017.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(b) (Continued)

- (ii) As detailed in note 15(i), Xiwang Group guaranteed certain of the Group's bank loans and other loan of RMB563,098,000 as at 30 June 2016 (31 December 2015: RMB628,207,000). Mr. Wang Yong and Ms. Zhang Shufang guaranteed certain of the Group's bank loans and other loan of RMB526,000,000 jointly and severally as at 30 June 2016 (31 December 2015: RMB526,000,000). Mr. Wang Yong and Mr. Wang Di guaranteed certain of the Group's bank loans of nil jointly and severally as at 30 June 2016 (31 December 2015: RMB75,000,000). Mr. Wang Yong, Mr. Wang Di and Xiwang Group guaranteed certain of the Group's bank loans of nil jointly and severally as at 30 June 2016 (31 December 2015: RMB42,768,000). Mr. Wang Yong guaranteed certain of the Group's bank loans of RMB100,000,000 as at 30 June 2016 (31 December 2015: RMB100,000,000). Certain leasehold lands of Xiwang Logistics were pledged to secure the Group's bank loans of RMB27,000,000 as at 30 June 2016 (31 December 2015: RMB27,000,000). The guarantees provided by the related parties will expire from 23 August 2016 to 15 December 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 31 December 2015, the amortised cost of the amount due to Xiwang Group is RMB1,158,916,000. On 1 January 2016, the Group and Xiwang Group entered into a supplemental loan agreement, the principle amount of RMB670,000,000 and RMB729,000,000 would bear interest at 6.6% per annum since 1 January 2016. Upon the modification on the terms of the borrowing, RMB240,984,000 of the contribution from the ultimate holding company previously accounted for is debited to "other reserve" in the consolidation statement of financial position accordingly.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(c) Outstanding balances with related parties:

- (i) The amounts due to the immediate holding company and amounts due from/to fellow subsidiaries as at 30 June 2016 were unsecured, interest-free and payable on demand.

Included in the amounts due to fellow subsidiaries were an amount of RMB50,437,000 (31 December 2015: RMB33,958,000) due to Xiwang Logistics arising from rental and delivery expenses related to the lease arrangements with Xiwang Logistics (note 19(a)(i)) and an amount of RMB21,091,000 (31 December 2015: RMB11,354,000) due to Zouping Xiwang Power Co., Ltd. ("**Xiwang Power**") (鄒平縣西王動力有限公司) arising from the payments made by Xiwang Power on behalf of the Group. The remaining amounts due to fellow subsidiaries 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 31 December 2015, the amortised cost of the amount due to Xiwang Group was RMB1,158,916,000. On 1 January 2016, the Group and Xiwang Group entered into a supplemental loan agreement, the principle amount of RMB670,000,000 and RMB729,000,000 would bear interest at 6.6% per annum since 1 January 2016.

On 1 February 2015, the Group and Xiwang Group entered into a loan agreement. Pursuant to the loan agreement, the Group borrowed a principal amount of RMB2,200,000,000 from Xiwang Group. The loan is unsecured interest-free and repayable on demand. As at 31 December 2015, included in the Group's other payables is an amount of RMB2,186,480,000 of the actual loan amount drawn down by the Group under the loan agreement. On 1 January 2016, the Group and Xiwang Group entered into a supplemental loan agreement, the principal amount of RMB2,200,000,000 would bear interest at 6.6% per annum since 1 January 2016. As at 30 June 2016, the amount of RMB1,530,502,000 of the actual loan amount drawn down by the Group under the loan agreement bears interest at 6.6% per annum.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(c) (Continued)

- (iii) On 6 January 2016, 23 March 2016 and 22 June 2016, the Group and Xiwang Finance entered into three loan agreements. Pursuant to the loan agreements, the principal amounts of RMB600,000,000, RMB385,000,000 and RMB72,000,000, which bear interest at 6.6% per annum, are repayable on 5 January 2017, 22 March 2017 and 21 September 2017, respectively. As at 30 June 2016, the actual loan amounts drawn down by the Group under the loan agreements are RMB550,000,000, RMB285,000,000 and RMB72,000,000, respectively.
- (iv) Pursuant to a financial services agreement (the “**Financial Services Agreement**”) entered into between the Company and Xiwang Finance on 29 December 2015, the Group may, in its ordinary and usual course of business, place and maintain deposits with Xiwang Finance on normal commercial terms from time to time. The term of the Financial Services Agreement shall commence on the date of the Financial Services Agreement and continue up to 31 December 2018. The maximum daily deposit balance with Xiwang Finance will not exceed RMB1,200,000,000, RMB1,500,000,000 and RMB1,800,000,000 for the years ending 31 December 2016, 2017 and 2018, respectively. The deposit services provided by Xiwang Finance were approved by the independent shareholders in the extraordinary general meeting of the Company (the “**EGM**”) held on 8 March 2016. As at 30 June 2016, included in the Group’s cash and cash equivalents are deposit placed in Xiwang Finance of RMB22,583,000 (31 December 2015: Nil).
- (v) Pursuant to the Financial Services Agreement, the Group may, in its ordinary and usual course of business, discount its bills via Xiwang Finance on normal commercial terms from time to time. The aggregate amount of bill discounting provided by Xiwang Finance will not exceed RMB500,000,000, RMB800,000,000 and RMB1,000,000,000 for the years ending 31 December 2016, 2017 and 2018, respectively. The bill discounting services provided by Xiwang Finance were approved by the independent shareholders in the EGM held on 8 March 2016. As at 30 June 2016, included in the Group’s trade and bills payables are bills payables of RMB495,000,000 (31 December 2015: Nil) due to Xiwang Finance.



XIWANG SPECIAL STEEL COMPANY LIMITED
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