



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



2017
INTERIM REPORT
中期報告

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. ZHANG Jian (*Chief Executive Officer*)

Mr. SUN Xinhua

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

COMMITTEES

Audit Committee

Mr. LEUNG Shu Sun Sunny (*Chairman*)

Mr. YU Kou

Mr. LI Bangguang

Remuneration Committee

Mr. LI Bangguang (*Chairman*)

Mr. WANG Di

Mr. YU Kou

Nomination Committee

Mr. LI Bangguang (*Chairman*)

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

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



CORPORATE INFORMATION

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

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WEBSITE

www.xiwangsteel.com

MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS REVIEW

During the six months ended 30 June 2017 (“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 63.6% of the total sales of steel during the Period (first half of 2016: 64.0%). In addition, the Group has been actively developing markets in other provinces. During the Period, Zhejiang Province had a relatively large demand for steel, and was the second largest contributor to the Group’s revenue, which attributed to 7.8% of the total revenue during the Period (first half of 2016: 8.6%).

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 73.0% of the total sales amount of steel during the Period (first half of 2016: 71.2%). 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 27.0% of the total sales amount of steel during the Period (first half of 2016: 28.8%).

II. FINANCIAL REVIEW

Business Performance

1. Revenue

The Group achieved revenue of RMB5,592,000,000 during the Period (first half of 2016: RMB3,333,868,000), representing a substantial increase of 67.7% as compared to the corresponding period of last year. The increase in revenue was mainly attributable to the increase in sales volume and the increase in average selling price of steel. During the Period, the sales volume of steel was 1,478,401 tonnes, representing an increase of 9.8% as compared to 1,346,006 tonnes for the corresponding period of last year. The average selling price of ordinary steel and special steel for the Period was RMB2,980 and RMB3,108 respectively, representing an increase of 57.5% and 52.8% as compared to RMB1,892 and RMB2,034 per tonne respectively for the corresponding period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

The breakdown of revenue and average selling price by product (tax-exclusive) during the period were as follows:

	For the six months ended 30 June			
	2017		2016	
	Revenue RMB million	Average selling price (RMB/ tonne)	Revenue RMB million	Average selling price (RMB/ tonne)
Ordinary Steel				
Rebar	2,244	2,976	1,323	1,870
Wire rod	1,009	2,988	527	1,951
Subtotal/Average	3,253	2,980	1,850	1,892
Special Steel				
Quality carbon structural steel	734	2,987	564	1,984
Alloy structural steel	330	3,199	92	1,887
Bearing steel	23	3,318	28	2,158
Ingot	85	3,693	65	2,924
Forgings materials	30	3,779	–	–
Subtotal/Average	1,202	3,108	749	2,034
Production and sales of steel	4,455		2,598	
Trading of commodities[#]	976		620	
Sales of by-products^{##}	161		115	
Total	5,592		3,334	

[#] 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 sales volume of steel:

	Sales volume			
	For the six months ended 30 June			
	2017		2016	
	Tonnes	Percentage	Tonnes	Percentage
Ordinary Steel				
Rebar	753,831	51.0%	707,327	52.6%
Wire rod	337,829	22.8%	270,291	20.1%
Subtotal	1,091,660	73.8%	977,618	72.7%
Special Steel				
Quality carbon structural steel	245,682	16.6%	284,509	21.1%
Alloy structural steel	103,134	7.0%	48,961	3.6%
Bearing steel	6,977	0.5%	12,784	1.0%
Ingot	23,085	1.6%	22,134	1.6%
Forgings materials	7,863	0.5%	–	–
Subtotal	386,741	26.2%	368,388	27.3%
Total	1,478,401	100.0%	1,346,006	100.0%

MANAGEMENT DISCUSSION AND ANALYSIS

2. Cost of sales

During the Period, our cost of sales increased by 69.3% as compared to the corresponding period of last year to RMB4,841,741,000 (first half of 2016: RMB2,860,111,000). It was mainly attributable to the increase in sales volume and the increase in average production costs of steel per tonne. The average production costs of steel per tonne increased from RMB1,585 for the first half of 2016 to RMB2,513 per tonne for the Period, representing an increase of RMB928 or 58.5% per tonne.

Breakdown of cost of sales:

	For the six months ended 30 June			
	2017		2016	
	RMB'000	Percentage	RMB'000	Percentage
Raw materials				
Iron ore dust	1,224,128	25.3%	733,953	25.6%
Coke	881,248	18.2%	411,000	14.4%
Steel scraps	284,313	5.9%	70,992	2.5%
Coal	222,883	4.6%	71,876	2.5%
Coke powder	43,408	0.9%	32,922	1.1%
Pig iron	45,842	0.9%	24,585	0.9%
Others	470,155	9.7%	342,979	12.0%
Subtotal of raw materials	3,171,977	65.5%	1,688,307	59.0%
Production overhead				
Depreciation	148,272	3.1%	151,884	5.3%
Electricity	243,445	5.0%	182,692	6.4%
Labour	92,048	1.9%	82,142	2.9%
Others	58,940	1.2%	28,942	1.0%
Subtotal of production overhead	542,705	11.2%	445,660	15.6%
Total cost of production and sales of steel	3,714,682	76.7%	2,133,967	74.6%
Cost of trading of commodities	969,620		612,201	
Cost of sales of by-products	157,439		113,943	
	4,841,741		2,860,111	

MANAGEMENT DISCUSSION AND ANALYSIS

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

	For the six months ended 30 June			
	2017		2016	
	RMB'000	Percentage	RMB'000 (Restated)	Percentage (Restated)
Raw materials				
Iron ore dust	828	33.0%	545	34.4%
Coke	596	23.7%	305	19.2%
Steel scraps	192	7.6%	53	3.3%
Coal	151	6.0%	53	3.4%
Coke powder	30	1.2%	24	1.5%
Pig iron	31	1.2%	18	1.2%
Others	318	12.7%	255	16.1%
Subtotal of raw materials	2,146	85.4%	1,253	79.1%
Depreciation	100	4.0%	113	7.1%
Electricity	165	6.5%	136	8.6%
Labour	62	2.5%	61	3.8%
Others	40	1.6%	22	1.4%
Subtotal of production overhead	367	14.6%	332	20.9%
Total production costs	2,513	100.0%	1,585	100.0%

3. Gross profit

Gross profit per tonne of the Group's steel products increased to RMB501 for the six months ended 30 June 2017 from RMB345 for the corresponding period in 2016, reflecting an increase of 45.2%. Overall gross profit margin of the Group was 13.4% (first half of 2016: 14.2%), representing a decrease of 0.8 percentage point as compared to the corresponding period of last year. The decrease was mainly attributable to the greater increase in the cost of ordinary steel than the increase in the selling price of ordinary steel.

MANAGEMENT DISCUSSION AND ANALYSIS

Breakdown of the contribution of gross profit and gross profit margins by operating segment:

	For the six months ended 30 June			
	2017		2016	
	RMB'000	Gross profit margin	RMB'000	Gross profit margin
Ordinary steel				
Rebar	451,526	20.1%	272,485	20.6%
Wire rod	161,405	16.0%	111,069	21.1%
Subtotal/weighted average	612,931	18.8%	383,554	20.7%
Special steel				
Quality carbon structural steel	87,257	11.9%	87,104	15.4%
Alloy structural steel	33,641	10.2%	(1,432)	(1.5%)
Bearing steel	3,017	13.0%	(3,537)	(12.8%)
Ingot	3,398	4.0%	(848)	(1.3%)
Subtotal/weighted average	127,313	10.6%	81,287	10.9%
Production and sales of steel	740,244	16.6%	464,841	17.9%
Trading of commodities	6,292	0.6%	7,949	1.3%
Sales of by-products	3,723	2.3%	967	0.8%
Total/Overall	750,259	13.4%	473,757	14.2%

MANAGEMENT DISCUSSION AND ANALYSIS

4. Selling and distribution expenses

The Group's selling and distribution expenses for the Period amounted to RMB43,375,000 (first half of 2016: RMB5,651,000), representing an increase of RMB37,724,000 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 RMB20,258,000 (first half of 2016: RMB29,603,000), representing a decrease of 31.6% 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.

6. Finance costs

The Group's finance costs for the Period amounted to RMB152,417,000 (first half of 2016: RMB167,241,000), representing a decrease of 8.9% as compared to the corresponding period of last year. The decrease was mainly due to the amounts due to an independent third party and an asset management company, which bore 7.0% and 9.0% per annum respectively, were repaid on 23 September 2016 and 5 January 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial position

Liquidity and capital resources

As at 30 June 2017, cash and cash equivalents of the Group amounted to RMB151,101,000, representing an increase of RMB48,642,000 as compared with RMB102,459,000 as at 31 December 2016. 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 2017.

	As at	
	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Bank and other borrowings	3,895,095	2,380,157
Finance lease payables to Xiwang Leasing	411,000	–
Interest-bearing bank loans – secured	–	419,894
Interest-bearing bank loans – unsecured	361,585	–
Interest-bearing other loans – secured	719,800	422,991
Borrowing from Xiwang Finance	2,402,710	1,537,272
	3,895,095	2,380,157
Carrying amount repayable:		
Within one year	2,930,695	2,380,157
Between one to two years	789,400	–
Between two to five years	175,000	–
	3,895,095	2,380,157
Less: Amounts due within one year shown under current liabilities	(2,930,695)	(2,380,157)
	964,400	–

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2017, the gearing ratio, being the ratio of total liabilities divided by total equity was 1.81 (31 December 2016: 1.97). The annual interest rate of the banks and other borrowings for the period ended 30 June 2017 varied from 2.36% to 6.2% (31 December 2016: 1.13% to 9%). As at 30 June 2017, the bank and other borrowings are denominated in Renminbi and United States dollar. Other borrowings amounted to RMB719,800,000 were secured by non-current assets of the fellow subsidiary of the Group.

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 2017, no leasehold land (31 December 2016: RMB55,397,000) and no pledged deposits (31 December 2016: RMB30,250,000) were pledged as security for bank borrowings. As at 30 June 2017, time deposits of RMB542,997,000 (31 December 2016: RMB304,338,000) were pledged as security for bills payable.

Capital commitments and contingent liabilities

As at 30 June 2017, the capital commitment of the Group was RMB539,500,000 (31 December 2016: RMB360,516,000), mainly used for renovation project and purchasing equipments. The Group also entered into a technical cooperation agreement with Luoyang Bearing Research Centre Company Limited (洛陽軸承研究所有限公司) to enhance its product quality. As at 30 June 2017, commitment in respect of this technical consultation service amounted to RMB1,500,000 (31 December 2016: RMB1,500,000).

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 2017, the Group mainly exposed to risks related to its liabilities denominated in US dollar of RMB121,817,000 (31 December 2016: RMB429,438,000).

MANAGEMENT DISCUSSION AND ANALYSIS

Employees and remuneration

As at 30 June 2017, the Group had a total of 3,907 employees (as at 30 June 2016: 3,502). Staff-related costs incurred during the Period was RMB123,278,000 (first half of 2016: RMB105,127,000). The remuneration was determined based on the performance and professional experience of employees as well as the prevailing market conditions. The management will regularly review the remuneration policy and arrangement of the Group. In addition to pensions, the Group will also distribute discretionary bonus to certain employees as incentives according to their performance.

III. BUSINESS OUTLOOK

The continuous efforts of China in reducing production capacity of the supply-side of the steel industry, curbing substandard steel, tightening environmental protection regulations and gradually eliminating outdated production capacity have resulted in a more favorable market development prospect for the Group and other law-abiding companies. In response to the “Opinions on Resolving Excessive Capacity of Iron and Steel Industry for Development and Relief from Loss” promulgated by the State Council in early 2016, which stipulated the goal of further reduction of crude steel capacity by 100-150 million tonnes in five years, PRC steel enterprises reduced the production capacity of crude steel by over 65 million tonnes in aggregate in 2016, which exceeded the annual target of lowering 45 million tonnes of crude steel capacity. Moreover, the country has reduced the production capacity of crude steel by 42.39 million tonnes as of the end of May 2017, accounting for 84.8% of the annual target. In June 2017, the National Development and Reform Commission of the PRC also announced that all production of “substandard steel” identified in previous investigations has been terminated, thereby improving the overall product quality and order of the market. Additionally, the demand from infrastructure in countries along the “Belt and Road Initiative” and Xiongan New Area, as well as the steady growth of real estate investment, has led to robust demand for ordinary steel. Given the favorable supply and demand factors, it is expected that the prices of steel products, particularly ordinary steel, will stay at a high level in the foreseeable future. In view of such, the Group will carry on seizing market opportunities and timely give full play to its flexible and convertible ordinary steel and special steel production equipment. Adopting the market-oriented approach, it will focus on the manufacture of ordinary steel with a high demand so as to maximize profit.

MANAGEMENT DISCUSSION AND ANALYSIS

In long-term, the Group will strive to achieve the strategic development goal by developing high-tech special steel products for a more stable market, with the aim of strengthening its competitiveness and profitability. To optimize the existing product mix and significantly increase the proportion of special steel business, it will spare no efforts to push forward the rail steel projects and introduce rail steel products with a high level of strength, tenacity and durability to the market. The production line, which has a rail steel capacity of 700,000 tonnes, a railway billet capacity of 150,000 tonnes and a figured steel capacity of 150,000 tonnes per annum, will be developed in two phases that are expected to be completed in 2018 and 2020 respectively. Upon the completion of phase I, the designed annual capacity of the new production line is estimated to reach 300,000 tonnes of rail steel and 150,000 tonnes of railway billet per annum. As the construction of the production line is progressing well, the Group is confident that it will deliver new production capacity on schedule.

Apart from the rail steel project, the Group will continue to cooperate with Institute of Metal Research of Chinese Academy of Sciences to enhance its production technology as well as research and development capability. Riding on the successful development of over 90 new products, it will target the demands of the country and advance the industrialization of quality special steel products for the use in military, nuclear power and high-speed rail, so as to further expand the existing product portfolio.

Internal control and production efficiency are the focus of the Group as well. The Group will consider introducing a series of ancillary equipment for production, for the purposes of actively strengthening production process while enhancing operational flexibility and production efficiency. Through reducing daily operating expenses, it will lay a solid foundation for higher profitability.

OTHER INFORMATION

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the Period (corresponding period in 2016: nil).

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

As at 30 June 2017, 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 2017
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)	RMB1,383,000,000 (L)	69.15%
	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%	

OTHER INFORMATION

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 2017
WANG Di	Company	Beneficial owner	4,000,000 shares (L)	0.20%
	Company	Beneficial owner	7,000,000 share options (L)	0.35%
	Xiwang Holdings	Beneficial owner	177 shares (L)	0.09%
	Xiwang Group	Beneficial owner	RMB35,460,000 (L)	1.77%
	Xiwang Property	Beneficial owner	3,000,000 shares (L)	0.24%
SUN Xinhua	Company	Beneficial owner	400,000 shares (L)	0.02%
	Company	Beneficial owner	2,500,000 share options (L)	0.12%
	Xiwang Holdings	Beneficial owner	89 shares (L)	0.04%
	Xiwang Group	Beneficial owner	RMB35,460,000 (L)	1.77%
	Xiwang Property	Beneficial owner	3,000,000 shares (L)	0.24%

Notes:

- (1) The letter "L" represents the Director's long position in the shares of the relevant corporation.
- (2) As at 30 June 2017, Xiwang Group is the ultimate holding company of the Company. Xiwang Group is owned as to 69.15% by Mr. WANG Yong and remaining 30.85% by 20 individuals. Further, these 20 individuals are accustomed to act in accordance with the directions of Mr. WANG Yong in respect of the exercise by such 20 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 2017, 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.

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 2017, 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 2017
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.

OTHER INFORMATION

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

Save as disclosed in the paragraph headed “Directors’ interests in shares, underlying shares and debentures of the Company and its associated corporations” and paragraph (a) above, as at 30 June 2017, 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, no share options were lapsed during the six months ended 30 June 2017.

(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 2017, options to subscribe for 15,500,000 ordinary shares of the Company were outstanding, details of which are set out below:

Grantee	Date of grant	At	Number of Share Options			At	Exercise price per Share (HK\$)	Exercise period
		1 January 2017	Granted	Exercised	Lapsed	30 June 2017		
Directors								
WANG Di	19 September 2014	2,000,000	-	-	-	2,000,000	1.064	19/9/2016 – 18/9/2017
	25 August 2016 (Note 2)	5,000,000	-	-	-	5,000,000	0.73	25/8/2016 – 24/8/2021
SUN Xinhui	19 September 2014	1,000,000	-	-	-	1,000,000	1.064	19/9/2016 – 18/9/2017
	25 August 2016 (Note 2)	1,500,000	-	-	-	1,500,000	0.73	25/8/2016 – 24/8/2021
Employees (Note 1)	22 July 2016 (Note 2)	1,500,000	-	-	-	1,500,000	0.676	22/7/2016 – 21/7/2021
	25 August 2016 (Note 2)	3,900,000	-	-	-	3,900,000	0.73	25/8/2016 – 24/8/2021
	12 April 2017 (Note 2)	-	600,000	-	-	600,000	1.38	12/4/2017 – 11/4/2022
		14,900,000	600,000	-	-	15,500,000		

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 Share immediately before the date on which the options were granted were (i) 21 July 2016: HK\$0.67; (ii) 24 August 2016: HK\$0.71; and (iii) 11 April 2017: HK\$1.39.
- (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 2016 to 18 September 2017	3,000,000
22 July 2016 to 21 July 2021	500,000
22 July 2017 to 21 July 2021	500,000
22 July 2018 to 21 July 2021	500,000
25 August 2016 to 24 August 2021	3,466,666
25 August 2017 to 24 August 2021	3,466,667
25 August 2018 to 24 August 2021	3,466,667
12 April 2017 to 11 April 2022	200,000
12 April 2018 to 11 April 2022	200,000
12 April 2019 to 11 April 2022	200,000

- (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.

OTHER INFORMATION

(2) Fair value of Share Options Granted

The fair value of the share options granted is set below:

Date of grant	Fair value HK\$
19 September 2014	2,156,000 (audited)
22 July 2016	313,000 (audited)
25 August 2016	2,456,000 (audited)
12 April 2017	287,000 (unaudited)

The fair value of equity-settled share options granted during the year 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:

Options granted on 12 April 2017:

Dividend yield (%)	0
Expected volatility (%)	46
Risk-free interest rate (%)	1.18
Expected life of options (years)	1.00 – 5.00

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

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

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

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 16 June 2017 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.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	Six months ended 30 June	
		2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
REVENUE	3	5,592,000	3,333,868
Cost of sales		(4,841,741)	(2,860,111)
GROSS PROFIT		750,259	473,757
Other income and gain	3	4,335	8,399
Selling and distribution expenses		(43,375)	(5,651)
Administrative expenses		(20,258)	(29,603)
Other expenses		(6,948)	(1,285)
Research and development costs		(117,041)	(92,683)
OPERATING PROFIT		566,972	352,934
Finance costs	5	(152,417)	(167,241)
PROFIT BEFORE TAX	4	414,555	185,693
Income tax expense	6	(105,360)	(23,608)
PROFIT FOR THE PERIOD		309,195	162,085
Profit attributable to owners of the parent		309,195	162,085
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7		
Basic		RMB15.41 cents	RMB8.08 cents
Diluted		RMB15.38 cents	RMB8.08 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	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
PROFIT FOR THE PERIOD	309,195	162,085
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	6,707	(4,693)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	6,707	(4,693)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	315,902	157,392
Total comprehensive income attributable to owners of the parent	315,902	157,392

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	10,073,048	9,915,086
Prepaid land lease payments		95,172	96,283
Available-for-sale investment		100,000	100,000
Deferred tax assets		10,441	5,171
Total non-current assets		10,278,661	10,116,540
CURRENT ASSETS			
Inventories	10	914,898	1,050,596
Trade and bills receivables	11	136,488	128,670
Prepayments, deposits and other receivables	12	163,926	193,550
Derivative financial instrument		–	3,584
Pledged deposits		542,997	334,588
Cash and cash equivalents		151,101	102,459
Total current assets		1,909,410	1,813,447
CURRENT LIABILITIES			
Trade and bills payables	13	1,560,359	1,661,073
Receipts in advance, other payables and accruals	14	836,439	800,220
Derivative financial instruments		2,580	540
Interest-bearing bank and other borrowings	15	2,930,695	2,380,157
Borrowing from the ultimate holding company		21,744	1,482,375
Income tax payable		20,554	18,750
Total current liabilities		5,372,371	6,343,115
NET CURRENT LIABILITIES		(3,462,961)	(4,529,668)
TOTAL ASSETS LESS CURRENT LIABILITIES		6,815,700	5,586,872

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	15	964,400	–
Borrowing from the ultimate holding company		1,346,267	1,399,900
Deferred tax liability		5,358	3,640
Other long term payable		161,000	161,000
Total non-current liabilities		2,477,025	1,564,540
Net assets		4,338,675	4,022,332
EQUITY			
Equity attributable to owners of the parent			
Share capital		962,949	962,949
Other reserves		3,375,726	3,059,383
Total equity		4,338,675	4,022,332

WANG Di
Director

WANG Yong
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company								Total equity RMB'000
	Share capital RMB'000	Contributed surplus RMB'000	Other reserve RMB'000	Statutory surplus reserve RMB'000	Share option reserve RMB'000	Special reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profit RMB'000	
At 1 January 2017	962,949	78,938	56,084	480,861	1,892	158,128	(24,300)	2,307,780	4,022,332
Profit for the Period	-	-	-	-	-	-	-	309,195	309,195
Other comprehensive income for the Period:									
Exchange differences on translation of foreign operations	-	-	-	-	-	-	6,707	-	6,707
Total comprehensive income for the Period	-	-	-	-	-	-	6,707	309,195	315,902
Profit appropriated to reserve	-	-	-	-	-	-	-	-	-
Utilised special reserve	-	-	-	-	-	-	-	-	-
Modification on the terms of the borrowing from the ultimate holding company	-	-	-	-	-	-	-	-	-
Equity-settled share option expense	-	-	-	-	441	-	-	-	441
At 30 June 2017 (Unaudited)	962,949	78,938*	56,084*	480,861*	2,333*	158,128*	(17,593)*	2,616,975*	4,338,675
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

* These reserve accounts comprise the consolidated other reserves of RMB3,375,726,000 (30 June 2016: RMB2,898,594,000) in the condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Cash generated from/(used in) operations	861,335	1,063,131
Interest received	6,755	2,560
The People's Republic of China (the "PRC") tax paid	(107,108)	(29,581)
The PRC tax refunded	–	35,624
Net cash flows from operating activities	760,982	1,071,734
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(330,337)	(304,100)
Receipt of government grants	1,500	2,000
Decrease in pledged deposits	(208,409)	(81,984)
Net cash flows used in investing activities	(537,246)	(384,084)
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank and other loans	2,457,488	1,320,471
Proceeds from a sale and leaseback arrangement	510,000	–
Decrease in borrowing from the ultimate holding company	(1,514,264)	(655,978)
Repayment of an amount due to an independent third party	–	(740,075)
Capital element of finance lease rental payments	(99,000)	–
Repayment of bank and other loans	(1,352,981)	(632,574)
Interest paid	(184,307)	(172,653)
Net cash flows used in financing activities	(183,064)	(880,809)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	40,672	(193,159)
Cash and cash equivalents at beginning of period	102,459	271,764
Effect of foreign exchange rate changes, net	7,970	(3,040)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	151,101	75,565

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 2016.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the Group's audited 2016 annual financial statements, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

As at 30 June 2017, the Group had net current liabilities of approximately RMB3,463.0 million (31 December 2016: RMB4,529.7 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 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 2016, except for the adoption of the new interpretation and amendments as of 1 January 2017, noted below:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised

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.

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. OPERATING SEGMENT INFORMATION (Continued)

Geographical information

The Group operates within one geographical area. For the six months ended 30 June 2017, 100% (six months ended 30 June 2016: 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 2017, no revenue (six months ended 30 June 2016: 384,140,000) 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 2017 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		3,252,911	1,202,015	975,912	161,162	5,592,000
Cost of sale		(2,639,980)	(1,074,702)	(969,620)	(157,439)	(4,841,741)
Gross profit		612,931	127,313	6,292	3,723	750,259
Reconciliation:						
Other income and gain	3					4,335
Selling and distribution expenses						(43,375)
Administrative expenses						(20,258)
Other expenses						(6,948)
Research and development costs						(117,041)
Finance costs	5					(152,417)
Profit before tax						414,555

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 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)
<hr/>						
Gross profit		383,554	81,287	7,949	967	473,757
<hr/>						
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)
<hr/>						
Profit before tax						185,693

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	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Revenue		
Sale of ordinary steel	3,252,911	1,849,669
Sale of special steel	1,202,015	749,139
Trading of commodities	975,912	620,150
Sale of by-products	161,162	114,910
	5,592,000	3,333,868
Other income and gain		
Bank interest income	2,847	3,088
Interest income from a fellow subsidiary	318	124
Foreign exchange differences, net	–	1,052
Others	1,170	4,135
	4,335	8,399

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	4,841,741	2,860,111
Depreciation	172,471	171,050
Amortisation of prepaid land lease payments	1,111	1,111
Research and development costs	117,041	92,683
Employee benefit expense (including directors' remuneration):		
Wages and salaries	111,638	94,322
Pension scheme contributions [#]	7,830	5,673
Equity-settled share option expenses	441	169
Staff welfare expenses	3,369	4,963
	123,278	105,127
Foreign exchange differences, net ^{##}	1,751	(1,052)
Fair value loss on derivative financial instrument ^{###}	2,040	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 expenses" and "Other income and gain" in the interim condensed consolidated statement of profit or loss for the six months ended 30 June 2017 and for the six months ended 30 June 2016.

^{###} 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 2017 and for the six months ended 30 June 2016.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Interest on bank borrowings	19,528	32,223
Interest on a finance lease from Xiwang Finance Leasing Company Limited (" Xiwang Leasing ") (西王融資租賃有限公司)	10,640	–
Finance cost on bills discounted*	13,094	12,013
Interest on borrowings from the ultimate holding company	61,668	102,948
Interest on an amount due to an independent third party	–	17,995
Interest on borrowings from Xiwang Group Finance Company Limited (" Xiwang Finance ") (西王集團財務有限公司)	69,336	26,114
Total interest expense on financial liabilities not at fair value through profit or loss	174,266	191,293
Less: Interest capitalised	(21,849)	(24,052)
	152,417	167,241

* Included interest of RMB7,217,000 (six months ended 30 June 2016: RMB9,436,000) on the bills discounted to a fellow subsidiary.

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. INCOME TAX EXPENSE (Continued)

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	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current – the PRC		
Charge for the Period	108,912	24,065
Deferred	(3,552)	(457)
Total tax charge for the Period	105,360	23,608

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 2017 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 2016: 2,006,666,666) ordinary shares in issue during the Period.

The calculation of the diluted earnings per share amounts for the six months ended 30 June 2017 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 2017 is based on:

	Six months ended 30 June 2017 RMB'000 (Unaudited)	Six months ended 30 June 2016 RMB'000 (Unaudited)
Earnings Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	309,195	162,085

	Number of shares 30 June 2017 (Unaudited)	Number of shares 30 June 2016 (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	2,006,666,666
Effect of dilution on weighted average number of ordinary shares – Share Options	3,965,048	–
Weighted average number of ordinary shares used in the diluted earnings per share calculation	2,010,631,714	2,006,666,666

8. DIVIDENDS

No interim dividend was proposed for the Period (six months ended 30 June 2016: nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9. PROPERTY, PLANT AND EQUIPMENT

The Group's capital expenditure for the Period was approximately RMB374 million (six months ended 30 June 2016: RMB409 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.

Certain machinery and equipment of the Group with a net carrying amount of RMB496,740,000 (31 December 2016: Nil) as at 30 June 2017 was held under finance lease.

10. INVENTORIES

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Raw materials	304,927	404,917
Work in progress	222,102	159,763
Finished goods	235,559	244,043
Trading commodities	152,310	241,873
	914,898	1,050,596

11. TRADE AND BILLS RECEIVABLES

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Trade receivables	97,642	106,704
Bills receivables	38,846	21,966
	136,488	128,670

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. TRADE AND BILLS RECEIVABLES (Continued)

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 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Within 3 months	118,217	92,068
3 to 6 months	5,872	13,842
6 months to 1 year	190	9,553
Over 1 year	12,209	13,207
	136,488	128,670

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 amounts due from the Group's fellow subsidiaries of RMB7,611,000 (31 December 2016: RMB14,942,000), which are repayable on credit terms similar to those offered to the major customers of the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Prepayments	112,816	161,082
Bank interest receivables	–	3,590
VAT recoverable	–	4,922
Deposits and other receivables	48,889	21,735
Current portion of prepaid land lease payments	2,221	2,221
	163,926	193,550

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 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Bills payable	883,340	1,157,386
Trade payables	677,019	503,687
	1,560,359	1,661,073

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 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Within 1 month	397,798	383,647
1 to 3 months	215,465	341,111
3 to 6 months	767,765	784,537
6 to 12 months	76,126	85,972
Over 12 months	103,205	65,806
	1,560,359	1,661,073

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 RMB542,997,000 (31 December 2016: RMB304,338,000).

Included in trade and bills payables are trade payables of RMB44,516,000 (31 December 2016: RMB26,982,000) due to fellow subsidiaries which are non-interest bearing and repayable on demand.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. RECEIPTS IN ADVANCE, OTHER PAYABLES AND ACCRUALS

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Advances from customers	231,521	183,121
Salaries and welfare payables	33,328	33,741
Other tax payables	22,294	5,495
Construction and equipment payables	455,719	496,430
Deferred revenue	5,000	3,500
Other payables	88,577	77,933
	836,439	800,220

Included in the Group's other payable as at 30 June 2016 is an amount of RMB91,388,000 due to an independent third party which was unsecured, bore interest at 7.0% per annum. The amount was repaid on 23 September 2016.

As at 30 June 2017, included in other payables are outstanding balances of RMB63,176,000 (31 December 2016: RMB37,558,000) due to fellow subsidiaries, and of RMB7,255,000 (31 December 2016: RMB16,173,000) due to Xiwang Group, which are non-interest-bearing and repayable on demand.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2017 Unaudited			31 December 2016 Audited		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Finance lease payables to Xiwang Leasing	5.90	2018	166,000			-
Interest-bearing bank borrowings – secured			-	4.91 – 6.60	2017	419,894
Interest-bearing bank borrowings – unsecured	2.36 – 5.01	2017	361,585			-
Current portion of long term interest-bearing other borrowings – secured	5.60	2018	400	HIBOR + 2.8, 9	2017	422,991
Borrowings from Xiwang Finance – unsecured	4.65 – 6.20	2017/2018	2,402,710	4.65 – 6.60	2017	1,537,272
			2,930,695			2,380,157
Non-current						
Finance lease payables to Xiwang Leasing	5.90	2021	245,000			-
Long term interest-bearing other borrowings – secured	5.60	2019	719,400			-
			964,400			-
			3,895,095			2,380,157

	2017 RMB'000 (Unaudited)	2016 RMB'000 (Audited)
Analysed into:		
Bank and other borrowings repayable:		
Within one year	2,930,695	2,380,157
In the second year	789,400	-
In the third to fifth years, inclusive	175,000	-
	3,895,095	2,380,157

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Notes:

- (i) As at 30 June 2017, no Group's borrowings are secured by the Group's leasehold land (31 December 2016: RMB55,397,000) and pledged time deposit (31 December 2016: RMB30,250,000).
- (ii) The Group's interest-bearing borrowings are guaranteed by certain related parties as follows:

30 June 2017

Borrowings RMB'000	Notes	Secured by:
719,800	20(b)(ii)	Non-current asset of a fellow subsidiary

31 December 2016

Borrowings RMB'000	Notes	Guaranteed by:
419,288	20(b)(ii)	Xiwang Group Mr. Wang Yong and Ms. Zhang Shufang (spouse of Mr. Wang Yong) jointly and severally
100,000	20(b)(ii)	Mr. Wang Yong An independent third party

- (iii) The carrying amounts of the Group's interest-bearing bank and other borrowings are 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. CONTINGENT LIABILITIES

On 4 January 2016, the Company entered into a guarantee agreement with Xiwang Group with a term of three years commencing from 4 January 2016, pursuant to which the Company will provide Xiwang Group and its subsidiaries other than the Group (the “**Relevant Subsidiaries**”) with guarantee services (the “**Guarantee Agreement**”).

Pursuant to the Guarantee Agreement, the Company shall undertake to guarantee and bear any obligations and liabilities of Xiwang Group and the Relevant Subsidiaries provided under the loan agreement to be entered into between the lenders and Xiwang Group and/or the Relevant Subsidiaries subject to the terms of the specific guarantee agreements to be entered into between the lenders and the Company. The guarantee amount to be provided by the Company to Xiwang Group and the Relevant Subsidiaries under the Guarantee Agreement (the “**Guarantee Amount**”) shall not exceed the aggregate amount due from the Group to Xiwang Group and the Relevant Subsidiaries less the aggregate amount due from Xiwang Group and the Relevant Subsidiaries to the Group (the “**Outstanding Amount**”) and shall be subject to the maximum cap of RMB4 billion. Any borrowings to be repaid by the Company for and on behalf of Xiwang Group (and the Relevant Subsidiaries) pursuant to the Guarantee Agreement shall be offset by the borrowings payable by the Company to Xiwang Group, or as other amounts payable by the Company to Xiwang Group or the Relevant Subsidiaries.

As at 30 June 2017, contingent liabilities not provided for in the condensed consolidated financial statements in respect of the Guarantee Amount were as follows:

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Guarantees given to banks in connection with facilities:		
Granted to the Xiwang Group	340,000	180,000
Granted to the Relevant Subsidiaries	2,580,000	1,730,000
	2,920,000	1,910,000

As at 30 June 2017, the banking facilities guaranteed by the Group to Xiwang Group and Relevant Subsidiaries were utilized to the extent of approximately RMB340,000,000 and RMB2,200,000,000 (31 December 2016: RMB180,000,000 and RMB1,300,000,000) respectively.

As at 30 June 2017, the Outstanding Amount was approximately RMB4,218,904,000 (31 December 2016: RMB4,420,589,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. 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 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Within one year	1,020	1,058
In the second to fifth years, inclusive	3,928	3,928
After five years	9,991	10,482
	14,939	15,468

19. COMMITMENTS

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

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Contracted, but not provided for: Property, plant and equipment	539,500	360,516

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 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Contracted, but not provided for: Consulting services	1,500	1,500

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

20. 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:

	Note	Six months ended 30 June	
		2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Rental expenses to Xiwang Group	(i)	91	91
Rental expenses to Xiwang Logistics	(i)		
– Lease of land		400	396
– Lease of vehicles		–	1,602
Delivery service fees to Xiwang Logistics	(i)		
– Delivery of steel		35,509	1,839
– Delivery of ore-powder		68,062	28,898
Purchase of gasoline from Xiwang Logistics	(i)	7,940	–
Interest expenses to Xiwang Group	(i)	61,668	102,948
Interest expenses to Xiwang Leasing	(i)	10,640	–
Interest expenses to Xiwang Finance Company (“Xiwang Finance”) (fellow subsidiary)	(i)	69,336	26,114
Interest income from Xiwang Finance	(i)	318	124
Finance cost on bills discounted to Xiwang Finance	(i)	7,217	9,436
Sale of steam to Shandong Xiwang Sugar Industry Company Limited (“Shandong Xiwang Sugar”) (fellow subsidiary)	(i)	18,774	13,775

- (i) The considerations were based on mutually agreed terms.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

20. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(b) Other related party transactions:

- (i) Certain bills payable of the Group were guaranteed by certain related parties of the Group as follows:

30 June 2017

**Bills payable
RMB'000**

Guaranteed by:

177,203

Mr. Wang Yong, Mr. Wang Di and Xiwang Group jointly and severally

31 December 2016

**Bills payable
RMB'000**

Guaranteed by:

182,517

Mr. Wang Yong, a non-executive director and Ms. Zhang Shufang (spouse of Mr. Wang Yong) jointly and severally
Xiwang Group

290,159

Mr. Wang Yong, Mr. Wang Di and Xiwang Group jointly and severally

- (ii) Certain interest-bearing borrowings of the Group were guaranteed by certain related parties of the Group and secured by certain non-current asset of a fellow subsidiary, as further detailed in note 15 to the condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

20. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(c) Outstanding balances with related parties:

- (i) The Group had short term interest-bearing borrowings from Xiwang Finance, a fellow subsidiary, as at 30 June 2017. Details of the interest-bearing borrowings from Xiwang Finance are disclosed in note 15 to the condensed consolidated financial statements.

The Group had certain deposits of RMB70,153,000 (31 December 2016: RMB64,729,000) placed with Xiwang Finance, which is a financial institution approved by the People's Bank of China as at 30 June 2017.

- (ii) The Group had current and non-current interest-bearing borrowings from its ultimate holding company at carrying amounts of RMB21,744,000 and RMB1,346,267,000 as at 30 June 2017 (31 December 2016: RMB1,482,375,000 and RMB1,399,900,000) respectively. The current balance of RMB21,744,000 is unsecured, bears interest at 6.6% per annum and has no fixed terms of repayment. The non-current balance of RMB1,346,267,000 is unsecured, interest bearing at 6.6% and will be mature in 2020.
- (iii) The Group entered into a sale and leaseback arrangement in respect of its machinery and equipment with Xiwang Leasing, a fellow subsidiary in 2017. The finance lease payables are included in note 15 to the condensed consolidated financial statements.
- (iv) Details of the Group's outstanding balances due from its fellow subsidiaries are included in note 11 to the condensed consolidated financial statements.
- (v) Details of the Group's outstanding balances due to its fellow subsidiaries are included in note 13 and note 14 to the condensed consolidated financial statements.



XIWANG SPECIAL STEEL COMPANY LIMITED

西王特鋼有限公司

