



# 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



▶ 中期報告  
Interim Report 2019



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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 (*resigned on 5 July 2019*)  
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  
Bank of Communications  
China Zheshang Bank  
Bank of Rizhao

## CORPORATE INFORMATION

### AUDITORS

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

### LEGAL ADVISER

Eversheds Sutherland  
37/F, One Taikoo Place, Taikoo Place  
979 King's Road, Quarry Bay  
Hong Kong

### HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Boardroom Share Registrars (HK) Limited  
Room 2103B, 21/F, 148 Electric Road,  
North Point,  
Hong Kong

### INVESTOR RELATIONS CONTACT

Ms. Li Tian Li  
Tel: (852) 3107 3511  
Email: [tianli@xiwang.com.cn](mailto:tianli@xiwang.com.cn)

### WEBSITE

[www.xiwangsteel.com](http://www.xiwangsteel.com)

# MANAGEMENT DISCUSSION AND ANALYSIS

## I. BUSINESS REVIEW

For the six months ended June 30, 2019 (the “**Period**”), the Group’s main source of revenue was the production and sales of steel. The Group’s primary production department was geographically located in Shandong Province, which remained as the main sales region of the Group. Revenue attributable to the region accounted for 62.5% of the total during the Period (first half of 2018: 69.6%). The Group is also actively exploring markets in other provinces including Shanghai, contributing 9.0% to the Group’s revenue (first half of 2018: 2.6%). During the Period, Jiangsu Province had a relatively large demand for steel, ranking third in terms of contribution to the Group’s revenue, which accounted for approximately 6.7% of the total revenue (first half of 2018: 6.3%).

Looking back to the first half of 2019, both supply and demand of the steel market are booming. In view of the new record high daily output of steel and the low level of inventory, steel demand is still robust, which is mainly driven by real estate and infrastructure sectors. However, due to looser regulation over production restrictions and laxer environmental protection controls, coupled with higher-than-expected price hike in raw materials as a result of the occurrence of an accident where foreign mine tailings collapsed at the beginning of the year, the profit margin of steel mills was squeezed. As such, net profit during the Period was affected. Nevertheless, relying on its advantages as a private enterprise, the Group flexibly optimized its long and short production processes, increased the use of scrap steel in a timely manner, and expanded its channels to source raw materials, striving to reduce the impact of iron ore price. In addition, through its cooperation with the Chinese Academy of Sciences, the Group continued to develop its special steel products such as steel for advanced rail transit, high-end bearing steel, steel for high-performance marine projects, mould steel, steel for special use and other high-end equipment, so as to further improve products with better technology, expand its source of income and reduce its dependence on the ordinary steel market.

### **Production and sales of steel**

The ordinary steel products manufactured and sold by the Group included rebars and wire rods, which are mainly used for construction and infrastructure projects, which accounted for 76.9% of the total sales amount of steel during the Period (first half of 2018: 73.3%). 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 23.1% of the total sales amount of steel during the Period (first half of 2018: 26.7%).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Important event(s) affecting the Group

The shareholders of the Company (“**Shareholders**”) approved payment of the Company’s final dividend either in the form of a (i) cash dividend; (ii) scrip shares; or (iii) partly scrip shares with the remainder in cash, at the election of the Shareholders (the “**Scrip Dividend Scheme**”). If no Shareholder elects to receive scrip shares, the total cash dividend payable by the Company will be HK\$330,156,000. If all Shareholders elect to receive scrip shares, the maximum number of scrip shares to be issued will be 283,638,874 ordinary shares of the Company.

Further details of the Scrip Dividend Scheme can be found in the announcement of the Company dated 3 June 2019, the supplementary circular and supplementary notice of the Company both dated 12 June 2019, the circular of the Company dated 29 July 2019 and the announcement of the Company dated 16 August 2019.

## II. FINANCIAL REVIEW

### Business Performance

#### 1. Revenue

During the Period, revenue of the Group was RMB5,959,655,000 (first half of 2018: RMB5,955,879,000) which remained at a similar level as compared to that of the corresponding period of last year. The Revenue from production and sales of steel was RMB4,705,222,000 for the Period, representing a decrease of 7.2% as compared to RMB5,072,656,000 for the corresponding period of last year. However, the revenue from trading of commodities increased from RMB617,180,000 for the first half of 2018 to RMB976,940,000 for the Period, representing an increase of 58.3%. The decrease in revenue from production and sales of steel was partially offset by the increase in revenue from trading of commodities, therefore, the overall revenue remained at a similar level for the Period.

## 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			
	2019		2018	
	Revenue RMB million	Average selling price (RMB/ tonne)	Revenue RMB million	Average selling price (RMB/ tonne)
<b>Ordinary Steel</b>				
Rebar	2,685	3,349	2,934	3,337
Wire rod	933	3,436	783	3,486
Subtotal/Average	3,618	3,371	3,717	3,367
<b>Special Steel</b>	1,088	3,613	1,356	3,880
<b>Production and sales of steel</b>	4,706		5,073	
<b>Trading of commodities<sup>#</sup></b>	977		617	
<b>Sales of by-products<sup>##</sup></b>	277		266	
<b>Total</b>	<b>5,960</b>		<b>5,956</b>	

<sup>#</sup> Trading of commodities mainly includes the trading of iron ore dust, pellet, steel billets and coke.

<sup>##</sup> 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			
	2019		2018	
	Tonnes	Percentage	Tonnes	Percentage
<b>Ordinary Steel</b>				
Rebar	801,820	58.3%	879,355	60.5%
Wire rod	271,374	19.8%	224,481	15.5%
Subtotal	1,073,194	78.1%	1,103,836	76.0%
<b>Special Steel</b>	301,040	21.9%	349,504	24.0%
<b>Total</b>	<b>1,374,234</b>	<b>100.0%</b>	1,453,340	100.0%

### 2. Cost of sales

During the Period, our cost of sales increased to RMB5,407,220,000 from RMB4,887,396,000 for the corresponding period of last year. The increase was mainly attributable to the increase in average production costs of steel per tonne and the increase in cost of trading of commodities. The average production costs of steel per tonne increased from RMB2,765 for the first half of 2018 to RMB3,050 per tonne for the Period, representing an increase of RMB285 or 10.3% per tonne. The cost of trading of commodities increased from RMB610,389,000 for the first half of 2018 to RMB961,835,000 for the Period, representing an increase of RMB351,446,000 or 57.6%.



## MANAGEMENT DISCUSSION AND ANALYSIS

### 3. Gross profit

Gross profit per tonne of the Group's steel products decreased to RMB374 for the six months ended 30 June 2019 from RMB726 for the corresponding period in 2018, reflecting a decrease of 48.5%. Overall gross profit margin of the Group was 9.3% (first half of 2018: 17.9%), representing a decrease of 8.6 percentage point as compared to the corresponding period of last year. The decrease was mainly attributable to the sharp increase in the average production costs of steel per tonne for the Period.

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

	For the six months ended 30 June			
	2019		2018	
	RMB'000	Gross profit margin	RMB'000	Gross profit margin
Ordinary steel	451,305	12.5%	781,460	21.0%
Special steel	63,006	5.8%	273,089	20.1%
Production and sales of steel	514,311	10.9%	1,054,549	20.8%
Trading of commodities	15,105	1.5%	6,791	1.1%
Sales of by-products	23,019	8.3%	7,143	2.7%
Total/Overall	552,435	9.3%	1,068,483	17.9%

### 4. Other income and gains

Other income mainly included bank interest income and government subsidies. Other income and gains for the Period amounted to RMB67,774,000 (first half of 2018: RMB39,814,000), representing an increase of 70.2% as compared to the corresponding period of 2018. The increase was mainly due to increase in bank interest income and fair value gains on embedded derivative component of convertible bonds incurred during the Period. During the Period, there was an increase in the amount placed as pledged deposits, therefore, the bank interest income increased from RMB1,970,000 for the first half of 2018 to RMB14,740,000 for the Period.

### 5. Selling and distribution expenses

The Group's selling and distribution expenses for the Period amounted to RMB4,757,000 (first half of 2018: RMB45,043,000), representing a decrease of 89.4% as compared to the corresponding period of last year. It was attributable to the reallocation of transportation costs to cost of sales during the Period.

### 6. Administrative expenses

Administrative expenses for the Period amounted to RMB55,859,000 (first half of 2018: RMB47,789,000), representing an increase of 16.9% as compared to the corresponding period of last year. It was mainly due to the increase in consultancy fee during the Period.

## Financial position

### Liquidity and capital resources

As at 30 June 2019, the Group had approximately RMB546.2 million in cash and cash equivalents (31 December 2018: RMB935.7 million), and approximately RMB1,171.8 million in pledged bank deposits (31 December 2018: RMB937.1 million). The Group had trade and bills payables of approximately RMB1,812.7 million (31 December 2018: RMB1,479.5 million), bank and other borrowings due within one year in the amount of approximately RMB3,588.2 million (31 December 2018: RMB4,342.3 million), and bank and other borrowings due after one year in the amount of approximately RMB728.6 million (31 December 2018: 489.1 million). As at 30 June 2019, the bank and other borrowings are denominated in Renminbi, Hong Kong dollar and United States dollar. The Group mainly used its operating cash inflow to fund its working capital needs, while the capital requirement for purchasing production equipment was mainly satisfied by cash inflows from operating and financing activities.

### Capital structure

As at 30 June 2019, the Group's total assets was approximately RMB14,451.6 million (31 December 2018: RMB14,397.0 million), which was funded by the following: (1) share capital of approximately RMB1,288.1 million (31 December 2018: RMB1,287.6 million), (2) reserves of approximately RMB4,886.3 million (31 December 2018: RMB4,709.6 million) and (3) total liabilities of approximately RMB8,277.2 million (31 December 2018: RMB8,399.8 million).

For the Period, the Group adopted conservative treasury policies, and all of the Group's interest-bearing borrowings bore interest at fixed interest rate.

### Gearing ratio

As at 30 June 2019, the gearing ratio, being the ratio of total interest-bearing debts including interest-bearing bank and other borrowings, lease liabilities, other long term payable and convertible bonds divided by total equity, was 0.76 (31 December 2018: 0.86). The decrease in this ratio was mainly due to the decrease in the interest-bearing bank and other borrowings for the Period. The annual interest rate of the banks and other borrowings for the period ended 30 June 2019 ranged from 3.41% to 11.0% (31 December 2018: 3.31% to 11.0%).

## MANAGEMENT DISCUSSION AND ANALYSIS

### **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 2019, RMB3,085,770,000 (31 December 2018: RMB2,732,712,000) of machinery and equipment, motor vehicles, buildings and office equipment and fixtures, RMB92,951,000 of right-of-use assets (31 December 2018: RMB94,062,000) and pledged deposits of RMB871,771,000 (31 December 2018: RMB637,100,000) were pledged as security for interest-bearing bank and other borrowings of the Group and fellow subsidiaries and bills payable, and pledged deposits of RMB300,000,000 (31 December 2018: RMB300,000,000) were pledged for counter guarantee .

### **Capital commitments**

As at 30 June 2019, the capital commitment of the Group was RMB863,261,000 (31 December 2018: RMB1,019,575,000), mainly used for renovation project and purchasing equipments.

### **Contingent liabilities**

The contingent liabilities of the Group are set out in Note 17 of the Notes to the Condensed Consolidated Financial Statements.

### **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 2019, the Group mainly exposed to risks relating to its liabilities denominated in US dollar of RMB359,738,000 (31 December 2018: RMB175,404,000).

During the Period, the Group had not entered into any foreign exchange swaps to hedge against foreign exchange risks.

### **Employees and remuneration**

As at 30 June 2019, the Group had a total of 3,869 employees (as at 30 June 2018: 4,430). Staff-related costs incurred during the Period was RMB141,551,000 (first half of 2018: RMB146,306,000). 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

Despite the challenges encountered by steel companies in the first half of 2019, we are still optimistic for the whole year. In terms of cost, with the increasing volume of imported ore, the pressure on supply of imported ore will be eased in the second half of the year, and ore price is expected to be adjusted downwards, thus reducing the production cost of steel mills and supporting a steady profit growth. On the market side, steel price is expected to enjoy a positive impact given that the second half of a year is the traditional peak season and the implementation of regional production restriction measures has led to a reduction.

Looking ahead, the Group will continue to further develop the ordinary steel market while actively developing special steel products, thereby fully utilising its technological advantages.

- Ordinary steel:
  - The Group will continue to adopt the market-oriented approach, prioritise production schedules under the principle of maximising the profit of each variety of product, properly make use of its capacity converting between ordinary and special steel production in a flexible manner, and adjust the variety of product portfolio according to market changes.
  - Since the beginning of 2019, the National Development and Reform Commission has approved 26 traditional infrastructure projects involving transportation, energy and water conservancy, with a total investment amount of RMB600 billion. Specifically, inter-city railway for riverside metropolitan areas in Jiangsu, urban rail transit in Wuhan, the new airport in Hohhot, Xianyang Airport in Xi'an, Shaanxi, the newly built civil airport in Ezhou, Hubei and other transportation projects will have an aggregate investment amount of RMB400 billion, which will bring strong demand for ordinary steel in the next 3 to 5 years.
  - Construction materials produced by the Group in accordance with the new national standard have been used in various key domestic engineering fields such as Jinan-Qingdao High-speed Railway, Shandong Expressway and Qingdao Metro, and are exported to foreign markets such as Korea and Southeast Asia. At the same time, the Group has also established a direct supply cooperation model with large-sized central enterprises and state-owned enterprises such as China Railway and China Railway Construction, and has become a strategic supplier of various key projects such as Jinan-Qingdao High-speed Railway and Lunan High-speed Railway in the province. As such, future demand for ordinary steel are guaranteed to some extent.

## MANAGEMENT DISCUSSION AND ANALYSIS

- Special steel:
  - In accordance with the requirements of the “Development Plan for the Advanced Steel Manufacturing Industry Base in Shandong Province”(《山東省先進鋼鐵製造產業基地發展規劃》), the Group will target the six sectors of special steel new products (including steel for advanced railway traffic, high-end bearing steel, steel for marine engineering and steel for special use) by deepening its cooperation with the Chinese Academy of Sciences and the Academy of Railway Sciences and based on the localisation of high-end equipment and new materials. The Group will further broaden its existing product coverage on top of the over 120 new products which it has already developed, and will strive to improve production process and product performance.
  - As a scientific research pilot base of the Chinese Academy of Sciences, the Group is developing new techniques and technologies for domestically produced high-end bearing steel and bearings, which are highly valued by relevant national ministries and commissions. The Group is currently making a joint application with the Chinese Academy of Sciences to declare a national key foundation consolidation project, signalling the Company has embarked on the transformation into a high-end bearing component manufacturing base. The construction project has been filed in Zouping City.

## OTHER INFORMATION

### INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the Period (corresponding period in 2018: nil).

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

As at 30 June 2019, 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 2019
WANG Yong	Company	Interest of controlled corporations (Note 2)	1,500,000,000 ordinary shares (L) (Note 4)	66.11%
	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)	982,999,588 ordinary shares (L) (Note 3)	69.78%
			506,244,669 convertible preference shares (L) (Note 3)	99.75%

## 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 2019
WANG Di	Company	Beneficial owner	9,333,333 shares (L)	0.41%
	Company	Beneficial owner	1,666,667 share options (L)	0.07%
	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 share options (L)	0.21%
SUN Xihu	Company	Beneficial owner	1,602,000 shares (L)	0.07%
	Company	Beneficial owner	500,000 share options (L)	0.02%
	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 share options (L)	0.21%

### Notes:

- (1) The letter "L" represents the Director's long position in the shares of the relevant corporation.
- (2) As at 30 June 2019, 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 2019, Xiwang Investment, where the entire issued shares are deemed to be interested by Mr. WANG Yong, held 69.78% of ordinary shares of Xiwang Property Holdings Company Limited ("**Xiwang Property**") and 99.75% 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 2019, so far as it is known to the Directors of the Company, the following persons (other than the Directors and chief executives 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 2019 (Note 7)
Xiwang Investment	Beneficial owner	1,500,000,000 ordinary shares (L)	66.11%
Xiwang Holdings	Interest of a controlled corporation (Note 2)	1,500,000,000 ordinary shares (L)	66.11%
Xiwang Hong Kong	Interest of controlled corporations (Notes 2, 3)	1,500,000,000 ordinary shares (L)	66.11%
Xiwang Group	Interest of controlled corporations (Notes 2, 3)	1,500,000,000 ordinary shares (L)	66.11%
ZHANG Shufang	Interest of spouse (Note 4)	1,500,000,000 ordinary shares (L)	66.11%
Haitong International Investment Solutions Limited	Person having a security interest in shares (Note 5)	1,400,000,000	61.70%
Haitong International Financial Solutions Limited	Interest of a controlled corporation (Note 6)	1,400,000,000	61.70%
Haitong International Finance Company Limited	Interest of a controlled corporation (Note 6)	1,400,000,000	61.70%



## OTHER INFORMATION

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 2019 (Note 7)
Haitong International (BVI) Limited	Interest of a controlled corporation (Note 6)	1,400,000,000	61.70%
Haitong International Securities Group Limited	Interest of a controlled corporation (Note 6)	1,400,000,000	61.70%
Haitong International Holdings Limited	Interest of a controlled corporation (Note 6)	1,400,000,000	61.70%
Haitong Securities Co., Ltd.	Interest of a controlled corporation (Note 6)	1,400,000,000	61.70%

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.
- (5) 1,400,000,000 shares of the Company were held by way of security by Haitong International Investment Solutions Limited.
- (6) Haitong International Investment Solutions Limited is a wholly-owned subsidiary of Haitong International Financial Solutions Limited, which in turn is wholly-owned by Haitong International Finance Company Limited. Haitong International Finance Company Limited is a wholly-owned subsidiary of Haitong International (BVI) Limited, which in turn is wholly-owned by Haitong International Securities Group Limited. Haitong International Securities Group Limited is a wholly-owned subsidiary of Haitong International Holdings Limited, which in turn is wholly-owned by Haitong Securities Co., Ltd. Therefore, all these companies are deemed to be interested in the number of shares in the Company held by Haitong International Investment Solutions Limited.
- (7) These percentages are calculated based on 2,269,110,999 listed shares in issue as at 30 June 2019.

**(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 2019, 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 lapsed during the six months ended 30 June 2019.

**(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 2019, options to subscribe for 4,166,667 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 2019	Granted	Exercised	Lapsed	30 June 2019		
<b>Directors</b>								
WANG Di	25 August 2016 (Note 2)	1,666,667	-	-	-	1,666,667	0.73	25/8/2016 – 24/8/2021
SUN Xinqu	25 August 2016 (Note 2)	500,000	-	-	-	500,000	0.73	25/8/2016 – 24/8/2021
Employees (Note 1)	22 July 2016 (Note 2)	500,000	-	(300,000)	-	200,000	0.676	22/7/2016 – 21/7/2021
	25 August 2016 (Note 2)	1,900,000	-	(300,000)	-	1,600,000	0.73	25/8/2016 – 24/8/2021
	12 April 2017 (Note 2)	200,000	-	-	-	200,000	1.38	12/4/2017 – 11/4/2022
		4,766,667	-	(600,000)	-	4,166,667		

## OTHER INFORMATION

Notes:

- (1) Employees include employees 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 Shares 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:

<b>Period for exercise of the share options</b>	<b>Maximum cumulative number of ordinary shares under the options that can be subscribed for pursuant to the exercise of the options</b>
22 July 2018 to 21 July 2021	200,000
25 August 2016 to 24 August 2021	100,000
25 August 2017 to 24 August 2021	500,000
25 August 2018 to 24 August 2021	3,166,667
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.
- (6) No share options were granted during the Period.

## CHANGES IN INFORMATION OF DIRECTORS AND CHIEF EXECUTIVES

Pursuant to Rule 13.51B (1) of the Listing Rules, the changes in information of Directors and chief executives of the Company subsequent to the date of the annual report of the Company for the year ended 31 December 2018 and up to the date of this interim report are set out below:

<b>Name of Director or chief executive</b>	<b>Details of changes</b>
Mr. WANG Yong	Resigned as a non-executive Director of the Company, with effect from 5 July 2019

Save as disclosed above, there are no other changes in information of Directors and chief executives of the Company up to the date of this interim report.

**(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
22 July 2016	313,000
25 August 2016	2,456,000
12 April 2017	287,000

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 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.

## 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 information that is available to the Company and as far as the Directors are aware, the Company has maintained a sufficient public float as required under the Listing Rules as at the date of this interim report.

## AUDIT COMMITTEE

### Audit Committee and Review of Financial Information

The Audit Committee has reviewed with the Company’s management the accounting principles and practices adopted by the Group and financial reporting matters including the review of the unaudited interim financial statements for the Period.

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	Six months ended 30 June	
		2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
REVENUE	3	5,959,655	5,955,879
Cost of sales		<b>(5,407,220)</b>	(4,887,396)
GROSS PROFIT		<b>552,435</b>	1,068,483
Other income and gains	3	<b>67,774</b>	39,814
Selling and distribution expenses		<b>(4,757)</b>	(45,043)
Impairment loss on financial assets, net		<b>(1,084)</b>	–
Administrative expenses		<b>(55,859)</b>	(47,789)
Other expenses		<b>(6,064)</b>	(18,770)
Research and development costs		<b>(162,125)</b>	(162,011)
OPERATING PROFIT		<b>390,320</b>	834,684
Finance costs	5	<b>(173,784)</b>	(167,658)
PROFIT BEFORE TAX	4	<b>216,536</b>	667,026
Income tax expense	6	<b>(33,987)</b>	(98,373)
PROFIT FOR THE PERIOD		<b>182,549</b>	568,653
Profit attributable to owners of the parent		<b>182,549</b>	568,653
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7		
Basic		<b>RMB8.05 cents</b>	RMB25.47 cents
Diluted		<b>RMB7.29 cents</b>	RMB23.78 cents

The notes on pages 27 to 64 are an integral part of these condensed consolidated financial statements.

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
PROFIT FOR THE PERIOD	<b>182,549</b>	568,653
OTHER COMPREHENSIVE LOSS		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	<b>(4,426)</b>	5,308
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:		
Equity investments at fair value through other comprehensive income:		
Changes in fair value	<b>(1,545)</b>	(10,377)
Income tax effect	<b>232</b>	–
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	<b>(1,313)</b>	(10,377)
	<b>(5,739)</b>	(5,069)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<b>176,810</b>	563,584
Total comprehensive income attributable to owners of the parent	<b>176,810</b>	563,584

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	<b>30 June 2019 RMB'000 (Unaudited)</b>	31 December 2018 RMB'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	<b>10,013,240</b>	10,164,532
Right-of-use assets		<b>94,172</b>	–
Prepaid land lease payments		–	91,841
Prepayments for long term assets	12	<b>267,859</b>	231,545
Other intangible assets		<b>81,652</b>	87,829
Equity instruments at fair value through other comprehensive income		<b>86,048</b>	87,593
Deferred tax assets		<b>15,475</b>	16,781
<b>Total non-current assets</b>		<b>10,558,446</b>	10,680,121
<b>CURRENT ASSETS</b>			
Inventories	10	<b>778,274</b>	820,320
Trade and bills receivables	11	<b>363,691</b>	345,271
Prepayments, deposits and other receivables	12	<b>1,033,158</b>	678,494
Pledged deposits		<b>1,171,771</b>	937,100
Cash and cash equivalents		<b>546,232</b>	935,676
<b>Total current assets</b>		<b>3,893,126</b>	3,716,861
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	13	<b>1,812,700</b>	1,479,522
Receipts in advance, other payables and accruals	14	<b>842,409</b>	909,102
Contract liabilities	14	<b>873,608</b>	683,384
Lease liabilities		<b>905</b>	–
Derivative financial instruments		<b>1,958</b>	22,696
Interest-bearing bank and other borrowings	15	<b>3,588,206</b>	4,342,329
Convertible bonds		<b>201,047</b>	187,077
Income tax payable		<b>30,233</b>	92,498
<b>Total current liabilities</b>		<b>7,351,066</b>	7,716,608
<b>NET CURRENT LIABILITIES</b>		<b>(3,457,940)</b>	(3,999,747)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>7,100,506</b>	6,680,374



## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	<b>30 June 2019 RMB'000 (Unaudited)</b>	31 December 2018 RMB'000 (Audited)
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings	15	<b>728,583</b>	489,081
Lease liabilities		<b>706</b>	–
Deferred tax liabilities		<b>35,843</b>	33,111
Other long term payable		<b>161,000</b>	161,000
<b>Total non-current liabilities</b>		<b>926,132</b>	683,192
<b>Net assets</b>		<b>6,174,374</b>	5,997,182
<b>EQUITY</b>			
Equity attributable to owners of the parent			
Share capital		<b>1,288,096</b>	1,287,602
Reserves		<b>4,886,278</b>	4,709,580
<b>Total equity</b>		<b>6,174,374</b>	5,997,182

**WANG Di**  
*Director*

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company									
	Share capital RMB'000	Contributed surplus RMB'000	Other reserve RMB'000	Fair value 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	Total equity RMB'000
At 1 January 2019	1,287,602	78,938*	137,669*	(10,546)*	677,692*	1,160*	164,877*	6,876*	3,652,914*	5,997,182
Profit for the Period	-	-	-	-	-	-	-	-	182,549	182,549
Other comprehensive income for the Period:										
Revaluation losses on equity instruments at fair value through other comprehensive income	-	-	-	(1,313)	-	-	-	-	-	(1,313)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(4,426)	-	(4,426)
Total comprehensive income for the Period	-	-	-	(1,313)	-	-	-	(4,426)	182,549	176,810
Profit appropriated to reserve	-	-	-	-	-	-	18,580	-	(18,580)	-
Utilised special reserve	-	-	-	-	-	-	(18,580)	-	18,580	-
Final dividend paid	-	-	-	-	-	-	-	-	-	-
Share options exercised	494	-	-	-	-	(124)	-	-	-	370
Issue of Shares	-	-	-	-	-	-	-	-	-	-
Share issue expenses	-	-	-	-	-	-	-	-	-	-
Equity-settled share option expense	-	-	-	-	-	12	-	-	-	12
At 30 June 2019 (Unaudited)	1,288,096	78,938*	137,669*	(11,859)*	677,692*	1,048*	164,877*	2,450*	3,835,463*	6,174,374
At 1 January 2018	1,091,561	78,938	137,669	-	575,520	2,319	165,036	(9,656)	3,104,266	5,145,653
Effect of adoption of new accounting standards	-	-	-	11,806	-	-	-	-	(174)	11,632
At 1 January 2018 (restated)	1,091,561	78,938	137,669	11,806	575,520	2,319	165,036	(9,656)	3,104,092	5,157,285
Profit for the Period	-	-	-	-	-	-	-	-	568,653	568,653
Other comprehensive income for the Period:										
Revaluation losses on equity instruments at fair value through other comprehensive income	-	-	-	(10,377)	-	-	-	-	-	(10,377)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	5,308	-	5,308
Total comprehensive income for the Period	-	-	-	(10,377)	-	-	-	5,308	568,653	563,584
Profit appropriated to reserve	-	-	-	-	-	-	9,577	-	(9,577)	-
Utilised special reserve	-	-	-	-	-	-	(9,577)	-	9,577	-
Final dividend paid	-	-	-	-	-	-	-	-	(304,709)	(304,709)
Share options exercised	6,245	-	-	-	-	(1,548)	-	-	-	4,697
Issue of Shares	194,582	-	-	-	-	-	-	-	-	194,582
Share issue expenses	(4,790)	-	-	-	-	-	-	-	-	(4,790)
Equity-settled share option expense	-	-	-	-	-	173	-	-	-	173
At 30 June 2018 (Unaudited)	1,287,598	78,938*	137,669*	1,429*	575,520*	944*	165,036*	(4,348)*	3,368,036*	5,610,822

\* These reserve accounts comprise the consolidated other reserves of RMB4,886,278,000 (30 June 2018: RMB4,323,224,000) in the condensed consolidated statement of financial position.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
<b>Cash generated from operations</b>	<b>635,149</b>	2,232,843
Interest received	<b>2,725</b>	1,970
Government grants received	<b>30,565</b>	–
The People's Republic of China (the "PRC") tax paid	<b>(91,983)</b>	(17,074)
<b>Net cash flows from operating activities</b>	<b>576,456</b>	2,217,739
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment	<b>(48,467)</b>	(175,961)
Receipt of government grants for property, plant and equipment	–	2,600
Increase in pledged deposits	<b>(234,671)</b>	(225,094)
<b>Net cash flows used in investing activities</b>	<b>(283,138)</b>	(398,455)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of shares	–	189,792
New bank and other loans	<b>1,023,071</b>	848,327
Increase in borrowing from the ultimate holding company	–	45,547
Repayment of bank and other loans	<b>(1,546,397)</b>	(1,956,822)
Proceeds from share options exercised	<b>371</b>	4,748
Dividend paid	–	(304,709)
Interest paid	<b>(154,406)</b>	(169,307)
<b>Net cash flows used in financing activities</b>	<b>(677,361)</b>	(1,342,424)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(384,043)</b>	476,860
Cash and cash equivalents at beginning of period	<b>935,676</b>	125,644
Effect of foreign exchange rate changes, net	<b>(5,401)</b>	(3,790)
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>546,232</b>	598,714

# 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 2018.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the Group's audited 2018 annual financial statements, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

As at 30 June 2019, the Group had net current liabilities of approximately RMB3,457.9 million (31 December 2018: RMB3,999.7 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 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") effective as of 1 January 2019.

Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i>
HKFRS 16	<i>Leases</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
Annual Improvements 2015-2017 Cycle	<i>Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23</i>

Other than as explained below regarding the impact of HKFRS 16 *Leases* and HK(IFRIC)-Int 23 *Uncertainty over Income Tax Treatments*, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of the new and revised HKFRSs are described below:

- (a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

#### (a) Adoption of HKFRS 16 (Continued)

##### **New definition of a lease**

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

##### **As a lessee – Leases previously classified as operating leases**

###### **Nature of the effect of adoption of HKFRS 16**

The Group has lease contracts for various items of machinery, land-use right and office buildings. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets (e.g., laptop computers and telephones); and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

- (a) Adoption of HKFRS 16 (Continued)

#### **As a lessee – Leases previously classified as operating leases** (Continued)

##### **Impacts on transition**

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

- (a) Adoption of HKFRS 16 (Continued)

#### **As a lessee – Leases previously classified as operating leases** (Continued)

##### **Impacts on transition** (Continued)

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	<b>Increase/ (decrease)</b> RMB'000 (Unaudited)
<b>Assets</b>	
Increase in right-of-use assets	95,210
Decrease in prepaid land lease payments	(91,841)
Decrease in prepayments, other receivables and other assets	(2,221)
Decrease in total assets	1,148
<b>Liabilities</b>	
Increase in lease liabilities	1,148
Increase in total liabilities	1,148
Decrease in retained earnings	–



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

- (a) Adoption of HKFRS 16 (Continued)

#### As a lessee – Leases previously classified as operating leases (Continued)

##### Impacts on transition (Continued)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	RMB'000 (Unaudited)
<b>Operating lease commitments as at 31 December 2018</b>	5,576
Weighted average incremental borrowing rate as at 1 January 2019	7.5%
Discounted operating lease commitments as at 1 January 2019	5,488
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(4,340)
<b>Lease liabilities as at 1 January 2019</b>	<b>1,148</b>

#### Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

##### Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for "investment properties".

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

- (a) Adoption of HKFRS 16 (Continued)

#### **Summary of new accounting policies** (Continued)

##### **Lease liabilities**

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

##### **Significant judgement in determining the lease term of contracts with renewal options**

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

- (a) Adoption of HKFRS 16 (Continued)

#### Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities, and the movement during the period are as follow:

	Right-of-use assets			Lease Liabilities RMB'000
	Land-use right RMB'000	Buildings RMB'000	Sub-total RMB'000	
As at 1 January 2019	94,062	1,148	95,210	1,148
Additions	-	391	391	391
Depreciation charge	(1,111)	(323)	(1,434)	-
Interest expense	-	-	-	68
Exchange adjustment	-	5	5	4
As at 30 June 2019	92,951	1,221	94,172	1,611

The Group recognised rental expenses from short-term leases of RMB2,023,000, for the six months ended 30 June 2019.

- (b) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as “**uncertain tax positions**”). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any significant impact on the Group's interim condensed consolidated financial information.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 2. OPERATING SEGMENT INFORMATION

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

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

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

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

#### Geographical information

	<b>Six months ended 30 June</b>	
	<b>2019</b>	2018
	<b>RMB'000</b>	RMB'000
Mainland China	<b>5,949,668</b>	5,955,879
Countries and regions other than Mainland China	<b>9,987</b>	–
	<b>5,959,655</b>	5,955,879

The revenue information above is based on the locations of the customers.

The principal assets and capital expenditure of the Group were located and incurred in Mainland China. Accordingly, no further geographical information is presented.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 2. OPERATING SEGMENT INFORMATION (Continued)

#### Information about major customers

For the six months ended 30 June 2019, no revenue (six months ended 30 June 2018: RMB876,959,000) 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 2019 are as follows:

	Notes	Ordinary steel RMB'000	Special steel RMB'000	Trading of commodities RMB'000	By-products RMB'000	Consolidated RMB'000
<b>Segment revenue:</b>						
Sales to external customers		3,617,559	1,087,663	976,940	277,493	5,959,655
Cost of sale		(3,166,254)	(1,024,657)	(961,835)	(254,474)	(5,407,220)
<b>Gross profit</b>		<b>451,305</b>	<b>63,006</b>	<b>15,105</b>	<b>23,019</b>	<b>552,435</b>
<b>Reconciliation:</b>						
Other income and gains	3					67,774
Selling and distribution expenses						(4,757)
Impairment loss on financial assets, net						(1,084)
Administrative expenses						(55,859)
Other expenses						(6,064)
Research and development costs						(162,125)
Finance costs	5					(173,784)
<b>Profit before tax</b>						<b>216,536</b>

## 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 2018 are as follows:

Notes	Ordinary steel RMB'000	Special steel RMB'000	Trading of commodities RMB'000	By- products RMB'000	Consolidated RMB'000
<b>Segment revenue:</b>					
Sales to external customers	3,716,576	1,356,080	617,180	266,043	5,955,879
Cost of sale	(2,935,116)	(1,082,991)	(610,389)	(258,900)	(4,887,396)
<b>Gross profit</b>	781,460	273,089	6,791	7,143	1,068,483
<b>Reconciliation:</b>					
Other income and gains	3				39,814
Selling and distribution expenses					(45,043)
Administrative expenses					(47,789)
Other expenses					(18,770)
Research and development costs					(162,011)
Finance costs	5				(167,658)
<b>Profit before tax</b>					<b>667,026</b>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 3. REVENUE, OTHER INCOME AND GAIN

An analysis of revenue is as follows:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
<b>Revenue from contracts with customers</b>		
Sale of goods	5,959,655	5,955,879

#### Revenue from contracts with customers

##### (i) Disaggregated revenue information For the period ended 30 June 2019

Segments	Sale of ordinary steel RMB'000	Sale of special steel RMB'000	Trading of commodities RMB'000	Sale of by-products RMB'000	Total RMB'000
<b>Type of goods or services</b>					
Sale of goods	3,617,559	1,087,663	976,940	277,493	5,959,655
<b>Geographical markets</b>					
Mainland China	3,617,559	1,077,676	976,940	277,493	5,949,668
Countries and regions other than Mainland China	-	9,987	-	-	9,987
	3,617,559	1,087,663	976,940	277,493	5,959,655
<b>Timing of revenue recognition</b>					
Goods transferred at a point in time	3,617,559	1,087,663	976,940	277,493	5,959,655

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 3. REVENUE, OTHER INCOME AND GAIN (Continued)

#### Revenue from contracts with customers (Continued)

##### (i) Disaggregated revenue information (Continued)

For the period ended 30 June 2018

Segments	Sale of ordinary steel RMB'000	Sale of special steel RMB'000	Trading of commodities RMB'000	Sale of by-products RMB'000	Total RMB'000
<b>Type of goods or services</b>					
Sale of goods	3,716,576	1,356,080	617,180	266,043	5,955,879
<b>Geographical markets</b>					
Mainland China	3,716,576	1,356,080	617,180	266,043	5,955,879
	3,716,576	1,356,080	617,180	266,043	5,955,879
<b>Timing of revenue recognition</b>					
Goods transferred at a point in time	3,716,576	1,356,080	617,180	266,043	5,955,879



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 3. REVENUE, OTHER INCOME AND GAIN (Continued)

#### Revenue from contracts with customers (Continued)

##### (i) Disaggregated revenue information (Continued)

Set out below is the reconciliation of the revenue from contracts with the amounts disclosed in the segment information:

#### For the period ended 30 June 2019

Segments	Sale of ordinary steel RMB'000	Sale of special steel RMB'000	Trading of commodities RMB'000	Sale of by-products RMB'000	Total RMB'000
<b>Revenue from contracts with customers</b>					
External customers	3,617,559	1,087,663	976,940	277,493	5,959,655
Intersegment sales	4,604,280	1,626,136	1,632,692	488,281	8,351,389
	8,221,839	2,713,799	2,609,632	765,774	14,311,044
Intersegment adjustments and eliminations	(4,604,280)	(1,626,136)	(1,632,692)	(488,281)	(8,351,389)
Total revenue from contracts with customers	3,617,559	1,087,663	976,940	277,493	5,959,655

#### For the period ended 30 June 2018

Segments	Sale of ordinary steel RMB'000	Sale of special steel RMB'000	Trading of commodities RMB'000	Sale of by-products RMB'000	Total RMB'000
<b>Revenue from contracts with customers</b>					
External customers	3,716,576	1,356,080	617,180	266,043	5,955,879
Intersegment sales	3,120,704	1,213,654	2,553,618	1,105,786	7,993,762
	6,837,280	2,569,734	3,170,798	1,371,829	13,949,641
Intersegment adjustments and eliminations	(3,120,704)	(1,213,654)	(2,553,618)	(1,105,786)	(7,993,762)
Total revenue from contracts with customers	3,716,576	1,356,080	617,180	266,043	5,955,879

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 3. REVENUE, OTHER INCOME AND GAIN (Continued)

#### Revenue from contracts with customers (Continued)

##### (ii) Performance obligations

Information about the Group's performance obligations is summarised below:

##### *Sale of goods*

The performance obligation is satisfied upon delivery of the goods and payment in advance is generally required, except for certain long term customers which are granted credit terms by the Group.

	Six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
<b>Other income</b>		
Bank interest income	14,740	1,970
Subsidy income	32,012	36,992
Others	183	852
<b>Gains</b>		
Fair value gains on embedded derivative component of convertible bonds	20,839	–
	<b>67,774</b>	<b>39,814</b>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 4. PROFIT BEFORE TAX

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

	<b>Six months ended 30 June</b>	
	<b>2019</b>	2018
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Cost of inventories sold	<b>5,407,220</b>	4,887,396
Depreciation		
– property, plant and equipment	<b>212,873</b>	215,042
– right-of-use assets	<b>1,434</b>	–
Minimum lease payments under operating lease	<b>2,023</b>	1,949
Amortisation of other intangible assets	<b>6,371</b>	6,184
Amortisation of prepaid land lease payments	–	1,111
Research and development costs	<b>162,125</b>	162,011
Employee benefit expense (including directors' remuneration):		
Wages and salaries	<b>127,345</b>	132,253
Pension scheme contributions <sup>#</sup>	<b>9,817</b>	9,164
Equity-settled share option expenses	<b>12</b>	173
Staff welfare expenses	<b>4,377</b>	4,716
	<b>141,551</b>	146,306
Foreign exchange differences, net	<b>2,707</b>	12,357
Impairment of financial assets, net:		
– Impairment of trade receivables <sup>##</sup>	<b>1,148</b>	141
– Reversal of impairment of other receivables <sup>##</sup>	<b>(64)</b>	–
Fair value gains on derivative financial instruments (excluding embedded derivative component of convertible bonds)	–	(998)
Fair value (gains)/losses on embedded derivative component of convertible bonds	<b>(20,839)</b>	4,232

<sup>#</sup> 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.

<sup>##</sup> The impairment of trade receivables and the reversal of impairment of other receivables are included in "Impairment loss on financial assets, net" in the interim condensed consolidated statement of profit or loss for the six months ended 30 June 2019, while they are included in "other expenses" in the interim condensed consolidated statement of profit or loss for the six months ended 30 June 2018.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 5. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on bank and other borrowings	113,068	84,840
Interest on convertible bonds	20,945	17,592
Finance cost on bills discounted	62,853	64,202
Interest on borrowings from the ultimate holding company	505	2,591
Interest on borrowings from Xiwang Group Finance Company Limited (“ <b>Xiwang Finance</b> ”) (西王集團財務有限公司)	1,076	9,139
Interest on lease liabilities	68	–
Total interest expense on financial liabilities not at fair value through profit or loss	198,515	178,364
Less: Interest capitalised	(24,731)	(10,706)
	<b>173,784</b>	167,658

### 6. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable in Mainland China 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 PRC Corporate Income Tax Law effective on 1 January 2008, the PRC subsidiaries except for Xiwang Metal Science & Technology are subject to corporate income tax (“CIT”) at a statutory rate of 25% on their respective taxable income for the six months ended 30 June 2019. Xiwang Metal Science & Technology is subject to CIT at a rate of 15% on its respective taxable income for the six months ended 30 June 2019 as a national-grade high-tech enterprise.

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current – Mainland China		
Charge for the Period	<b>29,442</b>	89,872
Deferred	<b>4,545</b>	8,501
Total tax charge for the Period	<b>33,987</b>	98,373

### 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 2019 based on the profit attributable to ordinary equity holders of the parent for the Period, and the weighted average number of 2,268,641,938 (six months ended 30 June 2018: 2,232,707,093) ordinary shares in issue during the Period.

The calculation of the diluted earnings per share amounts for the six months ended 30 June 2019 is based on the profit for the period attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of the adjustment for the effect of deemed exercise of all share options at the beginning of the Period.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The calculation of the basic and diluted earnings per share for the six months ended 30 June 2019 is based on:

	<b>Six months ended 30 June 2019 RMB'000 (Unaudited)</b>	Six months ended 30 June 2018 RMB'000 (Unaudited)
Earnings Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	<b>182,549</b>	568,653
	<b>Number of shares 30 June 2019 (Unaudited)</b>	Number of shares 30 June 2018 (Unaudited)
Shares Weighted average number of ordinary shares in issue during the Period used in the basic earnings per share calculation	<b>2,268,641,938</b>	2,232,707,093
Effect of dilution – weighted average number of ordinary shares		
Share option	<b>1,977,625</b>	2,561,220
Share-based payment	<b>100,000,000</b>	100,000,000
Convertible bonds	<b>136,046,511</b>	136,046,511
Weighted average number of ordinary shares used in the diluted earnings per share calculation	<b>2,506,666,074</b>	2,471,314,824

### 8. DIVIDENDS

No interim dividend was proposed for the Period (six months ended 30 June 2018: nil).

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 9. PROPERTY, PLANT AND EQUIPMENT

The Group's capital expenditure for the Period was approximately RMB144 million (six months ended 30 June 2018: RMB223 million) which was mainly used for the construction of a new steel rail production line for the manufacturing of new materials with a high level of strength, tenacity and durability so as to reduce the damage and wearing of steel rails in railways, such that the safety and efficiency of railway transportation could be enhanced.

### 10. INVENTORIES

	<b>30 June 2019 RMB'000 (Unaudited)</b>	31 December 2018 RMB'000 (Audited)
Raw materials	502,912	557,794
Work in progress	187,001	167,904
Finished goods	88,361	94,622
	<b>778,274</b>	820,320

### 11. TRADE AND BILLS RECEIVABLES

	<b>30 June 2019 RMB'000 (Unaudited)</b>	31 December 2018 RMB'000 (Audited)
Bills receivable	751	202,600
Trade receivables	364,268	142,851
Impairment	(1,328)	(180)
	<b>363,691</b>	345,271

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 11. TRADE AND BILLS RECEIVABLES (Continued)

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

	<b>30 June 2019 RMB'000 (Unaudited)</b>	31 December 2018 RMB'000 (Audited)
Within 3 months	<b>304,088</b>	116,452
3 to 6 months	<b>31,715</b>	19,823
6 months to 1 year	<b>23,975</b>	3,677
Over 1 year	<b>3,162</b>	2,719
	<b>362,940</b>	142,671

Set out below is the movement in the allowance for expected credit losses of trade receivables:

	<b>30 June 2019 RMB'000 (Unaudited)</b>	31 December 2018 RMB'000 (Audited)
At as 1 January	<b>180</b>	174
Impairment losses, net	<b>1,148</b>	234
Amount written-off as uncollectible	<b>–</b>	(228)
As at 30 June 2019/31 December 2018	<b>1,328</b>	180



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 11. TRADE AND BILLS RECEIVABLES (Continued)

#### Bills receivable

	<b>30 June 2019 RMB'000 (Unaudited)</b>	31 December 2018 RMB'000 (Audited)
Classification under HKFRS 9 Financial assets at fair value through other comprehensive income	<b>751</b>	202,600
As at 30 June 2019/31 December 2018	<b>751</b>	202,600

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 RMB46,299,000 (31 December 2018: RMB24,414,000), 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

	<b>30 June 2019 RMB'000 (Unaudited)</b>	31 December 2018 RMB'000 (Audited)
Non-Current Prepayments for long term assets	<b>267,859</b>	231,545
Current Prepayments	<b>939,317</b>	608,697
Bank interest receivables	<b>12,014</b>	–
VAT recoverable	–	599
Deposits and other receivables	<b>103,437</b>	88,651
Current portion of prepaid land lease payments	–	2,221
	<b>1,054,768</b>	700,168
Impairment of other receivables	<b>(21,610)</b>	(21,674)
	<b>1,033,158</b>	678,494
	<b>1,301,017</b>	910,039

Included in the Group's prepayments, deposits and other receivables are amounts due from the Group's fellow subsidiaries of RMB202,251,000 as at 30 June 2019 (31 December 2018: RMB74,557,000).

The movements in the loss allowance for impairment of other receivables are as follows:

	<b>30 June 2019 RMB'000 (Unaudited)</b>	31 December 2018 RMB'000 (Audited)
At beginning of year	<b>21,674</b>	21,610
Impairment losses, net	<b>(64)</b>	64
	<b>21,610</b>	21,674

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 13. TRADE AND BILLS PAYABLES

	<b>30 June 2019 RMB'000 (Unaudited)</b>	31 December 2018 RMB'000 (Audited)
Bills payable	<b>565,588</b>	173,442
Trade payables	<b>1,247,112</b>	1,306,080
	<b>1,812,700</b>	1,479,522

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

	<b>30 June 2019 RMB'000 (Unaudited)</b>	31 December 2018 RMB'000 (Audited)
Within 1 month	<b>297,360</b>	515,504
1 to 3 months	<b>427,019</b>	383,055
3 to 6 months	<b>655,296</b>	242,215
6 to 12 months	<b>278,741</b>	228,208
Over 12 months	<b>154,284</b>	110,540
	<b>1,812,700</b>	1,479,522

As at 30 June 2019, the Group's bills payable amounting to RMB317,391,000 (31 December 2018: RMB70,560,000) were secured by the pledged deposits of RMB272,391,000 (31 December 2018: RMB35,630,000).

Included in trade and bills payables are trade payables of RMB2,972,000 (31 December 2018: RMB4,064,000) due to fellow subsidiaries which are non-interest bearing and repayable on demand.

The Group's certain bills payable are guaranteed by certain related parties, as further detailed in note 19(b)(i) to the financial statements.

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 14. RECEIPTS IN ADVANCE, OTHER PAYABLES AND ACCRUALS

	<b>30 June 2019 RMB'000 (Unaudited)</b>	31 December 2018 RMB'000 (Audited)
Salaries and welfare payables	<b>86,280</b>	49,651
Other tax payables	<b>118,735</b>	253,650
Construction and equipment payables	<b>485,772</b>	458,112
Deferred revenue	<b>9,220</b>	11,252
Other payables	<b>142,402</b>	136,437
	<b>842,409</b>	909,102

As at 30 June 2019, included in other payables are outstanding balances of RMB26,719,000 (31 December 2018: RMB32,258,000) due to fellow subsidiaries, and of RMB453,000 (31 December 2018: RMB1,000) 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.

#### Contract liabilities

	<b>30 June 2019 RMB'000 (Unaudited)</b>	31 December 2018 RMB'000 (Audited)
<b>Short-term advances received from customers</b>		
Sale of goods	<b>873,608</b>	683,384

Contract liabilities include short-term advances received to deliver goods.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 15. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	30 June 2019 Unaudited			31 December 2018 Audited		
		Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
<b>Current</b>							
Interest-bearing bank borrowings – secured	(i)&(ii)&(v)	3.41-10.80	2019-2020	758,736	3.31-8.90	2019	455,771
Interest-bearing other borrowings – secured	(i)&(ii)&(iii) &(iv)&(v)	3.87-11.00	2019-2020	2,608,479	3.87-11.00	2019	3,232,820
Interest-bearing other borrowings – unsecured	(v)	-	-	-	9.00	2019	112,640
Borrowings from Xiwang Finance – unsecured	(v)	5.00-7.70	2019-2020	220,991	4.45-7.70	2019	541,098
				<b>3,588,206</b>			<b>4,342,329</b>
<b>Non-current</b>							
Long term interest-bearing other borrowings – secured	(ii)&(iii)&(iv)	7.50-11.00	2020-2021	692,147	7.50-11.00	2020-2021	452,706
Borrowings from Xiwang Finance – unsecured		5.97	2021	36,436	5.97	2021	36,375
				<b>728,583</b>			<b>489,081</b>
				<b>4,316,789</b>			<b>4,831,410</b>
				<b>2019</b>	<b>2018</b>		
				<b>RMB'000</b>	<b>RMB'000</b>		
				<b>(Unaudited)</b>	<b>(Audited)</b>		
Analysed into:							
Bank and other borrowings repayable:							
Within one year				<b>3,588,206</b>			4,342,329
In the second year				<b>615,266</b>			343,979
In the third year				<b>113,317</b>			145,102
				<b>4,316,789</b>			<b>4,831,410</b>

Notes:

- (i) As at 30 June 2019, the Group's interest-bearing borrowings of RMB1,266,574,000 (31 December 2018: RMB1,253,138,000) were secured by pledged time deposits of RMB599,380,000 (31 December 2018: RMB601,470,000).
- (ii) As at 30 June 2019, the Group's interest-bearing borrowings of RMB4,044,362,000 (31 December 2018: RMB4,141,297,000) were guaranteed by certain related parties, as further detailed in note 19(b)(ii) to the condensed consolidated financial statements.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Notes: (Continued)

- (iii) As at 30 June 2019, the Group's other borrowings of RMB143,548,000 (31 December 2018: RMB175,394,000) were secured by 11% equity interests of the subsidiary, Xiwang Special Steel Company Limited, and those of RMB219,540,000 (31 December 2018: RMB292,606,000) were secured by 30% equity interests of the subsidiary, Shandong Xiwang Recycling Resources Company Limited.
- (iv) As at 30 June 2019, the Group's other borrowings of RMB1,008,814,000 (31 December 2018: RMB1,117,790,000) were secured by a net carrying amount of approximately RMB1,243,706,000 (31 December 2018: RMB1,284,794,000) of the Group's machinery and equipment, motor vehicles and office equipment and fixtures.
- (v) As at 30 June 2019, about RMB1,974,105,000 (31 December 2018: 2,314,326,000) interest-bearing bank and other borrowings were advances from the unrecognised Discounted Bills.
- (vi) 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.

### 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**"). On 1 November 2018, the Company entered into a supplementary guarantee agreement with Xiwang Group to revise the terms and conditions.

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 (including but not limited to the borrowings provided by Xiwang Group to the Group) and the aggregate amount of the Group's borrowings which is guaranteed and/or secured by Xiwang Group and the Relevant Subsidiaries, less the aggregate amount due from Xiwang Group and the Relevant Subsidiaries to the Group (including but not limited to the deposits placed by the Group with Xiwang Finance) (the "**Outstanding Amount**") and shall be subject to the maximum cap of RMB5 billion. For all the guarantee amount provided by the Group to the lenders, Xiwang Group would have provided a counter guarantee to the Group.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 17. CONTINGENT LIABILITIES (Continued)

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 2019, contingent liabilities not provided for in the condensed consolidated financial statements in respect of the Guarantee Amount were as follows:

	<b>30 June 2019 RMB'000 (Unaudited)</b>	31 December 2018 RMB'000 (Audited)
Guarantees given to banks in connection with facilities:		
Granted to the Xiwang Group	<b>180,000</b>	180,000
Granted to the Relevant Subsidiaries	<b>4,412,542</b>	3,757,542
	<b>4,592,542</b>	3,937,542

As at 30 June 2019, the Outstanding Amount was approximately RMB3,335,404,000 (31 December 2018: RMB3,821,591,000).

### 18. COMMITMENTS

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

	<b>30 June 2019 RMB'000 (Unaudited)</b>	31 December 2018 RMB'000 (Audited)
Contracted, but not provided for:		
Property, plant and equipment	<b>863,261</b>	1,019,575

## 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:

	Note	Six months ended 30 June	
		2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Rental expenses to Xiwang Group	(i)	91	91
Rental expenses to a fellow subsidiary	(i)		
– Lease of land		365	400
Delivery service fees to a fellow subsidiary	(i)		
– Delivery of steel		11,706	23,149
– Delivery of ore-powder		41,626	65,151
Interest expenses on borrowings from Xiwang Group		505	2,592
Interest expenses on borrowings from Xiwang Finance	(ii)	1,076	9,139
Interest on discounted bills paid to Xiwang Finance	(ii)	6,622	10,138
Interest income from Xiwang Finance		6,463	683
Sale of steam to a fellow subsidiary	(i)	16,141	19,256
Sale of steel to fellow subsidiaries	(i)	6	109
Sale of heat energy to fellow subsidiaries	(i)	849	2,174
Sale of cooling energy to fellow subsidiaries	(i)	4,203	12,625
Service fees to a fellow subsidiary	(i)	4	–
Purchase of diesel oil from a fellow subsidiary	(i)	6,632	9,255
Purchase of scrap from fellow subsidiaries	(i)	499	–
Bills discounting service from Xiwang Finance		205,200	189,000
Bills acceptance service from Xiwang Finance		986,897	599,074

- (i) The considerations were based on mutually agreed terms.
- (ii) Details of interest-bearing borrowings from Xiwang Finance are disclosed in note 15 of the condensed consolidated financial statements.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 19. 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 2019

<b>Guaranteed by:</b>	<b>Note</b>	<b>Bills payable RMB'000</b>
Xiwang Group, Mr. Wang Yong, a non-executive director and Mr. Wang Di, the Chairman, jointly and severally	13	90,000

#### 31 December 2018

<b>Guaranteed by:</b>	<b>Note</b>	<b>Bills payable RMB'000</b>
Xiwang Group, Mr. Wang Yong, a non-executive director and Mr. Wang Di, the Chairman, jointly and severally	13	70,560

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 19. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(b) Other related party transactions: (Continued)

(ii) Certain interest-bearing borrowings of the Group were guaranteed by certain related parties as follows:

**30 June 2019**

<b>Guaranteed by:</b>	<b>Note</b>	<b>Borrowings RMB'000</b>
Mr. Wang Yong	15	263,629
Certain ordinary shares of a fellow subsidiary		
Certain convertible preference shares of a fellow subsidiary		
Certain ordinary shares of a fellow subsidiary	15	308,990
Xiwang Group	15	645,726
Mr. Wang Di and Ms. Su Xin (spouse of Mr. Wang Di) jointly and severally		
Mr. Wang Yong and Ms. Zhang Shufang (spouse of Mr. Wang Yong) jointly and severally		
Certain land and buildings from fellow subsidiaries		
Certain machinery and equipment from fellow subsidiaries		
Certain shares of fellow subsidiaries		
Xiwang Group	15	250,000
Mr. Wang Yong		
Mr. Wang Di		
Certain shares of a fellow subsidiary		
Xiwang Group	15	858,468
Xiwang Group and a fellow subsidiary	15	306,433
Xiwang Group, Mr. Wang Yong jointly and severally	15	840,100
Xiwang Group, Mr. Wang Yong and Mr. Wang Di, jointly and severally	15	571,016
		4,044,362

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 19. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(b) Other related party transactions: (Continued)

(ii) Certain interest-bearing borrowings of the Group were guaranteed by certain related parties as follows: (Continued)

**31 December 2018**

<b>Guaranteed by:</b>	<b>Note</b>	<b>Borrowings RMB'000</b>
Mr. Wang Yong	15	259,403
Certain ordinary shares of a fellow subsidiary		
Certain convertible preference shares of a fellow subsidiary		
Certain ordinary shares of a fellow subsidiary	15	659,200
Xiwang Group	15	649,790
Mr. Wang Di and Ms. Su Xin (spouse of Mr. Wang Di) jointly and severally		
Mr. Wang Yong and Ms. Zhang Shufang (spouse of Mr. Wang Yong) jointly and severally		
Certain land and buildings from fellow subsidiaries		
Certain machinery and equipment from a fellow subsidiary		
Certain shares of fellow subsidiaries		
Xiwang Group	15	750,985
Xiwang Group and a fellow subsidiary	15	301,373
Xiwang Group, Mr. Wang Yong jointly and severally	15	755,372
Xiwang Group, Mr. Wang Yong and Mr. Wang Di, jointly and severally	15	477,012
Two fellow subsidiaries, jointly and severally	15	288,162
		4,141,297

(iii) The Group provided guarantee services to Xiwang Group and the Relevant Subsidiaries during the year, details of which are included in note 17 to the condensed consolidated financial statements.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 19. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(c) Outstanding balances with related parties:

- (i) The Group had long term interest-bearing borrowings from Xiwang Finance, a fellow subsidiary, as at 30 June 2019. 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 RMB837,979,000 (31 December 2018: RMB905,091,000) placed with Xiwang Finance, which is a financial institution approved by the People's Bank of China as at 30 June 2019.

- (ii) Details of the Group's outstanding balances due from its fellow subsidiaries are included in note 11 and note 12 to the condensed consolidated financial statements.
- (iii) 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.

(d) Compensation of key management personnel of the Group:

	<b>Six months ended 30 June</b>	
	<b>2019</b>	2018
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Employee benefit expenses	<b>3,985</b>	3,832
Equity-settled share option expenses	<b>12</b>	80
Pension scheme contributions	<b>139</b>	116
<b>Total compensation paid to key management personnel</b>	<b>4,136</b>	4,028

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 20. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's and the Company's financial instruments approximate to their fair values, are as follows:

	Carrying amounts		Fair values	
	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
<b>Financial assets</b>				
Equity investments designated at fair value at fair value through other comprehensive income	86,048	87,593	86,048	87,593
Debt investments at fair value through other comprehensive income	751	202,600	751	202,600
	<b>86,799</b>	290,193	<b>86,799</b>	290,193
<b>Financial liabilities</b>				
Derivative financial instruments	1,958	22,696	1,958	22,696

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, financial assets included in prepayments, other receivables and other assets, trade and bills payables, financial liabilities included in receipts in advance, other payables and accruals, the current portion of interest-bearing bank and other borrowings approximated to their respective carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the executive vice president and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the executive vice president. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 20. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(Continued)

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of borrowings of interest-bearing bank and other borrowings and other long term payable have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for borrowings from the ultimate holding company, interest-bearing bank and other borrowings and other long term payable as at 30 June 2019 was assessed to be insignificant. The fair value of the liability portion of the convertible bonds is estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar convertible bonds with consideration of the Group's own non-performance risk.

As 30 June 2019, the unlisted equity investment designated at fair value through other comprehensive income, which was previously an available-for-sale equity investment has been estimated using a market-based valuation technique on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate price multiple, such as price-to-book ("P/B") ratio (excluding goodwill) multiple, for each comparable company identified. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

The Group enters into derivative financial instruments with various counterparties. Derivative financial instruments mainly include futures and the derivative component of convertible bonds which are measured using valuation techniques similar to forward pricing, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates. The carrying amounts of forward currency contracts, futures and the derivative component of convertible bonds are the same as their fair values.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 20. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(Continued)

As at 30 June 2019, the marked to market value of the derivative asset position is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on financial instruments recognised at fair value.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 30 June 2019:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted equity investment	Valuation multiples	Average P/B ratio multiple of peers	0.87	5% increase/decrease in multiple would result in increase/decrease in fair value by RMB4,302,000
		Discount for lack of marketability	15.80%	5% increase/decrease in discount would result in decrease/increase in fair value by RMB807,000

The discount for lack of marketability represents the amounts of premiums and discounts determined by the Group that market participants would take into account when pricing the investments.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 20. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(Continued)

#### Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

#### As at 30 June 2019

	Fair value measurement using			Total RMB'000 (Unaudited)
	Quoted prices in active markets (Level 1) RMB'000 (Unaudited)	Significant observable inputs (Level 2) RMB'000 (Unaudited)	Significant unobservable inputs (Level 3) RMB'000 (Unaudited)	
Equity investments designated at fair value through other comprehensive income	-	-	86,048	86,048
Debt investments at fair value through other comprehensive income	-	751	-	751
	-	751	86,048	86,799

#### As at 31 December 2018

	Fair value measurement using			Total RMB'000 (Audited)
	Quoted prices in active markets (Level 1) RMB'000 (Audited)	Significant observable inputs (Level 2) RMB'000 (Audited)	Significant unobservable inputs (Level 3) RMB'000 (Audited)	
Equity investments designated at fair value through other comprehensive income	-	-	87,593	87,593
Debt investments at fair value through other comprehensive income	-	202,600	-	202,600
	-	202,600	87,593	290,193



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 20. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(Continued)

#### Fair value hierarchy (Continued)

Liabilities measured at fair value:

As at 30 June 2019

	Fair value measurement using			Total RMB'000 (Unaudited)
	Quoted prices in active markets (Level 1) RMB'000 (Unaudited)	Significant observable inputs (Level 2) RMB'000 (Unaudited)	Significant unobservable inputs (Level 3) RMB'000 (Unaudited)	
Derivative financial instruments	-	1,958	-	1,958

As at 31 December 2018

	Fair value measurement using			Total RMB'000 (Audited)
	Quoted prices in active markets (Level 1) RMB'000 (Audited)	Significant observable inputs (Level 2) RMB'000 (Audited)	Significant unobservable inputs (Level 3) RMB'000 (Audited)	
Derivative financial instruments	-	22,696	-	22,696

### 21. EVENT AFTER THE REPORTING PERIOD

On 28 June 2019, the payment of final dividend was approved at the annual general meeting either in the form of a (i) cash dividend; (ii) scrip shares; or (iii) partly scrip shares with the remainder in cash, at the election of the shareholders of the Company. If no shareholder elects to receive scrip shares, the total cash dividend payable by the Company will be HK\$330,156,000. If all shareholders elect to receive scrip shares, the maximum number of scrip shares to be issued will be 283,638,874 ordinary shares of the Company.



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