



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

2020

Interim Report

中期報告





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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Directors

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. YU Chi Kit

AUTHORISED REPRESENTATIVES

Mr. WANG Di
Mr. YU Chi Kit

REGISTERED OFFICE

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

HEADQUARTERS

Xiwang Industrial Area
Zouping
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

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WEBSITE

www.xiwangsteel.com

MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS REVIEW

In the first half of 2020, affected by the prolonged COVID-19 epidemic, Xiwang Special Steel Company Limited (the “**Company**”) and its subsidiaries (together referred to as the “**Group**”) faced challenging environments in sales, production, logistics, operation, business communication and other areas. The large-scale domestic shutdown and production in the first quarter of 2020 led to a significant reduction in production and demand. Thereafter, the export sales of steel export-oriented enterprises and steel downstream processing and manufacturing enterprises were also adversely affected due to the global COVID-19 outbreak. In addition, the operations of banks, ports and shipping companies were disrupted by the epidemic, which indirectly affected the Group’s sales to downstream customers engaging in export business. At the same time, products which encountered difficulties in export were forced to be digested in the domestic market, increasing the domestic market supply and affecting the price support. Steel prices continued to fall under the influence of sluggish demand and pessimism, which further brought negative impacts to the Group’s business performance. The extent and duration of the COVID-19 outbreak went beyond the Company’s assessment and have taken a toll on the Company’s businesses.

Upon the gradual recovery of economic situation in the People’s Republic of China (“**PRC**”) after combating the COVID-19 outbreak for a few months, management of the Company has benchmarked to latest price level in the steel product market, together with rigorous cost control measures over its production. The sales system reform and incentive policy adjustment implemented by the Company has further optimized the structure of the sales team, stimulated the sales team’s incentive and promoted the linkage of production and sales. The procurement system actively predicts the market, optimizes the procurement model, carries out technological transformation and innovation in the technical system, and promotes cost reduction and efficiency enhancement through technical means, with remarkable results. With the effective control of the COVID-19 outbreak, and the gradual resumption of work and production in the PRC, the downstream demands for the Group’s products are expected to increase. The management will continue to speed up cash collection, increase the sales volume to the Group’s core customers, improve the volume and frequency of procurement and sales, and further improve business performance.

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 2020 (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, where the steel demand is mainly driven by real estate and infrastructure sectors. Due to an unexpected steep price hike in raw materials as a result of the occurrence of a foreign mine tailings collapse accident, the profit margin of steel mills was squeezed. 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 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. 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.

Important event(s) affecting the Group

On 26 June 2020, Xiwang Special Steel Company Limited* (西王特鋼有限公司), a company established in the PRC and an indirectly owned subsidiary of the Company (the “**PRC Subsidiary**”), entered into the memorandum of understanding (the “**MOU**”) with The Institute of Metal Research, Chinese Academy of Sciences (中國科學院金屬研究所) (“**IMR**”) and 10 individuals (the “**Technical Personnel**”) in relation to the proposed formation of a joint venture company (the “**JV Company**”) between the PRC Subsidiary, IMR and the Technical Personnel for, among others, the production and sale of rare earth special steel, various types of steel and steel products (the “**Proposed Joint Venture Formation**”).

References are made to the announcements of the Company dated 16 August 2019, 11 October 2019, 10 January 2020, 10 March 2020, 26 June 2020 and 29 July 2020, in relation to, among others, the further delay of dividend distribution of the Company. The payment of the final dividend for the year ended 31 December 2018 and the despatch of the share certificates for the scrip shares to the shareholders have been further postponed and are expected to be sent to the shareholders on or around 27 November 2020 and the dealing in the scrip shares on the Stock Exchange is expected to commence on or around 30 November 2020.

II. FINANCIAL REVIEW

Business Performance

1. Revenue

During the Period, revenue of the Group was RMB4,740,347,000 (first half of 2019 (“1H2019”): RMB5,959,655,000).

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			
	2020		2019	
	Revenue	Average selling price	Revenue	Average selling price
	RMB '000	(RMB/tonne)	RMB '000	(RMB/tonne)
	(Unaudited)	(Unaudited)		
Ordinary Steel				
Rebar	2,392,258	2,991	2,685,210	3,349
Wire rod	885,787	3,020	932,349	3,436
Subtotal/Average	3,278,045	2,999	3,617,559	3,371
Special Steel	1,065,844	3,225	1,087,663	3,613
Production and sales of steel	4,343,889		4,705,222	
Trading of commodities[#]	142,195		977,940	
Sales of by-products^{##}	254,263		277,493	
Total	4,740,347		5,959,655	

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Breakdown of sales volume of steel:

	Sales volume			
	For the six months ended 30 June			
	2020		2019	
	Tonnes	Percentage	Tonnes	Percentage
Ordinary Steel				
Rebar	799,855	56.2%	801,820	58.3%
Wire rod	293,307	20.6%	271,374	19.8%
Subtotal	1,093,162	76.8%	1,073,194	78.1%
Special Steel	330,508	23.2%	301,040	21.9%
Total	1,423,670	100.0%	1,374,234	100.0%

2. Cost of sales

During the Period, cost of sales was RMB4,699,090,000 (1H2019: RMB5,407,220,000).

Cost structure of steel remained relatively stable during the Period. The major raw materials used were iron ore dust and coke. The composition of the total production cost between raw materials and production overhead also remained relatively stable during the Period.

MANAGEMENT DISCUSSION AND ANALYSIS

3. Gross profit

Gross profit for the Period amounted to RMB41,257,000 (1H2019: RMB552,435,000), while the gross profit margin for the Period decreased to 0.9% (1H2019: 9.3%).

In the first half of 2020, affected by the prolonged COVID-19 epidemic, the Group faced challenging environments in sales, production, logistics, operation, business communication and other areas. The large-scale domestic shutdown and production in the first quarter of 2020 led to a significant reduction in production and demand. Thereafter, the exports of steel export-oriented enterprises and steel downstream processing and manufacturing enterprises were adversely affected due to the global outbreak of the epidemic. In addition, the operations of banks, ports and shipping companies were disrupted by the epidemic, which indirectly affected the Group's sales to downstream companies engaging in export business. At the same time, products which encountered difficulties in export were forced to be digested in the domestic market, increasing the domestic market supply and affecting the price support. Steel prices continued to fall under the influence of sluggish demand and pessimism, which further affected the Group's profitability.

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

	For the six months ended 30 June			
	2020		2019	
	RMB'000 (Unaudited)	Gross profit margin	RMB'000	Gross profit margin
Ordinary steel	55,722	1.7%	451,305	12.5%
Special steel	(30,990)	(2.9%)	63,006	5.8%
Production and sales of steel	24,732	0.6%	514,311	10.9%
Trading of commodities	(2,828)	(2.0%)	15,105	1.5%
Sales of by-products	19,353	7.6%	23,019	8.3%
Total/Overall	41,257	0.9%	552,435	9.3%

4. Other income and gains

Other income mainly included interest income and government subsidy income. Other income and gains for the Period amounted to RMB17,283,000 (1H2019: RMB67,774,000).

Other income and gains mainly included government subsidy of RMB10,267,000 (1H2019: RMB32,012,000), interest income of RMB6,636,000 (1H2019: RMB14,740,000) and other miscellaneous income of RMB380,000 (1H2019: RMB183,000) during the Period.

5. Selling and distribution expenses

The Group's selling and distribution expenses for the Period amounted to RMB4,133,000 (1H2019: RMB4,757,000).

The decrease was mainly attributable to the prudent cost measures adopted by the Group during the Period.

6. Administrative expenses

Administrative expenses for the Period amounted to RMB42,490,000 (1H2019: RMB55,859,000).

The decrease was mainly attributable to the prudent cost measures adopted by the Group during the Period.

Financial position

Liquidity and capital resources

As at 30 June 2020, the Group had approximately RMB765,272,000 in cash and cash equivalents (31 December 2019: RMB193,849,000), and approximately RMB593,659,000 in pledged bank deposits (31 December 2019: RMB901,498,000). The Group had trade and bills payables of approximately RMB1,471,066,000 (31 December 2019: RMB1,522,933,000), bank and other borrowings due within one year in the amount of approximately RMB2,917,074,000 (31 December 2019: RMB3,318,930,000), and bank and other borrowings due after one year in the amount of approximately RMB1,239,276,000 (31 December 2019: RMB418,974,000). As at 30 June 2020, the bank and other borrowings were 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 2020, the Group's total assets was approximately RMB14,874,507,000 (31 December 2019: RMB13,445,167,000), which was funded by the following: (1) share capital of approximately RMB1,369,681,000 (31 December 2019: RMB1,369,681,000), (2) reserves of approximately RMB4,075,309,000 (31 December 2019: RMB4,351,469,000) and (3) total liabilities of approximately RMB9,429,517,000 (31 December 2019: RMB7,724,017,000). 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 2020, the gearing ratio, being the ratio of total interest-bearing debts including interest-bearing bank and other borrowings, borrowing from the ultimate holding company, lease liabilities, other long term payable divided by total equity, was 79% (31 December 2019: 68%).

MANAGEMENT DISCUSSION AND ANALYSIS

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

As at 30 June 2020, the Company was interested in an unlisted equity investment, being a 5% equity interest in Xiwang Group Finance Company Limited* (“**Xiwang Finance**”) (西王集團財務有限公司), a company established in the PRC with limited liability, with a carrying amount of RMB67,302,000 (31 December 2019: RMB: 83,282,000). The amount is irrevocably designated at fair value through other comprehensive income as the Group considers this investment to be strategic in nature. Xiwang Finance is intended to provide the member companies of Xiwang Group Company Limited (“**Xiwang Group**”) (西王集團有限公司), including but not limited to the members of the Group, with professional financial services, as well as to minimize financial risks and enhance the general competitiveness of Xiwang Group. The Group has no intention to dispose of the investment in the near future.

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 2020, RMB5,157,874,000 (31 December 2019: RMB3,843,904,000) of machinery and equipment, motor vehicles, buildings and office equipment and fixtures, RMB90,730,400 of right-of-use assets (31 December 2019: RMB91,841,000) and pledged deposits of RMB593,641,000 (31 December 2019: RMB600,490,000) were pledged as security for interest-bearing bank and other borrowings of the Group and fellow subsidiaries and bills payable.

Pledge of shares by controlling shareholders

On 22 November 2019, the Company entered into the subscription agreement with, among others, the guarantors and the bond subscribers, pursuant to which the bond subscribers conditionally agreed to subscribe for, and the Company conditionally agreed to issue the bonds in an aggregate principal amount of US\$30.0 million, maturity date being 11 December 2019 (the “**Bonds**”).

As part of the security for the obligations of the Company under the subscription agreement of the Bonds, (i) Xiwang Group agrees to pledge its 100% shareholding interest in Xiwang Hong Kong; (ii) Xiwang Hong Kong agrees to pledge its 95% shareholding interest in Xiwang Holdings; and (iii) Xiwang Holdings agrees to pledge its 100% shareholding interest in Xiwang Investment, all in favour of the subscribers of the Bonds. Pursuant to the subscription agreement of the Bonds, each of the guarantors also agreed to provide personal or corporate guarantees in favour of the subscribers of the Bonds in respect of the obligations of the Company under the subscription agreement and the bond instrument. For further details of this transaction, please refer to the announcement of the Company dated 24 November 2019.

Specific performance obligations of the controlling shareholders

Pursuant to the terms of the bond instrument of the Bonds, a relevant event occurs if, among others, (i) Mr. WANG Yong ceases to own, directly or indirectly, 50% or more of the voting rights of the issued share capital of the Company; or (ii) Mr. WANG Yong breaches his undertaking to remain as the single largest direct or indirect holder of the total issued shares of the Company. Occurrence of any of these events will constitute an event of default under the bond instrument whereby the Bonds shall immediately become due and payable by the Company at the mandatory redemption amount, which is calculated with reference to the outstanding principal amount multiplied by a multiplier and the interest rate, together with, among others, default interest (if applicable).

Disclosure obligation under Rules 13.19 and 13.21

References are made to the announcements of the Company dated 22 September 2017, 11 October 2017, 25 October 2019, 24 November 2019 and 12 December 2019 in relation to the Convertible Bond in the aggregate principal amount of US\$30.0 million issued by the Company which was originally due on 10 October 2019 and the Bonds in an aggregate principal amount of US\$30.0 million issued by the Company which was due on 11 December 2019. As at 30 June 2020 and the date of this report, the Group was still discussing with the Bond Subscribers as to the redemption schedule of the Bonds in order to meet the repayment obligation.

Capital commitments

As at 30 June 2020, the capital commitment of the Group was RMB866,472,000 (31 December 2019: RMB949,950,000), 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 2020, the Group mainly exposed to risks relating to its liabilities denominated in US dollar of RMB37,521,000 (31 December 2019: RMB43,436,000). During the Period, the Group did not entered into any foreign exchange swaps to hedge against foreign exchange risks.

Employees and remuneration

As at 30 June 2020, the Group had a total of 3,628 employees (as at 30 June 2019: 3,869). Staff-related costs incurred during the Period was RMB131,730,000 (1H2019: RMB141,551,000). 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 pension, the Group will also distribute discretionary bonus to certain employees as incentives according to their performance.

MANAGEMENT DISCUSSION AND ANALYSIS

III. BUSINESS OUTLOOK

The PRC government is expected to continue to strengthen its structural reform with more specific and powerful policies. Green development is expected to become a new norm, while de-leveraging, merger and acquisition and corporate reorganization are expected to be further developed, creating a better operating environment for the steel industry. On the demand side, the growth in steel demand is expected to remain steady, as the infrastructure sector is expected to remain active. As supply and demand for steel become more balanced, this creates a greater and healthier market development space for the Group to grow and expand. Looking forward, the demand for ordinary steel is expected to remain strong with great market potential.

For ordinary steel products, the PRC Government is expected to increase investment in infrastructure projects in order to stabilize the economy and to improve weak links. As a project lasts for three to five years, the projects verified last year and this year are expected to provide short-term support to the demand. With the objective of producing specialized hot rolled ribbed bars, steel enterprises are expected to strive to improve the quality of construction materials to meet the needs of government investment in railways, roads and water resources and capitalize on these major projects. This is expected to drive strong demands in the medium and high-end market of construction materials. Although the growth in real estate has slowed down, demand in the sector remains relatively inelastic. Real estate is expected to grow in the future and bring about demand for the ordinary steel. The Group is expected to continue to follow the market trend, use steel price as guidance, and capitalize on its production capability to switch between production of ordinary steel and special steel to maximize revenue.

For special steel products, the Group is expected to develop high-end special steel products, focus on the development of special steel new products (high-end bearing steel, steel for marine engineering, mould steel, spring steel and steel for special use), utilize the national science and innovation platform to reach a market-leading position in industry technology research and development, increase the proportion of special steel production, utilize the Group's competitive advantages, and enhance the long-term profitability of the Group. The Group is expected to deepen the strategic co-operation with the Chinese Academy of Science, leverage on the scientific research achievements of the Academy, continuously improve research and development capabilities in relation to special steel new products, speed up the shift to new growth drivers as well as the transformation and upgrade of products, and use technology innovation to achieve high quality development.

Apart from product development, the Group is expected to increase research and development investment. The Group established five research and development units in different sectors (such as, special steel research, railway steel research and bearing steel research). Every year, there are research and development projects which can lead to the development of new products that carry intellectual property rights, which provides strong technical support to the research and development of the six sectors of special steel new products. Through specialized research and development, improvement on products, and the commitment to protecting the environment and increasing productivity, the Group is expected to continue to maintain a good revenue level.

OTHER INFORMATION

INTERIM DIVIDEND

The Board resolved not to declare an interim dividend for the Period (1H2019: nil).

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

As at 30 June 2020, 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 2020
WANG Di	Company	Beneficial owner	9,333,333 shares (L)	0.39%
	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 Xinhua	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.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SFO

(a) Substantial shareholders of the Company

As at 30 June 2020, so far as it is known to the Directors of the Company, the following Companies/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 2020 (Note 10)
WANG Yong	Interest of controlled corporation (Note 2, 3)	1,379,672,000 ordinary shares (L) (Note 4)	58.24%
Xiwang Investment	Beneficial owner	1,379,672,000 ordinary shares (L)	58.24%
Xiwang Holdings	Interest of a controlled corporation (Note 5)	1,379,672,000 ordinary shares (L)	58.24%
Xiwang Hong Kong	Interest of controlled corporations (Notes 5, 6)	1,379,672,000 ordinary shares (L)	58.24%
Xiwang Group	Interest of controlled corporations (Notes 5, 6)	1,379,672,000 ordinary shares (L)	58.24%
ZHANG Shufang	Interest of spouse (Note 7)	1,379,672,000 ordinary shares (L)	58.24%
Haitong International Investment Solutions Limited	Person having a security interest in shares (Note 8)	1,361,454,000	57.47%
Haitong International Financial Solutions Limited	Interest of a controlled corporation (Note 9)	1,361,454,000	57.47%

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 2020 (Note 10)
Haitong International Finance Company Limited	Interest of a controlled corporation (Note 9)	1,361,454,000	57.47%
Haitong International (BVI) Limited	Interest of a controlled corporation (Note 9)	1,361,454,000	57.47%
Haitong International Securities Group Limited	Interest of a controlled corporation (Note 9)	1,361,454,000	57.47%
Haitong International Holdings Limited	Interest of a controlled corporation (Note 9)	1,361,454,000	57.47%
Haitong Securities Co., Ltd.	Interest of a controlled corporation (Note 9)	1,361,454,000	57.47%

Notes:

- (1) The letter "L" represents the entity's long position in the shares of the Company.
- (2) As at 30 June 2020, Xiwang Group is the ultimate holding company of the Company. Xiwang Group is owned as to 31% by Mr. WANG Yong, 29.25% by Xiwang Villager Committee (西王村民委員會) and remaining 39.75% 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 70.75% of 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 2020, 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.

OTHER INFORMATION

- (4) These shares are registered in the name of Xiwang Investment. Mr. WANG Yong is deemed to have interest in all shares of the Company held by Xiwang Investment.
- (5) 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.
- (6) 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.
- (7) 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.
- (8) 1,361,454,000 shares of the Company were held by way of security by Haitong International Investment Solutions Limited as at 30 June 2020.
- (9) 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.
- (10) These percentages are calculated based on 2,369,110,999 listed shares in issue as at 30 June 2020.

(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 2020, 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 2020.

(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 2020, options to subscribe for 3,966,667 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 2020	Granted	Exercised	Lapsed	30 June 2020		
Directors								
WANG Di	25 August 2016 (Note 2)	1,666,667	-	-	-	1,666,667	0.73	25/8/2016 – 24/8/2021
SUN Xinhua	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)	-	-	-	-	-	0.676	22/7/2016 – 21/7/2021
	25 August 2016 (Note 2)	1,600,000	-	-	-	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
		3,966,667	-	-	-	3,966,667		

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.

OTHER INFORMATION

- (3) These options can only be exercised by the grantees in the following manner:

Period for exercise of the share options	Maximum cumulative number of ordinary shares under the options that can be subscribed for pursuant to the exercise of the options
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.

(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

OTHER INFORMATION

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.

CHANGES IN INFORMATION OF DIRECTORS AND CHIEF EXECUTIVES

Pursuant to Rule 13.51B (1) of the Listing Rules, there are no 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 2019 and up to the date of this interim report.

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.

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

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, the interim results and the unaudited consolidated interim financial report for the Period.



CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
REVENUE	3	4,740,347	5,959,655
Cost of sales		(4,699,090)	(5,407,220)
GROSS PROFIT		41,257	552,435
Other income and gains	3	17,283	67,774
Selling and distribution expenses		(4,133)	(4,757)
Administrative expenses		(42,490)	(55,859)
Impairment loss on financial assets, net		(910)	(1,084)
Other expenses		(23,164)	(6,064)
Research and development costs		(172,606)	(162,125)
Finance costs	5	(158,486)	(173,784)
(LOSS)/PROFIT BEFORE TAX	4	(343,249)	216,536
Income tax credit/(expense)	6	69,658	(33,987)
(LOSS)/PROFIT FOR THE PERIOD		(273,591)	182,549
(Loss)/Profit attributable to owners of the parent		(273,591)	182,549
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	7	RMB(11.55) cents	RMB8.05 cents
Diluted		RMB(11.55) cents	RMB7.29 cents

The notes on pages 27 to 54 are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
(LOSS)/PROFIT FOR THE PERIOD	(273,591)	182,549
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	6,051	(4,426)
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	(15,980)	(1,545)
Income tax effect	2,397	232
	(13,583)	(1,313)
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		
Debt Investments at fair value through other comprehensive income:		
Change in fair value	5,811	–
Income tax effect	(848)	–
	4,963	–
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	(2,569)	(5,739)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD	(276,160)	176,810
Total comprehensive (loss)/income attributable to owners of the parent	(276,160)	176,810

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	9,761,528	9,920,510
Right-of-use assets		91,500	92,655
Prepayments for long term assets	12	282,989	284,648
Other intangible assets		70,377	76,059
Equity investment designated at fair value through other comprehensive income		67,302	83,282
Deferred tax assets		87,196	14,801
Total non-current assets		10,360,892	10,471,955
CURRENT ASSETS			
Inventories	10	793,702	346,738
Trade and bills receivables	11	437,366	536,932
Prepayments, other receivables and other assets	12	1,923,616	994,195
Pledged deposits		593,659	901,498
Cash and cash equivalents		765,272	193,849
Total current assets		4,513,615	2,973,212
CURRENT LIABILITIES			
Trade and bills payables	13	1,471,066	1,522,933
Other payables and accruals	14	546,878	768,124
Contract liabilities	14	2,747,986	1,179,761
Dividend payables		290,369	290,369
Lease liabilities		736	736
Interest-bearing bank and other borrowings	15	2,917,074	3,318,930
Borrowing from the ultimate holding company		448	1,594
Income tax payable		21,091	27,964
Total current liabilities		7,995,648	7,110,411
NET CURRENT LIABILITIES		(3,482,033)	(4,137,199)
TOTAL ASSETS LESS CURRENT LIABILITIES		6,878,859	6,334,756

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	15	1,239,276	418,974
Lease liabilities		51	90
Deferred tax liabilities		33,542	33,542
Other long term payable		161,000	161,000
Total non-current liabilities		1,433,869	613,606
Net assets		5,444,990	5,721,150
EQUITY			
Equity attributable to owners of the parent			
Share capital		1,369,681	1,369,681
Reserves		4,075,309	4,351,469
Total equity		5,444,990	5,721,150

WANG Di
Director

SUN Xihu
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 profits RMB'000	Total equity RMB'000
At 1 January 2020	1,369,681	78,938	56,084	(19,173)	682,959	1,051	164,099	9,666	3,377,845	5,721,150
Loss for the Period	-	-	-	-	-	-	-	-	(273,591)	(273,591)
Other comprehensive loss for the Period:										
Change in fair value of equity instruments at fair value through other comprehensive income, net of tax	-	-	-	(13,583)	-	-	-	-	-	(13,583)
Change in fair value of debt investments at fair value through other comprehensive income, net of tax	-	-	-	4,963	-	-	-	-	-	4,963
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	6,051	-	6,051
Total comprehensive loss for the Period	-	-	-	(8,620)	-	-	-	6,051	(273,591)	(276,160)
Profit appropriated to reserve	-	-	-	-	-	-	17,003	-	(17,003)	-
Utilised special reserve	-	-	-	-	-	-	(17,003)	-	17,003	-
At 30 June 2020 (Unaudited)	1,369,681	78,938*	56,084*	(27,793)*	682,959*	1,051*	164,099*	15,717*	3,104,254*	5,444,990
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, net of tax	-	-	-	(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	-
Share options exercised	494	-	-	-	-	(124)	-	-	-	370
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

* These reserve accounts comprise the consolidated other reserves of RMB4,075,309,000 (30 June 2019: RMB4,886,278,000) in the condensed statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Cash generated from operations	42,792	635,149
Interest received	10,520	2,725
Government grants received	22,747	30,565
The People's Republic of China (the "PRC") tax paid	(7,150)	(91,983)
Net cash flows from operating activities	68,909	576,456
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(59,578)	(48,467)
Decrease/(increase) in pledged deposits	307,839	(234,671)
Net cash flows from/(used in) investing activities	248,261	(283,138)
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank and other loans	820,302	1,023,071
Repayment of bank and other loans	(401,856)	(1,546,397)
Interest paid	(158,486)	(154,406)
Repayment of borrowing from the ultimate holding company	(1,146)	–
Principal portion of lease payments	(420)	–
Proceeds from share options exercised	–	371
Net cash flows from/(used in) financing activities	258,394	(677,361)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	575,564	(384,043)
Cash and cash equivalents at beginning of period	193,849	935,676
Effect of foreign exchange rate changes, net	(4,141)	(5,401)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	765,272	546,232

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 2019. These unaudited condensed consolidated interim financial statements should be read in conjunction with the Group's audited 2019 annual financial statements, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**"). As at 30 June 2020, the Group had net current liabilities of approximately RMB3,482,033,000 (31 December 2019: RMB4,137,199,000). The Directors are of the opinion that the Group will have sufficient working capital to finance its operations and to maintain its operating existence in the foreseeable future and accordingly have prepared the interim condensed consolidated financial statements on a going concern basis notwithstanding the net current liabilities position.

The Directors have taken the below measures in order to improve the Group's short-term liquidity and cash flows in order for the Group to sustain as a going concern:

- Upon the gradual recovery of economic situation in the PRC after few months' of combating coronavirus pandemic, management has benchmarked to latest price level in the steel product market, together with rigorous cost control measures over its production, to formulate a forecast which will generate enhanced positive operating cash flows.
- In the first half of 2020, the Group has successfully renewed approximately RMB1,123.7 million of interest-bearing bank and other borrowings for another twelve months covering up to after 2020.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1.2 BASIS OF PREPARATION (Continued)

- In May 2020, the Group has obtained a new one-year loan of RMB300 million from Xiwang Group Finance Company Limited, a related party.
- The Group is currently soliciting different source of funds, including additional banking facilities with PRC financial institutions and strategic institutional investor, to further support the Group's funding needs should the aforesaid 2020 operating cash inflows turned out to be less than forecasted.

The Directors have critically evaluated the practical realization of those measures that being not yet happened. Taking into account their evaluation and other measures above, the Directors are of the opinion that the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due in foreseeable future. As such, they are of the opinion that it is appropriate to prepare the consolidated financial statements of the Company on a going concern basis.

1.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The HKICPA has issued a number of new and revised HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2020. The Group has adopted the following revised standards for the first time for the interim financial statements:

- Amendments to HKFRS 3 Definition of a Business
- Amendments to HKFRS 9, HKAS 39 and HKFRS 7 Interest Rate Benchmark Reform
- Amendments to HKAS 1 and HKAS 8 Definition of Material

These amendments have no impact on the Group's financial statements, nor are expected to have any future impact to the Group.



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 loss, which is a measure of adjusted loss 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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PRC	4,740,347	5,949,668
Countries and regions other than PRC	–	9,987
	4,740,347	5,959,655

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 PRC. 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 2020, RMB2,443,586,000 (six months ended 30 June 2019: nil) from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

The unaudited segment results and other segment items included in loss before tax for the six months ended 30 June 2020 are as follows:

	Notes	Ordinary steel RMB'000 (Unaudited)	Special steel RMB'000 (Unaudited)	Trading of commodities RMB'000 (Unaudited)	By-products RMB'000 (Unaudited)	Consolidated RMB'000 (Unaudited)
Segment revenue:						
Sales to external customers		3,278,045	1,065,844	142,195	254,263	4,740,347
Cost of sales		(3,222,323)	(1,096,834)	(145,023)	(234,910)	(4,699,090)
Gross (loss) profit		55,722	(30,990)	(2,828)	19,353	41,257
Reconciliation:						
Other income and gains	3					17,283
Selling and distribution expenses						(4,133)
Administrative expenses						(42,490)
Impairment loss on financial assets, net						(910)
Other expenses						(23,164)
Research and development costs						(172,606)
Finance costs	5					(158,486)
Loss before tax						(343,249)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. OPERATING SEGMENT INFORMATION *(Continued)*

The unaudited segment results and other segment items included in profit before tax for the six months ended 30 June 2019 are as follows:

	Notes	Ordinary steel RMB'000 (Unaudited)	Special steel RMB'000 (Unaudited)	Trading of commodities RMB'000 (Unaudited)	By- products RMB'000 (Unaudited)	Consolidated RMB'000 (Unaudited)
Segment revenue:						
Sales to external customers		3,617,559	1,087,663	976,940	277,493	5,959,655
Cost of sales		(3,166,254)	(1,024,657)	(961,835)	(254,474)	(5,407,220)
Gross profit		451,305	63,006	15,105	23,019	552,435
Reconciliation:						
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)
Profit before tax						216,536

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue from contracts with customers		
Sale of goods	4,740,347	5,959,655

(ii) Performance obligations

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

Sale of industrial products

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.

Other income and gains

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Subsidy income	10,267	32,012
Interest income	6,636	14,740
Fair value gains on embedded derivative component of convertible bonds	–	20,839
Others	380	183
	17,283	67,774

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. (LOSS)/PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Cost of inventories sold	4,699,090	5,407,220
Depreciation		
– property, plant and equipment	218,560	212,873
– right-of-use assets	1,155	1,434
Amortisation of other intangible assets	6,450	6,371
Research and development costs	172,606	162,125
Employee benefit expense (including directors' remuneration):		
Wages and salaries	124,910	127,345
Pension scheme contributions	4,653	9,817
Equity-settled share option expenses	–	12
Staff welfare expenses	2,167	4,377
	131,730	141,551
Impairment of financial assets, net:		
Impairment of trade receivables	1,046	1,148
Reversal of impairment of other receivables	(136)	(64)
	910	1,084

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on bank and other borrowings	91,030	113,068
Finance cost on bills discounted	52,493	62,853
Interest on guaranteed secured bonds	10,644	–
Interest on borrowings from Xiwang Group Finance Company Limited (“Xiwang Finance”) (西王集團財務有限公司)	4,264	1,076
Interest on lease liabilities	51	68
Interest on borrowings from the ultimate holding company	4	505
Interest on convertible bonds	–	20,945
Total interest expense on financial liabilities not at fair value through profit or loss	158,486	198,515
Less: Interest capitalised	–	(24,731)
	158,486	173,784

6. INCOME TAX CREDIT/(EXPENSE)

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable in PRC have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. INCOME TAX CREDIT/(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 2020. 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 2020 as a national-grade high-tech enterprise.

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax charge	2,737	29,442
Deferred tax (credit)/charge	(72,395)	4,545
Total tax (credit)/charge for the Period	(69,658)	33,987

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

The calculation of the basic (loss)/earnings per share amounts is for the six months ended 30 June 2020 based on the (loss)/profit attributable to ordinary equity holders of the parent for the Period, and the weighted average number of 2,369,110,999 (six months ended 30 June 2019: 2,268,641,938) 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. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (Continued)

The calculation of the basic and diluted (loss)/earnings per share for the six months ended 30 June 2020 is based on:

	Six months ended 30 June 2020 RMB'000 (Unaudited)	Six months ended 30 June 2019 RMB'000 (Unaudited)
(Loss)/Profit attributable to ordinary equity holders of the parent, used in the basic and diluted (loss)/earnings per share calculation	(273,591)	182,549
	Number of shares 30 June 2020 (Unaudited)	Number of shares 30 June 2019 (Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the Period used in the basic (loss)/earnings per share calculation	2,369,110,999	2,268,641,938
Effect of dilution – weighted average number of ordinary shares		
Share option	–	1,977,625
Share-based payment	–	100,000,000
Convertible bonds	–	136,046,511
Weighted average number of ordinary shares used in the diluted (loss)/earnings per share calculation	2,369,110,999	2,506,666,074

8. DIVIDENDS

No interim dividend was proposed for the Period (six months ended 30 June 2019: nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9. PROPERTY, PLANT AND EQUIPMENT

The Group's capital expenditure for the Period was approximately RMB130 million (six months ended 30 June 2019: RMB144 million).

10. INVENTORIES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Raw materials	466,453	184,566
Work in progress	161,130	85,740
Finished goods	166,119	76,432
	793,702	346,738

11. TRADE AND BILLS RECEIVABLES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Bills receivable	380,000	498,637
Trade receivables	58,922	38,805
Impairment	(1,556)	(510)
Trade receivables, net of impairment	57,366	38,295
	437,366	536,932

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:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Within 3 months	37,950	29,347
3 to 6 months	5,635	4,962
6 months to 1 year	11,386	352
Over 1 year	2,395	3,634
	57,366	38,295

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

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
At as 1 January	510	180
Impairment losses, net	1,046	330
As at 30 June 2020/31 December 2019	1,556	510

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. TRADE AND BILLS RECEIVABLES (Continued)

Bills receivable

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Classification under HKFRS 9 Financial assets at fair value through other comprehensive income	380,000	498,637

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 RMB13,435,000 (31 December 2019: RMB3,342,000), 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, OTHER RECEIVABLES AND OTHER ASSETS

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Non-current		
Prepayments for long term assets	282,989	284,648
Current		
Prepayments for raw materials	1,895,228	660,519
Deposits and other receivables	49,481	349,374
Bank interest receivable	516	6,047
	1,945,225	1,015,940
Impairment of other receivables	(21,609)	(21,745)
	1,923,616	994,195
	2,206,605	1,278,843

As 30 June 2020, Included in the Group's prepayments and other receivables are RMB67,211,000 and RMB1,000 (31 December 2019: RMB19,268,000 and RMB269,812,000) which is due from the Group's fellow subsidiaries and are non-interest bearing and repayable on demand.

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

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
At beginning of year	21,745	21,674
Impairment losses, net	(136)	71
	21,609	21,745

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13. TRADE AND BILLS PAYABLES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Trade payables	1,255,816	1,230,227
Bills payable	215,250	292,706
	1,471,066	1,522,933

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

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Within 1 month	476,325	493,119
1 to 3 months	284,576	294,610
3 to 6 months	330,830	342,494
6 to 12 months	157,210	162,753
Over 12 months	222,125	229,957
	1,471,066	1,522,933

As at 30 June 2020, the Group's bills payable amounting to RMB69,444,000 (31 December 2019: RMB106,886,000) were secured by the pledged deposits of RMB29,933,400 (31 December 2019: RMB40,490,000). Included in trade and bills payables are trade payables of RMB5,266,000 (31 December 2019: RMB3,153,000) 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. OTHER PAYABLES AND ACCRUALS/CONTRACT LIABILITIES

Other payables and accruals

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Construction and equipment payables	373,278	394,457
Other tax payables	–	205,291
Other payables	122,554	101,378
Salaries and welfare payables	43,128	57,929
Deferred revenue	7,918	8,569
	546,878	768,124

As at 30 June 2020, included in other payables are outstanding balances of RMB9,149,000 (31 December 2019: RMB16,369,000) due to fellow subsidiaries, are non-interest-bearing and repayable on demand. The remaining amounts of other payables and of RMB13,695,000 due to Xiwang Investment (31 December 2019: RMB17,938,000) are non-interest-bearing and have an average term of six months.

Contract liabilities

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Short-term advances received from customers		
Sale of goods	2,747,986	1,179,761

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 2020 Unaudited			31 December 2019 Audited		
		Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current							
Interest-bearing bank borrowings	(i)&(ii)&(v)						
– secured		3.70-7.80	2020-2021	956,824	2.80-8.90	2020	822,235
Interest-bearing other borrowings	(i)&(ii)&(iii)						
– secured	&(iv)&(v)	3.25-11.80	2020-2021	1,246,317	2.32-11.80	2020	2,167,348
Interest-bearing other borrowings	(v)						
– unsecured		4.32-4.46	2020-2021	77,354	4.15	2020	28,563
Borrowings from Xiwang Finance	(v)						
– unsecured		2.00-4.00	2020-2021	424,204	4.50-5.00	2020	92,515
Guaranteed secured bonds		10.00	2020-2021	212,375	10.00	2020	208,269
				2,917,074			3,318,930
Non-current							
Long term interest-bearing other borrowings							
– secured	(ii)&(iii)&(iv)	7.80-11.80	2022	1,201,755	7.80	2022	382,000
Borrowings from Xiwang Finance							
– unsecured		5.97	2021	37,521	5.97	2021	36,974
				1,239,276			418,974
				4,156,350			3,737,904
				2020			2019
				RMB'000			RMB'000
				(Unaudited)			(Audited)
Analysed into:							
Bank and other borrowings repayable:							
Within one year				2,917,074			3,318,930
In the second year				37,521			36,974
In the third year				1,201,755			382,000
				4,156,350			3,737,904

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Notes:

- (i) As at 30 June 2020, the Group's interest-bearing borrowings of RMB1,531,863,000 (31 December 2019: RMB1,525,358,000) were secured by pledged deposits of RMB563,708,000 (31 December 2019: RMB560,000,000).
- (ii) As at 30 June 2020, the Group's interest-bearing borrowings of RMB3,617,270,000 (31 December 2019: RMB3,371,583,000) were guaranteed by certain related parties, as further detailed in note 19(b)(ii) to the condensed consolidated financial statements.
- (iii) As at 30 June 2020, the Group's other borrowings of RMB382,000,000 (31 December 2019: RMB382,000,000) were secured by 100% equity interests of the subsidiary, Shandong Xiwang Recycling Resources Company Limited.
- (iv) As at 30 June 2020, the Group's other borrowings of RMB1,031,790,000 (31 December 2019: RMB1,031,790,000) were secured by a net carrying amount of approximately RMB1,930,246,000 (31 December 2019: RMB2,001,278,000) of the Group's machinery and equipment, motor vehicles and office equipment and fixtures.
- (v) As at 30 June 2020, RMB1,733,422,000 (31 December 2019: RMB1,646,436,000) 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.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

17. CONTINGENT LIABILITIES

On 4 January 2016, the Company entered into a guarantee agreement with Xiwang Group with a term of three years commencing from 4 January 2016, pursuant to which the Company will provide Xiwang Group and its subsidiaries other than the Group (the “**Relevant Subsidiaries**”) with guarantee services (the “**Guarantee Agreement**”). 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 2020, contingent liabilities not provided for in the condensed consolidated financial statements in respect of the Guarantee Amount were as follows:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Guarantees given to banks in connection with facilities:		
Granted to the Xiwang Group	1,400,000	1,400,000
Granted to the Relevant Subsidiaries	2,697,272	3,046,542
	4,097,272	4,446,542

As at 30 June 2020, the Outstanding Amount was approximately RMB3,784,707,000 (31 December 2019: RMB3,180,882,000).

18. COMMITMENTS

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

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Contracted, but not provided for:		
Property, plant and equipment	866,472	949,950

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	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Rental expenses to Xiwang Group	(i)	91	91
Rental expenses to a fellow subsidiary	(i)		
– Lease of land		367	365
Delivery service fees to a fellow subsidiary	(i)		
– Delivery of steel		1,336	11,706
– Delivery of ore-powder		25,631	41,626
Interest expenses on borrowings from Xiwang Group		4	505
Interest expenses on borrowings from Xiwang Finance	(ii)	4,264	1,076
Interest on discounted bills paid to Xiwang Finance	(ii)	3,149	6,622
Interest income from Xiwang Finance		4,924	6,463
Sale of steam to a fellow subsidiary	(i)	18,959	16,141
Sale of steel to fellow subsidiaries	(i)	–	6
Sale of heat energy to fellow subsidiaries	(i)	1,269	849
Sale of cooling energy to fellow subsidiaries	(i)	7,414	4,203
Service fees to a fellow subsidiary	(i)	–	4
Purchase of diesel oil from a fellow subsidiary	(i)	5,622	6,632
Purchase of scrap from fellow subsidiaries	(i)	281	499
Bills discounting service from Xiwang Finance	(ii)	128,270	205,200
Bills acceptance service from Xiwang Finance	(ii)	175,000	986,897
Purchase of electricity through a fellow subsidiary	(i)	402,121	321,755
Purchase of water from a fellow subsidiary	(i)	615	303

(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:

	Note	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Guaranteed by:			
Xiwang Group, Mr. Wang Yong, and Mr. Wang Di, the Chairman, jointly and severally	13	69,444	106,886

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:

Note	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Guaranteed by:		
Mr. Wang Yong Certain ordinary shares of a fellow subsidiary	15 269,862	264,434
Certain convertible preference shares of a fellow subsidiary Xiwang Group	15 649,790	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	15 271,380	246,610
Xiwang Group and a fellow subsidiary	15 300,000	303,392
Xiwang Group and Mr. Wang Yong jointly and severally	15 478,527	478,527
Xiwang Group, Mr. Wang Yong and Mr. Wang Di jointly and severally	15 471,993	759,017
Mr. Wang Yong and Mr. Wang Di jointly and severally	15 382,000	382,000
Two fellow subsidiaries jointly and severally	15 581,344	287,813
Xiwang investment, Xiwang Hong Kong and Xiwang Holdings, jointly	212,375	–
	3,617,271	3,371,583

(iii) The Group provided guarantee services to Xiwang Group and the Relevant Subsidiaries during the Period, 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 2020. Details of the interest-bearing borrowings from Xiwang Finance are disclosed in note 15 to the condensed consolidated financial statements.
 - (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.
 - (iv) The Group had borrowings from its ultimate holding company with a carrying amount of RMB448,000 as at 30 June 2020 (31 December 2019: RMB1,594,000). The balance was unsecured, interest free and repayable on demand.
- (d) Compensation of key management personnel of the Group:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Employee benefit expenses	2,705	3,985
Equity-settled share option expenses	–	12
Pension scheme contributions	65	139
Total compensation paid to key management personnel	2,770	4,136

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.

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, financial assets included in other receivables and other assets, trade and bills payables, financial liabilities included in 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 is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the senior management 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 senior management. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

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 2020 was assessed to be insignificant.

As 30 June 2020, the unlisted equity investment designated at fair value through other comprehensive income, 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

20. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(Continued)

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 30 June 2020:

	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	0.68	5% increase/decrease in multiple would result in increase/decrease in fair value by RMB3,365,100
		Discount for lack of marketability	15.80%	5% increase/decrease in discount would result in decrease/increase in fair value by RMB631,500

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 2020

	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	-	-	67,302	67,302
Debt investments at fair value through other comprehensive income	-	380,000	-	380,000
	-	380,000	67,302	447,302

As at 31 December 2019

	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	-	-	83,282	83,282
Debt investments at fair value through other comprehensive income	-	498,637	-	498,637
	-	498,637	83,282	581,919



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

21. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the Board on 31 August 2020.



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