



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

INTERIM REPORT 中期報告 2022



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. ZHANG Jian (*Chief Executive Officer*)
Mr. SUN Xinhu
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

Ms. FUNG Nga Fong (appointed on 6 May 2022)
Mr. YU Chi Kit (resigned on 1 April 2022)

AUTHORISED REPRESENTATIVES

Mr. WANG Di
Mr. ZHANG Jian (appointed on 1 April 2022 and
resigned on 6 May 2022)
Ms. FUNG Nga Fong (appointed on 6 May 2022)
Mr. YU Chi Kit (resigned on 1 April 2022)

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

HLB Hodgson Impey Cheng Limited
31/F, Gloucester Tower
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Hong Kong

LEGAL ADVISER

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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 2022, due to the impact of factors such as complicated global political and economic situation, sporadic outbursts of the pandemic in the PRC and the disrupted supply chains and industrial chains, the market conditions of the steel industry have worsened drastically. According to the relevant statistics, in the first half of the year, the crude steel output and steel output in the PRC recorded year-on-year decreases of 6.5% and 4.6%, to 526.88 million tonnes and 667.14 million tonnes, respectively, while the profit of the ferrous metal smelting industry recorded a year-on-year decrease of 68.7%. Under the stress of both high upstream raw fuel price and the collapse in downstream demand, the steel industry has become one of the industries experiencing the most significant decline in profit. Being a member of the industry, the Group was inevitably affected. For the Period, the Group recorded a gross loss of approximately RMB24.2 million, compared to a gross profit of approximately RMB645.0 million for the Previous Period. The Group recorded a net loss of approximately RMB294.1 million during the Period, compared to a net profit of approximately RMB191.7 million for the Previous Period.

During the Period, the steel companies faced the great challenge of sales decline caused by the significant drop in steel demand of the real estate industry and the unsatisfactory progress in infrastructure construction in the PRC. The recurring pandemic has further weakened such demand. According to the relevant statistics of the real estate industry, the number of new home constructions declined continuously for the first half of the year, being at record low since February 2020. Meanwhile, the purchase of land recorded a significant year-on-year decrease of 48.3%, leading to a year-on-year decrease of 18% for the demand of hot rolled ribbed bars. At the same time, the global economy gradually declined. With European countries and the USA adopting monetary easing policy to stimulate economic growth, the risk of inflation has developed. The Russia-Ukraine War further stimulated the spikes in global energy prices and severely impacted the global supply chain. The coking coal supply was temporarily tightened due to domestic factors such as environmental protection, cost and demand, causing the surge in its price, which in turn pushed up the price of coke. Additionally, the prices of iron ore and alloy maintained at high levels, while the selling price of steel was under pressure. The revenue of steel plants had therefore faced a relatively huge impact. Meanwhile, the cost of sales of the Group was also affected, with ordinary steel and special steel, being its major products, recording an increase of 6.2% in their average unit cost. The selling price of ordinary steel, a major product of the Group, recorded a decrease, with the average selling price of ordinary steel product dropped from RMB4,293 per tonne in the Previous Period to RMB4,033 per tonne during the Period. However, the Group was not able to raise the selling price despite an increase in the cost of sales of the products in order to maintain its competitiveness in the market. Therefore, gross loss was recorded during the Period.

Apart from the impact of the aforementioned factors, the local pandemic outbreak in Zouping City, Shandong Province, where the Group's main business is located, has led to strict pandemic control measures imposed by the local government and interruptions in transportation and logistics, further aggravating the challenges faced by the Group in its production and operation. The Group would continuously update its strategy, investing resources in new products research and development, as well as cost reduction and efficiency enhancement, so as to reduce costs and raise production efficiency, and lay a solid foundation for the sustainable and long-term development for its business in the future. The senior management and the entire staff of the Group have shown solidarity in adopting effective and flexible responding measures decisively, and strived to hedge the effects of high raw fuel price, weakened terminal demands, as well as the operational risk caused by the pandemic.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Period, the Group primarily derived revenue from the sales of ordinary steel products. The ordinary steel products included rebars and wire rods, which are primarily used in construction and infrastructure. Customers normally do not need further processing. Due to the weak performance in real estate market, the Group recorded a gross loss of approximately RMB12.4 million (Previous Period: gross profit of RMB513.2 million) in sales of ordinary steel products during the Period. As the PRC government may continue to tighten the future development of property development market, the demand for the Group's ordinary steel products may continue to weaken.

The special steel products that the Group offers included quality carbon structural steel, alloy structural steel, bearing steel and steel welding wire which are primarily used in machinery, equipment and automobile industries. Customers may require further processing for it to suit their intended usage in the machinery, equipment and automobile industry. Although the average selling price of the special steel products showed an upward trend during the Period, the sales volume for special steel products decreased by 23.7% when compared to the Previous Period. As such, the Group recorded a gross loss of approximately RMB14.1 million (Previous Period: gross profit of approximately RMB99.7 million) in sales of special steel products during the Period. The management of the Group has reasonable confidence on the future development of special steel products and aim at producing more high quality and high value-added special steel products in the long run through the cooperation with the Chinese Academy of Sciences.

The trading of commodities segment mainly includes the trading of commodities such as iron ore powder and steel billets. The Group recorded a gross profit of approximately RMB5.8 million (Previous Period: approximately RMB18.7 million) in trading of commodities during the Period. Due to the lockdown in Zouping City as a result of the pandemic, the business of this segment was also affected as compared to the Previous Period. The Group had to pay higher transportation cost during the pandemic in order to get the orders fulfilled. Despite the Group recorded a slight increase in the revenue in this segment, the increase in the transportation cost of the commodities eroded its profit margin.

The by-products segment includes the sale of by-products such as steel slag, steam and electricity. The Group also recorded a gross loss of approximately RMB3.5 million (Previous Period: gross profit of approximately RMB13.5 million) in sale of by-products during the Period. As the customers from this segment are all local manufacturers in Zouping City and its surrounding area, due to the lockdown of Zouping City as a result of the pandemic, their production plans were disrupted and the demand for the by-products decreased. Certain cost of sales such as depreciation and labour cost were fixed for the by-products segment which could not be flexibly adjusted with the decrease in demand.

MANAGEMENT DISCUSSION AND ANALYSIS

II. FINANCIAL REVIEW

Business Performance

1. Revenue

During the Period, revenue of the Group was approximately RMB8,473.3 million (1H2021: approximately RMB9,890.8 million).

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

	For the six months ended 30 June			
	2022		2021	
	Revenue	Average selling price	Revenue	Average selling price
	(RMB'000)	(RMB/tonne)	(RMB'000)	(RMB/tonne)
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Ordinary Steel				
Rebar	2,817,502	3,998	3,352,906	4,199
Wire rod	1,014,519	4,135	1,600,803	4,504
Subtotal/Average	3,832,021	4,033	4,953,709	4,293
Special Steel	1,816,345	4,528	2,302,547	4,381
Production and sales of steel	5,648,366	4,180	7,256,256	4,320
Trading of commodities[#]	2,552,094		2,365,036	
Sales of by-products^{##}	272,823		269,536	
Total	8,473,283		9,890,828	

[#] 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			
	2022		2021	
	Tonnes	Percentage	Tonnes	Percentage
Ordinary Steel				
Rebar	704,752	52%	798,455	48%
Wire rod	245,330	18%	355,441	21%
Subtotal	950,082	70%	1,153,896	69%
Special Steel	401,132	30%	525,610	31%
Total	1,351,214	100%	1,679,506	100%

The revenue of the Group decreased by 14.3% due to the combined effects of i) the decrease in the sales volume of the Group's major products (ordinary steel and special steel) and ii) the decrease in the average selling price of ordinary steel products.

2. **Cost of sales**

During the Period, cost of sales was approximately RMB8,497.5 million (1H2021: approximately RMB9,245.8 million).

Cost of sales mainly represents costs incurred for purchasing iron ore powder, coke, scrap steel, coal, depreciation, electricity, staff costs, etc. During the Period, the decrease in the Group's cost of sales was mainly attributable to the decrease in sales volume and trade business.

The average unit cost for the Group's ordinary steel and special steel products was approximately RMB4,200 per tonne (1H2021: approximately RMB3,956 per tonne). The costs of major raw materials remained at high level during the Period. As such, the average unit cost increased during the Period when compared to the Previous Period.

MANAGEMENT DISCUSSION AND ANALYSIS

3. **Gross (loss)/profit**

Gross loss for the Period amounted to approximately RMB24.2 million (1H2021: gross profit of approximately RMB645.0 million), while the gross loss margin for the Period was 0.3% (1H2021: gross profit margin 6.5%).

The Group recorded a gross loss during the Period as i) the average selling price for ordinary steel and special steel products decreased from RMB4,320 per tonne to RMB4,180 per tonne; ii) the demand for the Group's ordinary steel and special steel products decreased and the sales volume recorded a 19.5% decrease as a result of the unsatisfactory performance of real estate industry in which major customers of the Group operate, and slow progress in infrastructure construction; and iii) the surge in the cost of sales arising from the fluctuation in major raw materials prices such as coking coal while the cost of iron ore remained high throughout the Period.

Breakdown of the contribution of gross (loss)/profit and gross (loss)/profit margins by operating segment:

	For the six months ended 30 June			
	2022		2021	
	Gross (loss)/profit RMB'000 (Unaudited)	Gross (loss)/profit margin	Gross profit RMB'000 (Unaudited)	Gross profit margin
Ordinary steel	(12,389)	(0.3)%	513,200	10.4%
Special steel	(14,120)	(0.8)%	99,675	4.3%
Production and sales of steel	(26,509)	(0.5)%	612,875	8.4%
Trading of commodities	5,835	0.2%	18,665	0.8%
Sales of by-products	(3,518)	(1.3)%	13,468	5.0%
Total/Overall	(24,192)	(0.3)%	645,008	6.5%

4. Other income and (losses)/gains, net

Other income and (losses)/gains, net for the Period amounted to losses of approximately RMB11.8 million (1H2021: gain of approximately RMB12.2 million). The Group recorded net losses in other income and losses during the Period as the Group incurred exchange losses of approximately RMB22.3 million (1H2021: exchange gain of approximately RMB4.5 million). Since the Group had other borrowings denominated in USD, the Group suffered from the appreciation in USD.

Other income and (losses)/gains, net mainly represents exchange differences, interest income, government grants and other miscellaneous income and expenses.

5. Selling and distribution expenses

The Group's selling and distribution expenses for the Period amounted to approximately RMB4.1 million (1H2021: approximately RMB4.8 million), which remained stable as compared to the Previous Period.

6. Administrative expenses

Administrative expenses for the Period amounted to approximately RMB66.2 million (1H2021: approximately RMB48.8 million).

The increase was mainly attributable to the increase in amortisation of intangible assets by the Group and the increase in salaries during the Period.

7. Research and development costs

During the Period, the Group recognised a total expense of approximately RMB224.0 million (1H2021: approximately RMB223.7 million) in relation to its research and development activities which remained stable as compared to the Previous Period. The research and development costs included material cost, staff remuneration, depreciation, technical service fees and other miscellaneous costs.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial position

Liquidity and capital resources

As at 30 June 2022, the Group had approximately RMB130.4 million in cash and cash equivalents (31 December 2021: approximately RMB332.2 million), and approximately RMB267.5 million in pledged bank deposits (31 December 2021: approximately RMB419.3 million). The Group had trade and bills payables of approximately RMB2,368.6 million (31 December 2021: approximately RMB2,254.1 million), bank and other borrowings due within one year in the amount of approximately RMB3,528.3 million (31 December 2021: approximately RMB3,540.9 million), and bank and other borrowings due after one year in the amount of approximately RMB100.0 million (31 December 2021: approximately RMB33.8 million). The Group did not have any unutilised banking facilities as at 30 June 2022 (31 December 2021: Nil). There is no material seasonality of borrowing requirements for the Group. As at 30 June 2022, the bank and other borrowings were denominated in RMB, HK\$ and USD. All of the bank and other borrowings (excluding borrowing from Xiwang Group Finance Company Limited* (西王集團財務有限公司)) were secured by non-current assets of the Group and the subsidiaries of Xiwang Group Company, restricted bank deposits, 100% equity interests of Shandong Xiwang Recycling Resources Company Limited* (山東西王再生資源有限公司), ordinary shares and convertible preference shares of a related company of the Company and/or guarantee by Mr. WANG Yong, and/or Mr. WANG Yong and Ms. ZHANG Shufang (spouse of Mr. WANG Yong), Mr. WANG Di, and/or Mr. WANG Di and Ms. SU Xin (spouse of Mr. WANG Di), and/or Xiwang Group Company and its subsidiaries. The Group mainly used its operating cash inflow to fund its working capital needs, while the capital requirement for acquiring additional production equipment was mainly satisfied by cash inflows from operating and financing activities.

Capital structure

As at 30 June 2022, the Group's total assets was approximately RMB16,094.5 million (31 December 2021: approximately RMB16,168.9 million), which was funded by the following: (1) share capital of approximately RMB1,369.7 million (31 December 2021: approximately RMB1,369.7 million), (2) reserves of approximately RMB4,114.7 million (31 December 2021: approximately RMB4,415.1 million) and (3) total liabilities of approximately RMB10,610.2 million (31 December 2021: approximately RMB10,384.1 million), which mainly consists of bank and other borrowings, borrowings from related party and guaranteed secured bonds. For the Period, the Group adopted conservative treasury policies, and all of the Group's interest-bearing borrowings bore interest at fixed interest rate.

There has been no change in the capital structure of the Group since 1 January 2022 and up to the date of this interim report. The share capital of the Company consists only of ordinary shares.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. The Group monitors its capital with reference to its gearing ratio and currently, it aims at maintaining its gearing ratio below 30%. Detailed calculation of the "gearing ratio" was included in the section headed "Gearing ratio" below.

During the Period, the Group did not use any financial instruments for hedging purposes (Previous Period: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Gearing ratio

As at 30 June 2022, the Group's gearing ratio, which is the relevant debts divided by total assets, was 23.4% (31 December 2021: 22.9%).

The relevant debts included lease liabilities, interest-bearing bank and other borrowings, borrowings from the ultimate holding company and other long term payable.

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

Save as disclosed in this interim report, the Group did not have any material investment and material acquisition or disposal of subsidiaries, associates or joint ventures, nor any future material investment or capital and assets acquisition plan during the Period and up to the date of this interim report.

Pledge of assets

As at 30 June 2022, RMB4,841.3 million (31 December 2021: RMB5,011.5 million) of building, machinery and equipment, RMB85.5 million of leasehold land (31 December 2021: RMB86.6 million) and RMB266.6 million of pledged deposits (31 December 2021: RMB406.6 million) were pledged as security for interest-bearing bank and other borrowings of the Group and the subsidiaries of Xiwang Group Company and bills payable. The Group's other borrowings of RMB382.0 million (31 December 2021: RMB382.0 million) were also secured by the Group's 100% equity interest in Shangdong Xiwang Recycling Resources Company Limited.

Pledge of shares by controlling shareholders

On 22 November 2019, the Company entered into the subscription agreement with, among others, the guarantors (being Mr. WANG Yong, Mr. WANG Di, Xiwang Group Company, Xiwang Hong Kong, Xiwang Holdings and Xiwang Investment) 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 with an original and extended maturity dates on 11 December 2019 and 31 May 2020 (the "**Bonds**").

As part of the security for the obligations of the Company under the subscription agreement of the Bonds, (i) Xiwang Group Company agreed to pledge its 100% shareholding interest in Xiwang Hong Kong; (ii) Xiwang Hong Kong agreed to pledge its 95% shareholding interest in Xiwang Holdings; and (iii) Xiwang Holdings agreed 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 of the Listing Rules

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 originally due on 11 December 2019, and was extended to 31 May 2020. As at 30 June 2022 and the date of this interim report, the Group was still discussing with the relevant bond subscribers as to the redemption schedule of the bonds in order to meet the repayment obligation.

Capital commitments

As at 30 June 2022, the capital commitment of the Group for property, plant and equipment was approximately RMB582.2 million (31 December 2021: approximately RMB577.2 million).

Contingent liabilities

On 19 January 2021, the Company (and its subsidiaries) and Xiwang Group Company (and its subsidiaries) entered into a guarantee agreement (the “**Guarantee Agreement**”). Pursuant to the Guarantee Agreement, the Group agreed to provide Xiwang Group Company and its certain subsidiaries with guarantee services for the period from 1 January 2021 to 31 December 2023, subject to the terms and conditions provided therein. Please refer to the Company’s announcement dated 19 January 2021 for the details of the Guarantee Agreement.

The contingent liabilities of the Group are set out in Note 16 to the Condensed Consolidated Financial Statements.

As at 30 June 2022, the banking facilities guaranteed by the Group to Xiwang Group Company and its certain subsidiaries were utilised to the extent of approximately RMB1,400.0 million (31 December 2021: approximately RMB1,400.0 million) and approximately RMB2,784.0 million (31 December 2021: approximately RMB2,089.1 million), respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2022, the Group was mainly exposed to risks relating to its liabilities denominated in USD of approximately RMB186.3 million (31 December 2021: approximately RMB214.9 million). During the Period, the Group did not enter into any foreign exchange swaps to hedge against foreign exchange risks.

Employees and remuneration policy

As at 30 June 2022, the Group had a total of 3,571 employees (as at 30 June 2021: 3,712). Staff-related costs incurred during the Period was approximately RMB152.1 million (1H2021: approximately RMB149.1 million). 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 and the Group's results. The Group has also adopted a share option scheme providing incentives and rewards for those qualifying staff who have made contributions to the Group.

The Group provides regular training courses for different levels of staff and holds various training programs together with PRC occupational institutes and external training bodies. Apart from academic and technical training, the Group also organises different kinds of recreational activities, including annual gathering, various sports competitions and singing contest to promote interaction among staff, establish a harmonious team spirit and promote a healthy lifestyle.

III. BUSINESS OUTLOOK

Looking forward to the second half of the year, the gradual recovery of the domestic economy weakened by the pandemic, the facilitation of implementing steady growth policies, the recovery in manufacturing industry and the investments in infrastructure constructions would continue to contribute to economic stabilisation. Through various measures including facilitating large projects, speeding up the issuance and usage of local special debt, as well as raising both strategic banking facilities and investment fund arrangement in the budget to support the funding, along with the national curtailment of crude steel output as stated by the National Development and Reform Commission, the pressure on supply and demand of steel is expected to be eased. However, with the increasing overall downward pressure, the Group expected that the challenges in the second half of 2022 would continue to exist, the cost might not be able to decrease in the short run and the profit level would remain relatively weak.

MANAGEMENT DISCUSSION AND ANALYSIS

For the second half of the year, the European countries and the USA are expected to impose more tightening monetary policy in response to the risk of inflation. As of June this year, the Federal Funds Rate has been raised to 1.5%, and potential interest rate increase in the future is expected. The overall commodity prices will be witnessing an inflection point and entering the declining phase. The property industry, which has the highest demand in steel, showed a rebound. However, it is hard to reverse the current situations in the short run, including the lack of confidence in the market, the relatively inactive land acquisition by real-estate developers and the financial strain of the real estate industry. Under the periodic change of the business cycle, the PRC is at the critical point of time switching from passive replenishment phase to the proactive destocking phase, the room for increase in selling prices of products is limited, and the overall steel price is expected to be continuously under pressure. As the market demand of steels would not be able to rebound to the level of the first half of last year within a short period of time, the income of the Group will be affected.

Under the severe market conditions, the Group will be more prudent and cautious when formulating operation strategy, in response to the existing negative factors of the external market, and be prepared for the market demands in the future. The Group endeavours to implement multiple measures to enhance the effectiveness and quality of its operation. It strives to deepen transformation and proactively develops special steel products with high premiums and steady demand. The Group will also strengthen its cooperation with the Institute of Metallurgy, Chinese Academy of Sciences, to develop and promote differentiated and competitive special steel products, in order to enhance the resilience and profitability of the Group. It will continue to adhere to benchmarking and potentiality exploitation, as well as promoting cost reduction and efficiency improvement during the whole process from procurement, production to sales, in order to achieve further breakthroughs.

Recently, the Group has been granted the official approval for establishing the Shandong Provincial Special Steel New Material Technology Innovation Centre (the “**TIC**”). The TIC is the only special steel new material technology innovation centre in Shandong Province. Bearing the core objective of research and development as well as application of commonly-used key technology within the industry, it aims to overcome technological “bottlenecks”. The TIC undertakes national and provincial scientific research and development projects in various fields in respect of special steel new materials, and strives to solve the “bottleneck” technological issues of special steel segment, so as to fulfill the demand on materials for highly sophisticated and precised products in the high-end equipment field, and centralise the resources for innovation of the special steel new material industry, while enhancing the technological level and innovative capability of the special steel new material industry in Shandong Province.

OTHER INFORMATION

INTERIM DIVIDEND

The Board resolved not to declare an interim dividend for the Period (1H2021: nil).

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

As at 30 June 2022, 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 SFO) which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or notified to the Company and the Stock Exchange pursuant to the Model Code, 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 2022
WANG Di	Company	Beneficial owner	9,333,333 shares (L)	0.39%
	Xiwang Holdings	Beneficial owner	177 shares (L)	0.09%
	Xiwang Group Company	Beneficial owner	RMB35,460,000 (L)	1.44%
	Xiwang Property	Beneficial owner	3,000,000 share options (L)	0.21%
SUN Xihu	Xiwang Holdings	Beneficial owner	89 shares (L)	0.04%
	Xiwang Group Company	Beneficial owner	RMB35,460,000 (L)	1.44%
	Xiwang Property	Beneficial owner	3,000,000 share options (L)	0.21%

Note:

(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 2022, 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 2022 (Note 6)
Xiwan Investment	Beneficial owner	868,093,000 ordinary shares (L)	36.64%
Xiwan Holdings	Interest of a controlled corporation (Note 2)	868,093,000 ordinary shares (L)	36.64%
Xiwan Hong Kong	Interest of controlled corporations (Note 2)	868,093,000 ordinary shares (L)	36.64%
Xiwan Group Company	Interest of controlled corporations (Note 2)	868,093,000 ordinary shares (L)	36.64%
Mr. WANG Yong	Interest of controlled corporation (Notes 2, 3)	868,093,000 ordinary shares (L) (Note 4)	36.64%
Ms. ZHANG Shufang	Interest of spouse (Note 3)	868,093,000 ordinary shares (L)	36.64%
Haitong International Finance Company Limited ("Haitong International Finance")	Other (Note 4)	849,875,000 ordinary shares (L)	35.87%

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 2022 (Note 6)
Haitong International Securities Group Limited (“Haitong International Securities”)	Interest of a controlled corporation (Note 5)	849,875,000 ordinary shares (L)	35.87%
Haitong International Holdings Limited (“Haitong International Holdings”)	Interest of a controlled corporation (Note 5)	849,875,000 ordinary shares (L)	35.87%
Haitong Securities Co., Ltd. (“Haitong Securities”)	Interest of a controlled corporation (Note 5)	849,875,000 ordinary shares (L)	35.87%

Notes:

- (1) The letter “L” represents the entity’s long position in the shares of the Company.
- (2) As at 30 June 2022, Xiwang Investment was directly wholly-owned by Xiwang Holdings, which in turn was directly held as to 95% by Xiwang Hong Kong and as to 5% by Mr. WANG Yong and 22 individuals respectively. Xiwang Hong Kong is in turn wholly-owned by Xiwang Group Company. As at 30 June 2022, Xiwang Group Company was owned as to 25.24% by Mr. WANG Yong, 32.33% by 20 individuals (including Mr. WANG Di and Mr. Sun Xihu, each a Director) and the remaining 42.43% by other shareholders. Further, the 20 individuals are accustomed to act in accordance with the directions of Mr. WANG Yong in respect of the exercise of their voting rights held as shareholders of Xiwang Group Company. Therefore, Mr. WANG Yong, Xiwang Group Company, Xiwang Hong Kong and Xiwang Holdings are deemed to be interested in the number of shares of the Company held by Xiwang Investment.
- (3) Ms. ZHANG Shufang, being the spouse of Mr. WANG Yong, is deemed to be interested in all the shares of the Company in which Mr. WANG Yong is deemed to be interested.

OTHER INFORMATION

- (4) Based on the Disclosure of Interests notice filed by Haitong International Investment Solutions Limited (“**Haitong International Investment Solutions**”) on 30 April 2021, the substantial shareholder of the Company entered into a security agreement and pledged the shares of the Company to Haitong International Investment Solutions. Upon occurrence of event of default, Haitong International Investment Solutions exercised the right to dispose of pledged shares partially (i.e. forced liquidation) on 27 April 2021. To the best knowledge of the Directors, such shares of the Company held by Haitong International Investment Solutions have been assigned to Haitong International Finance.
- (5) Based on the Disclosure of Interests notices filed by Haitong Securities, Haitong International Holdings, Haitong International Securities and Haitong International Finance on 13 September 2021, Haitong International Finance is a wholly-owned subsidiary of Haitong International Securities, which in turn is 64.4% owned by Haitong International Holdings, which in turn is wholly-owned by Haitong Securities. Therefore, Haitong Securities, Haitong International Holdings and Haitong International Securities are deemed to be interested in the number of shares in the Company held by Haitong International Finance.
- (6) These percentages are calculated based on 2,369,110,999 listed shares in issue as at 30 June 2022.

(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 2022, to the knowledge of the Directors, 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**”). The Share Option Scheme became effective on 3 September 2014. Share options of 200,000 shares (“**Shares**”) were lapsed during the Period.

(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 2022, there was no outstanding shares, details of which are set out below:

Grantee	Date of grant	At	Number of Share Options			At	Exercise price per Share (HK\$)	Vesting period	Exercise period
		1 January 2022	Granted	Exercised	Lapsed	30 June 2022			
Employees (Note 1)	12 April 2017 (Note 2)	200,000	-	-	(200,000)	-	1.38	12/4/2017 – 12/4/2019	12/4/2017 – 11/4/2022

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 granted was HK\$1.39.
- (3) No share options were cancelled under the Share Option Scheme during the Period.
- (4) 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, 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 2021 and up to the date of this interim report.

EVENTS OCCURRING AFTER THE REPORTING PERIOD

From 1 July 2022 to the date of this interim report, save as disclosed in this interim report, the supplemental announcement of the Company in relation to dividend distribution dated 19 August 2022 and the profit warning announcement of the Company dated 29 August 2022, there was no material event or transaction affecting the Company and which is required to be disclosed by the Company to its shareholders.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S SECURITIES

Neither the Company nor any of its subsidiaries has 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 CG Code as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The Board confirms that the Company was in compliance with all applicable code provisions set out in the CG Code throughout the Period.

COMPLIANCE WITH THE LISTING RULES

As disclosed in the announcement of the Company dated 1 April 2022, Mr. Yu Chi Kit resigned as the company secretary of the Company with effect from 1 April 2022. As disclosed in the announcement of the Company dated 6 May 2022, Ms. Fung Nga Fong was appointed as the company secretary of the Company with effect from 6 May 2022. As a result, the Company has re-complied with the requirement of Rule 3.28 of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

SUFFICIENCY OF 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 condensed consolidated interim financial statements, the interim results and this interim report for the Period.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	Six months ended 30 June	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
REVENUE	3	8,473,283	9,890,828
Cost of sales		(8,497,475)	(9,245,820)
GROSS (LOSS)/PROFIT		(24,192)	645,008
Other income and (losses)/gains, net	3	(11,756)	12,172
Selling and distribution expenses		(4,083)	(4,773)
Administrative expenses		(66,233)	(48,805)
Reversal of/(impairment loss) on financial assets, net		158	(34)
Research and development costs		(223,964)	(223,699)
Finance costs	5	(87,698)	(146,511)
(LOSS)/PROFIT BEFORE TAX	4	(417,768)	233,358
Income tax credit/(expense)	6	123,640	(41,659)
(LOSS)/PROFIT FOR THE PERIOD		(294,128)	191,699
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
– Basic and diluted	7	RMB(12.42) cents	RMB8.09 cents

The notes on pages 27 to 56 are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
(LOSS)/PROFIT FOR THE PERIOD	(294,128)	191,699
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	6,076	1,187
Other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	(14,467)	(10,138)
Income tax effect	2,170	1,521
	(12,297)	(8,617)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	(6,221)	(7,430)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY	(300,349)	184,269

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	11,021,858	11,218,379
Right-of-use assets		86,470	87,834
Prepayments for long term assets	11	235,932	198,361
Other intangible assets		544,233	477,917
Equity investment designated at fair value through other comprehensive income		51,629	66,096
Deferred tax assets		152,546	48,469
Total non-current assets		12,092,668	12,097,056
CURRENT ASSETS			
Inventories		1,300,388	1,387,544
Trade and bills receivables	10	72,820	57,505
Prepayments, other receivables and other assets	11	2,230,772	1,875,311
Pledged deposits		267,544	419,272
Cash and cash equivalents		130,354	332,182
Total current assets		4,001,878	4,071,814
CURRENT LIABILITIES			
Trade and bills payables	12	2,368,580	2,254,123
Other payables and accruals	13	945,260	660,789
Contract liabilities		3,184,763	3,389,324
Dividend payables		290,369	290,369
Lease liabilities		189	479
Interest-bearing bank and other borrowings	14	3,528,267	3,540,868
Borrowings from the ultimate holding company		447	447
Income tax payable		32,779	50,373
Total current liabilities		10,350,654	10,186,772
NET CURRENT LIABILITIES		(6,348,776)	(6,114,958)
TOTAL ASSETS LESS CURRENT LIABILITIES		5,743,892	5,982,098

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	14	100,000	33,791
Deferred tax liabilities		29,503	33,569
Other long term payable		130,000	130,000
Total non-current liabilities		259,503	197,360
Net assets		5,484,389	5,784,738
CAPITAL AND RESERVES			
Share capital		1,369,681	1,369,681
Reserves		4,114,708	4,415,057
Total equity		5,484,389	5,784,738

WANG Di
Director

SUN Xihu
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company									
	Share capital	Contributed surplus	Other reserve	Fair value reserve	Statutory surplus reserve	Share option reserve	Special reserve	Exchange fluctuation reserve	Retained profits	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2022	1,369,681	78,938	56,084	(28,818)	695,032	292	163,823	(500)	3,450,206	5,784,738
Loss for the Period	-	-	-	-	-	-	-	-	(294,128)	(294,128)
Other comprehensive (loss)/income for the Period:										
Change in fair value of equity investment designated at fair value through other comprehensive income, net of tax	-	-	-	(12,297)	-	-	-	-	-	(12,297)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	6,076	-	-	6,076
Total comprehensive (loss)/income for the Period	-	-	-	(12,297)	-	-	-	6,076	(294,128)	(300,349)
Transfer of share option reserve upon the lapse of share option	-	-	-	-	-	(292)	-	-	292	-
At 30 June 2022 (Unaudited)	1,369,681	78,938*	56,084*	(41,115)*	695,032*	-	163,823*	5,576*	3,156,370*	5,484,389
At 1 January 2021	1,369,681	78,938	56,084	(21,417)	687,200	1,051	163,823	3,278	3,392,248	5,730,886
Profit for the Period	-	-	-	-	-	-	-	-	191,699	191,699
Other comprehensive (loss)/income for the Period:										
Change in fair value of equity investment designated at fair value through other comprehensive income, net of tax	-	-	-	(8,617)	-	-	-	-	-	(8,617)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	1,187	-	-	1,187
Total comprehensive (loss)/income for the Period	-	-	-	(8,617)	-	-	-	1,187	191,699	184,269
At 30 June 2021 (Unaudited)	1,369,681	78,938*	56,084*	(30,034)*	687,200*	1,051*	163,823*	4,465*	3,583,947*	5,915,155

* These reserve accounts comprise the consolidated other reserves of RMB4,114,708,000 (30 June 2021: RMB4,545,474,000) in the condensed statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Net cash flows (used in)/generated from operating activities	(161,814)	768,353
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(85,783)	(115,226)
Purchase of other intangible asset	(94,463)	(40,304)
Decrease in pledged time deposits	151,728	68,814
Net cash flows (used in) investing activities	(28,518)	(86,716)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bank and other borrowings	1,312,527	318,040
Repayment of bank and other loans	(1,278,847)	(902,643)
Interest paid	(48,523)	(146,511)
Principal portion of lease payments	(291)	(1,031)
Net cash flows (used in) financing activities	(15,134)	(732,145)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(205,466)	(50,508)
Cash and cash equivalents at beginning of period	332,182	386,812
Effect of foreign exchange rate changes, net	3,638	(5,756)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	130,354	330,548

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1.1 CORPORATE INFORMATION

Xiwang Special Steel Company Limited (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 Company and its subsidiaries (the “**Group**”) are principally engaged in the production and sale of steel products, trading of commodities and sale of by-products mainly in the People’s Republic of China (the “**PRC**”).

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 2021. These unaudited condensed consolidated interim financial statements should be read in conjunction with the Group’s audited 2021 annual financial statements, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”).

The financial information relating to the year ended 31 December 2021 included in this interim report does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the “**Companies Ordinance**”) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2021 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company’s auditor has reported on those financial statements. The auditor’s report was unqualified; included a reference to matters to which auditor drew attention by way of emphasis without qualifying its report, for details of which, please refer to the section headed “Material Uncertainty Related to Going Concern” in the Independent Auditors’ Report on page 60 of the annual report of the Company for the financial year ended 31 December 2021 published on 29 April 2022; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1.2 BASIS OF PREPARATION (Continued)

Going concern

As at 30 June 2022, Group's current liabilities exceed its current assets by approximately RMB6,348,776,000, while its cash and cash equivalents amounted to approximately RMB130,354,000. As at 30 June 2022, the Group had outstanding bank and other borrowings with aggregate amount of approximately RMB3,528,267,000 which were due for repayment in the next twelve months from 30 June 2022.

These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern, in particular the ability to discharge its liabilities due within the twelve months period in the normal course of business. In such circumstance, 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 and adopted the going concern basis in the preparation of condensed consolidated interim financial statements.

- Upon the gradual stabilisation of economic situation in the PRC, management has benchmarked to latest price level in the steel product market, together with rigorous cost control measures over its production, active market production, and consumption reduction to formulate a forecast which will generate enhanced positive operating cash flows.
- The Company has implemented technological transformation and innovation in the technical system to reduce costs, enhance efficiency and strengthen products' quality and competitiveness.
- The Group has received a written confirmation dated 31 August 2022 from Xiwang Group Company Limited ("**Xiwang Group Company**"), the controlling shareholder, that it will provide continuing financial support to the Group to enable the Group to meet its financial obligations as and when they fall due for the foreseeable future, and agreed not to demand repayment of any of the amounts due to Xiwang Group Company by the Group in the next twelve months from the date of approval for issue of these condensed consolidated interim financial statements.
- The Group is currently soliciting different sources of funds, including additional banking facilities with PRC financial institutions and strategic institutional investors and equity financing options, to further support the Group's funding needs.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1.2 BASIS OF PREPARATION (Continued)

Going concern (Continued)

The Directors have critically evaluated those measures together with the management of the Company. Taking into account their evaluation and other measures above, the Directors expect that the Group would improve its working capital in order 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 condensed consolidated interim financial statements of the Company on a going concern basis.

Should the going concern assumption be inappropriate, adjustments may have to be made to write down the values of the assets to their recoverable amounts, to provide for any further liabilities that may arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the condensed consolidated interim financial statements.

The Audit Committee has confirmed that it has objectively and critically reviewed the measures stated above. The Audit Committee and the Board have confidence in the Group's business plan as referred above is feasible and achievable.

1.3 APPLICATION OF NEW AND AMENDMENTS TO HKFRSS

In the current Period, the Group applied, for the first time, the following new and amendments to HKFRSS issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 January 2022 for the preparation of the Group's condensed consolidated interim financial statements:

HKFRS 16 (Amendments)	COVID-19-Related Rent Concessions beyond 30 June 2021
HKAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before intended use
HKAS 37 (Amendments)	Onerous Contracts – Cost of Fulfilling a Contract
HKFRS 3 (Amendments)	Reference to the Conceptual Framework
Amendments to HKFRSS	Annual Improvements to HKFRSS Standards 2018-2020

The application of the amendments to HKFRSS in the current Period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated interim financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. OPERATING SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (“**CODM**”). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board that makes strategic decisions.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

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 mainly 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 of the Company 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/(loss), which is a measure of adjusted profit/(loss) before tax.

Segment profit/(loss) represents the profit earned/(losses) suffered by each segment without allocation of other income and gains/(losses), net, selling and distribution expenses, administrative expenses, reversal of/(impairment loss) on financial assets, net, research and development costs and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. OPERATING SEGMENT INFORMATION (Continued)

The CODM makes decisions according to operating results of each segment. No analysis of segment asset and segment liability is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

The unaudited segment results and other segment items included in loss before tax for the six months ended 30 June 2022 are as follows:

For the six months ended 30 June 2022	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	3,832,021	1,816,345	2,552,094	272,823	8,473,283
Inter-segment sales	3,898,688	1,967,944	1,069,389	825,900	7,761,921
	7,730,709	3,784,289	3,621,483	1,098,723	16,235,204
Costs of sales	(3,844,410)	(1,830,465)	(2,546,259)	(276,341)	(8,497,475)
Gross (loss)/profit	(12,389)	(14,120)	5,835	(3,518)	(24,192)
Reconciliation:					
Other income and (losses)/gains, net					(11,756)
Selling and distribution expenses					(4,083)
Administrative expenses					(66,233)
Reversal of impairment loss of financial assets, net					158
Research and development costs					(223,964)
Finance costs					(87,698)
Loss before tax					(417,768)

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 2021 are as follows:

For the six months ended 30 June 2021	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	4,953,709	2,302,547	2,365,036	269,536	9,890,828
Inter-segment sales	4,365,135	1,634,278	1,416,803	885,974	8,302,190
	9,318,844	3,936,825	3,781,839	1,155,510	18,193,018
Costs of sales	(4,440,509)	(2,202,872)	(2,346,371)	(256,068)	(9,245,820)
Gross profit	513,200	99,675	18,665	13,468	645,008
Reconciliation:					
Other income and gains/(losses), net					12,172
Selling and distribution expenses					(4,773)
Administrative expenses					(48,805)
Impairment loss of financial assets, net					(34)
Research and development costs					(223,699)
Finance costs					(146,511)
Profit before tax					233,358

Geographical information

All of the Group's customers are located in the PRC. The revenue information above is based on the locations of the customers.

The principal non-current assets and capital expenditure of the Group were located and incurred in the PRC. Accordingly, no further geographical information is presented.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. REVENUE, OTHER INCOME AND (LOSSES)/GAINS, NET

Revenue from contracts with customers

Disaggregated revenue information

For the six months ended 30 June 2022

Segments	Sale of ordinary steel RMB'000 (Unaudited)	Sale of special steel RMB'000 (Unaudited)	Trading of commodities RMB'000 (Unaudited)	Sale of by-products RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Type of goods					
Sale of industrial products	3,832,021	1,816,345	2,552,094	272,823	8,473,283
Geographical markets					
PRC	3,832,021	1,816,345	2,552,094	272,823	8,473,283
Timing of revenue recognition					
A point in time	3,832,021	1,816,345	2,552,094	272,823	8,473,283

For the six months ended 30 June 2021

Segments	Sale of ordinary steel RMB'000 (Unaudited)	Sale of special steel RMB'000 (Unaudited)	Trading of commodities RMB'000 (Unaudited)	Sale of by-products RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Type of goods					
Sale of industrial products	4,953,709	2,302,547	2,365,036	269,536	9,890,828
Geographical markets					
PRC	4,953,709	2,302,547	2,365,036	269,536	9,890,828
Timing of revenue recognition					
A point in time	4,953,709	2,302,547	2,365,036	269,536	9,890,828

All revenue contracts are for period of one year or less, as permitted by practical expedient under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. REVENUE, OTHER INCOME AND (LOSSES)/GAINS, NET (Continued)

Other income and (losses)/gains, net

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Bank interest income	3,125	707
Interest income from Xiwang Group Finance Company Limited* ("Xiwang Finance") (西王集團財務有限公司)	1,860	784
Rental income	721	721
Foreign exchange differences, net	(22,320)	4,546
Government grants	4,868	4,883
Other income	762	1,291
Loss on disposal of property, plant and equipment	(746)	–
Other expenses	(26)	(760)
	(11,756)	12,172

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. (LOSS)/PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Cost of inventories sold	8,497,475	9,245,820
Depreciation		
– property, plant and equipment	281,146	280,043
– right-of-use assets	1,373	1,110
Amortisation of other intangible assets	29,157	17,637
Research and development costs	223,964	223,699
Employee benefit expense (including directors' remuneration):		
Wages and salaries	132,600	133,451
Pension scheme contributions	15,938	13,392
Staff welfare expenses	3,603	2,223
	152,141	149,066
(Reversal of)/impairment losses of financial assets under expected credit loss model, net:		
Impairment of trade receivables	770	190
Reversal of impairment of other receivables	(928)	(156)
	(158)	34

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Interest on bank and other borrowings	96,459	151,854
Finance cost on bills discounted	11,732	23,081
Interest on guaranteed secured bonds	7,802	9,783
Interest on borrowings from Xiwang Finance	1,033	1,028
Interest on lease liabilities	17	61
Total interest expense on financial liabilities not at fair value through profit or loss	117,043	185,807
<i>Less: Interest capitalised (note)</i>	<i>(29,345)</i>	<i>(39,296)</i>
	87,698	146,511

Note:

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging between 7.8% and 10.37% (2021: 7.8% and 10.37%) has been applied to the expenditure on the individual assets.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. INCOME TAX (CREDIT)/EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2021: 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.

Pursuant to the PRC Corporate Income Tax Law effective on 1 January 2008, the PRC subsidiaries except for Xiwang Metal Science & Technology Company Ltd.* (西王金屬科技有限公司) (“**Xiwang Metal Science & Technology**”) are subject to corporate income tax (“**CIT**”) at a statutory rate of 25% on their respective taxable income for the periods ended 30 June 2022 and 2021. Xiwang Metal Science & Technology is subject to CIT at a rate of 15% on its respective taxable income for the periods ended 30 June 2022 and 2021 as a national-grade high-tech enterprise.

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax (credit)/charge	(17,667)	46,185
Deferred tax credit	(105,973)	(4,526)
Total tax (credit)/charge for the Period	(123,640)	41,659

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The calculation of the basic loss per share amounts is based on the loss attributable to ordinary equity holders of the Company for the Period, and the weighted average number of 2,369,110,999 ordinary shares in issue during the Period.

The calculation of the basic and diluted (loss)/earnings per share is based on:

	Six months ended 30 June 2022 RMB'000 (Unaudited)	Six months ended 30 June 2021 RMB'000 (Unaudited)
(Loss)/profit attributable to ordinary equity holders of the Company, used in the basic and diluted (loss)/earnings per share calculation	(294,128)	191,699
	Number of shares 30 June 2022 (Unaudited)	Number of shares 30 June 2021 (Unaudited)
Shares Weighted average number of ordinary shares in issue during the Period used in the basic and diluted (loss)/earnings per share calculation	2,369,110,999	2,369,110,999

For the period ended 30 June 2022, basic loss per share was the same as the diluted loss per share. No adjustment has been made to the basic loss per share amounts presented for the period in respect of a dilution as the impact of outstanding share options would not have a dilutive effect on the basic loss per share amount presented.

For the period ended 30 June 2021, the basic earnings per share is the same as the diluted earnings per share. The computation of diluted earnings per share does not assume the exercise of the Company's share options because the exercise price of those share options was higher than the average market price for the shares.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. DIVIDENDS

No interim dividend was proposed for the Period (six months ended 30 June 2021: nil).

9. PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group acquired property, plant and equipment of RMB85,783,000 (six months ended 30 June 2021: RMB115,226,000).

Items of machinery and equipment, motor vehicles and office equipment and fixtures with an aggregated net book value of RMB1,164,000 (six months ended 30 June 2021: RMB545,000) was disposed of during the Period, resulting in a loss on disposal of RMB746,000 (six months ended 30 June 2021: RMB Nil).

10. TRADE AND BILLS RECEIVABLES

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Bills receivable	1,006	–
Trade receivables	73,233	58,154
<i>Less: loss allowance</i>	(1,419)	(649)
Trade receivables, net of impairment	71,814	57,505
Trade and bills receivables	72,820	57,505

Trade receivables

Included in the Group's trade receivables are amounts due from the Group's fellow subsidiaries of RMB9,140,000 (31 December 2021: RMB7,138,000), which are repayable on credit terms similar to those offered to the other customers of the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10. TRADE AND BILLS RECEIVABLES (Continued)

Trade receivables (Continued)

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice dates and net of loss allowance, is as follows:

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Within 3 months	49,418	46,589
3 to 6 months	14,764	7,936
6 months to 1 year	5,365	2,257
Over 1 year	2,267	723
	71,814	57,505

The Group generally allows a credit period with a range of 6 months to 1 year to its customers.

The movement in the loss allowance for impairment of trade receivables are as follows:

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
At as 1 January	649	1,434
Impairment losses, net	770	(785)
As at 30 June 2022/31 December 2021	1,419	649

Bills receivables

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Financial assets at fair value through other comprehensive income	1,006	-

Bills receivables are received from customers under the ordinary course of business. All of them are bank acceptance bills with maturity period within six months.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Non-current		
Prepayments for long term assets	235,932	198,361
Current		
Prepayments for raw materials	2,080,376	1,727,208
Deposits and other receivables	152,129	150,196
Interest receivable	1,713	4,225
	2,234,218	1,881,629
<i>Less: loss allowance</i>	(3,446)	(6,318)
	2,230,772	1,875,311
	2,466,704	2,073,672

At 30 June 2022, included in the prepayments, other receivables and other assets of RMB148,131,000 (31 December 2021: RMB80,216,000) are due from fellow subsidiaries. The balance of prepayments are non-interest bearing and repayable on demand.

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

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
At beginning of period/year	6,318	160
Write-offs	(1,944)	–
Impairment losses, net	(928)	6,158
At end of period/year	3,446	6,318

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

12. TRADE AND BILLS PAYABLES

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Trade payables	2,125,853	1,724,142
Bills payable	242,727	529,981
	2,368,580	2,254,123

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

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Within 1 month	863,444	949,008
1 to 3 months	676,584	556,542
3 to 6 months	90,181	187,092
6 to 12 months	308,320	157,789
Over 12 months	430,051	403,692
	2,368,580	2,254,123

As at 30 June 2022, the Group's bills payable amounting to RMB33,116,000 (31 December 2021: RMB313,116,000) were secured by the pledged deposits of RMB16,558,000 (31 December 2021: RMB156,558,000).

As at 30 June 2022, included in the trade and bills payables are trade payables of RMB3,962,000 (31 December 2021: RMB6,684,000) 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.

The trade payables are non-interest-bearing and are normally settled within six months to 1 year.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13. OTHER PAYABLES AND ACCRUALS

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Construction and equipment payables	309,070	479,095
Other tax payables	438,094	8,900
Other payables	158,721	137,678
Salaries and welfare payables	33,915	26,808
Deferred revenue	5,460	8,308
	945,260	660,789

As at 30 June 2022, included in other payables are outstanding balances of RMB15,731,000 (31 December 2021: RMB10,487,000) due to fellow subsidiaries, which are non-interest-bearing and repayable on demand.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	30 June 2022 Unaudited			31 December 2021 Audited		
		Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current							
Interest-bearing bank borrowings – secured	(i)&(ii)&(v)	4.35-13.50	2022-2023	1,068,648	4.35-15.40	2022	1,052,669
Interest-bearing other borrowings – secured	(i)&(ii)&(iii) &(iv)&(v)	3.38-11.80	2022-2023	2,292,307	2.90-11.80	2022	2,307,042
Borrowings from Xiwang Finance – unsecured	(vi)	5.97	2023	35,570	–	–	–
Guaranteed secured bonds	(vii)	10.00	2022	131,742	10.00	2022	181,157
				3,528,267			3,540,868
Non-current							
Long term interest-bearing bank borrowings – secured	(ii)	13.40	2023	100,000	–	–	–
Long term borrowing from Xiwang Finance – unsecured	(vi)	–	–	–	5.97	2023	33,791
				100,000			33,791
				3,628,267			3,574,659

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Analysed into:		
Bank and other borrowings repayable:		
Within one year	3,528,267	3,540,868
In the second year	100,000	33,791
	3,628,267	3,574,659

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Notes:

- (i) As at 30 June 2022, the Group's interest-bearing borrowings of RMB482,590,000 (31 December 2021: RMB482,590,000) were secured by pledged deposits of RMB250,000,000 (31 December 2021: RMB250,000,000).
- (ii) As at 30 June 2022, the Group's interest-bearing borrowings of RMB3,465,530,000 (31 December 2021: RMB3,359,712,000) were guaranteed by certain related parties, as further detailed in note 18(b)(ii) to the condensed consolidated financial statements.
- (iii) As at 30 June 2022, the Group's other borrowings of RMB382,000,000 (31 December 2021: RMB382,000,000) were secured by the Group's 100% equity interests in the subsidiary, Shandong Xiwang Recycling Resources.
- (iv) As at 30 June 2022, the Group's other borrowings of RMB1,596,650,000 (31 December 2021: RMB1,617,749,000) were secured by a net carrying amount of approximately RMB3,203,173,000 (31 December 2021: RMB3,336,594,000) of the Group's machinery and equipment, motor vehicles and office equipment and fixtures.
- (v) As at 30 June 2022, RMB2,292,307,000 (31 December 2021: RMB729,996,000) interest-bearing bank and other borrowings were advances from the unrecognised discounted bills.
- (vi) As at 30 June 2022, the Group's other borrowings of RMB35,570,000 (31 December 2021: RMB33,791,000) were unsecured and borrowed from a fellow subsidiary of the Company, Xiwang Finance.
- (vii) As at 30 June 2022, the outstanding amounts of guaranteed secured bonds were USD14,877,000 (31 December 2021: USD23,590,000) and USD5,000,000 (31 December 2021: USD5,000,000), equivalent to approximately RMB98,603,000 and RMB33,139,000 respectively (31 December 2021: equivalent to approximately RMB149,475,000 and RMB31,682,000) (the "Bonds") and the Bonds were originally due on 31 May 2020 and 11 December 2019 respectively. As at the date of this report, the Group was still discussing with the relevant bond subscribers as to the redemption schedule of the Bonds in order to meet the repayment obligation.
- (viii) The carrying amounts of the Group's interest-bearing bank and other borrowings approximate to their fair values.

15. RESERVES

The amounts of the Group's reserves and the movements therein for the Period are presented in the condensed consolidated statement of changes in equity.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

16. CONTINGENT LIABILITIES

On 19 January 2021, the Company (and its subsidiaries) and Xiwang Group Company (and its subsidiaries) entered into a guarantee agreement (the “**Guarantee Agreement**”). Pursuant to the Guarantee Agreement, the Group agreed to provide Xiwang Group Company and its certain subsidiaries (the “**Relevant Subsidiaries**”) with guarantee services for the period from 1 January 2021 to 31 December 2023, subject to the terms and conditions provided therein.

Pursuant to the Guarantee Agreement, the Company shall undertake to guarantee and bear any obligations and liabilities of Xiwang Group Company and the Relevant Subsidiaries provided under the loan agreement to be entered into between the lenders and Xiwang Group Company 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 Company and the Relevant Subsidiaries under the Guarantee Agreement (the “**Guarantee Amount**”) shall not exceed the aggregate amount due from the Group to Xiwang Group Company and the Relevant Subsidiaries (including but not limited to the borrowings provided by Xiwang Group Company to the Group) and the aggregate amount of the Group’s borrowings which is guaranteed and/or secured by Xiwang Group Company and the Relevant Subsidiaries, less the aggregate amount due from Xiwang Group Company 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 Company would have provided a counter guarantee to the Group.

Any borrowings to be repaid by the Company for and on behalf of Xiwang Group Company (and the Relevant Subsidiaries) pursuant to the Guarantee Agreement shall be offset by the borrowings payable by the Company to Xiwang Group Company, or as other amounts payable by the Company to Xiwang Group Company or the Relevant Subsidiaries.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

16. CONTINGENT LIABILITIES (Continued)

As at 30 June 2022, contingent liabilities not provided for in the condensed consolidated financial statements in respect of the Guarantee Amount were as follows:

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 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	2,940,542	2,790,000
	4,340,542	4,190,000

As at 30 June 2022, the Outstanding Amount was approximately RMB4,184,000,000 (31 December 2021: RMB3,489,130,000).

17. COMMITMENTS

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

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Contracted, but not provided for:		
Property, plant and equipment	582,222	577,209

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. MATERIAL 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	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Rental expenses to Xiwang Group Company	(i)	91	91
Rental expenses to a fellow subsidiary	(i)		
– Lease of land		354	367
Delivery service fees to a fellow subsidiary	(i)		
– Delivery of steel		511	2,407
– Delivery of ore-powder		480	2,761
Interest expenses on borrowings from Xiwang Finance	(ii)	1,033	1,028
Interest on discounted bills paid to Xiwang Finance	(ii)	–	43
Interest income from Xiwang Finance		1,860	784
Sale of steam to a fellow subsidiary	(iii)	14,321	14,420
Sale of heat energy to a fellow subsidiary	(iii)	1,018	823
		15,339	15,243
Sale of water to fellow subsidiaries	(iii)	4,933	3,981
Purchase of diesel oil from a fellow subsidiary	(iv)	13,019	6,255
Purchase of water from a fellow subsidiary	(iv)	615	535
Purchase of scrap from fellow subsidiaries	(iv)	396	622
Purchase of electricity through a fellow subsidiary	(v)	541,840	457,087
Bills acceptance service from Xiwang Finance		181,700	3,000

- (i) The rental expenses to Xiwang Group Company and the rental expenses and delivery service fees to a fellow subsidiary were charged at rates based on mutual agreements between both parties.
- (ii) Details of interest-bearing borrowings from Xiwang Finance are disclosed in note 14 of the condensed consolidated financial statements.
- (iii) The selling prices of steam, steel, heat energy and water offered to fellow subsidiaries were mutually agreed between both parties.
- (iv) The purchase prices of diesel oil, water and scrap from fellow subsidiaries were mutually agreed between both parties.
- (v) The electricity was purchased through a fellow subsidiary as an agent of the local power bureau. The purchase prices of electricity were mutually agreed between both parties.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. MATERIAL RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(b) Other related party transactions:

(i) Certain bills payable are guaranteed by certain related parties as follows:

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Guaranteed by:		
Xiwang Group Company, Mr. Wang Yong, a controlling shareholder of the Company and Mr. Wang Di, the Chairman, jointly and severally	33,116	313,116

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

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Mr. Wang Yong	252,281	241,192
Certain ordinary shares of a fellow subsidiary		
Certain convertible preference shares of a fellow subsidiary		
Xiwang Group Company	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 Company	1,047,459	1,068,550
Xiwang Group Company and a fellow subsidiary	304,064	304,064
Xiwang Group Company, Mr. Wang Yong and Mr. Wang Di jointly and severally	829,936	714,116
Mr. Wang Yong and Mr. Wang Di jointly and severally	382,000	382,000
	3,465,530	3,359,712

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. MATERIAL RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(b) Other related party transactions: *(Continued)*

(iii) The Group provided guarantee services to Xiwang Group Company and the Relevant Subsidiaries during the periods ended 30 June 2022 and 2021, details of which are included in note 16 to the condensed consolidated financial statements.

(c) Commitments with related parties

The Group leases certain land from Xiwang Group Company and leases certain land and vehicles from a fellow subsidiary under short-term leases. The total amounts of lease of land from a fellow subsidiary for the Period are disclosed in note 18(a)(i) to the consolidated financial statements.

(d) Outstanding balances with related parties:

(i) The Group had interest-bearing borrowings from Xiwang Finance, a fellow subsidiary, as at 30 June 2022. Details of the interest-bearing borrowings from Xiwang Finance are disclosed in note 14 to the condensed consolidated financial statements. The Group had certain deposits placed with Xiwang Finance as at 30 June 2022 and 2021.

(ii) The balance of the Group's borrowings of approximately RMB447,000 (31 December 2021: RMB447,000) from its ultimate holding company as at 30 June 2022 is unsecured and repayable on demand.

(iii) Details of the Group's outstanding balances due from its fellow subsidiaries are included in note 10 and note 11 to the condensed consolidated financial statements.

(iv) Details of the Group's outstanding balances due to its fellow subsidiaries are included in note 12 and note 13 to the condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. MATERIAL RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Employee benefit expenses	5,806	3,553
Pension scheme contributions	189	71
Total compensation paid to key management personnel	5,995	3,624

19. 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 bank balances, pledged deposits, trade and bills receivables, other receivables and other assets, trade and bills payables, other payables and accruals, dividend payables, borrowings from the ultimate holding Company and 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 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

19. 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 changes in fair value as a result of 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 2022 and 2021 were assessed to be insignificant.

As at 30 June 2022 and 2021, the unlisted equity investment designated at fair value through other comprehensive income ("**FVTOCI**"), 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 calculate 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 condensed 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

19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(Continued)

As at 30 June 2022 and 2021, the mark-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.

For the fair value of the unlisted equity investments at FVTOCI, management has estimated the potential effect of using reasonably possible alternatives as inputs to the valuation model.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 30 June 2022 and 2021:

	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 (or average P/E multiple of peers)	2022: 0.53 (2021: 0.66)	5% (2021: 5%) increase/decrease in multiple would result in increase/decrease in fair value by RMB2,582,000 (2021: RMB3,268,000)
		Discount for lack of marketability	2022: 15.80% (2021: 15.80%)	5% (2021: 5%) increase/decrease in discount would result in decrease/ increase in fair value by RMB484,000 (2021: 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

19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(Continued)

Reconciliation of Level 3 fair value measurements

	Unlisted equity investment RMB'000 (Unaudited)
At 1 January 2021	75,498
Total losses:	
– in other comprehensive income	(10,138)
At 30 June 2021	65,360
At 1 January 2022	66,096
Total losses:	
– in other comprehensive income	(14,467)
At 30 June 2022	51,629

Included in other comprehensive income is an amount of RMB14,467,000 (six months ended 30 June 2021: RMB10,138,000) loss relating to unlisted equity investment held at the end of the current reporting period and is reported as changes of fair value reserve.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19. 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:

As at 30 June 2022

	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 FVTOCI	-	-	51,629	51,629

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(Continued)

As at 31 December 2021

	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 FVTOCI	–	–	66,096	66,096

During the Period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

20. 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 2022.

GLOSSARY

Audit Committee	audit committee of the Company
Board	Board of directors of the Company
Articles	the articles of association of the Company currently in force
CG Code	The Corporate Governance Code as set out in Appendix 14 to the Listing Rules
Company	Xiwang Special Steel Company Limited
COVID-19	coronavirus disease
Director(s)	director(s) of the Company
Group	Company and its subsidiaries
HK\$	Hong Kong Dollars
Listing Rules	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Model Code	Model Code for Securities Transactions by Directors of the Listed issuers
Period	six months ended 30 June 2022
Previous Period or 1H2021	six months ended 30 June 2021
PRC	the People's Republic of China
RMB	Renminbi
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Stock Exchange	The Stock Exchange of Hong Kong Limited
USA	United States of America
USD	United States Dollar

GLOSSARY

Xiwang Finance	Xiwang Group Finance Company Limited* (西王集團財務有限公司)
Xiwang Group	Xiwang Group Company and its subsidiaries
Xiwang Group Company	Xiwang Group Company Limited* (西王集團有限公司)
Xiwang Holdings	Xiwang Holdings Limited (西王控股有限公司)
Xiwang Hong Kong	Xiwang Hong Kong Company Limited (西王香港有限公司)
Xiwang Investment	Xiwang Investment Company Limited (西王投資有限公司)
Xiwang Metal Science & Technology	Xiwang Metal Science & Technology Company Ltd.* (西王金屬科技有限公司)
Xiwang Property	Xiwang Property Holdings Company Limited (西王置業控股有限公司*)
%	per cent

* For identification purpose only



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