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

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1266)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

	Year ended 31 December	
	2018	2017
Sales volume of Steel *(tonnes)*	**2,987,000**	3,087,000
Revenue *(RMB million)*		
Ordinary Steel – Rebar	**6,008.0**	5,061.8
Ordinary Steel – Wire Rod	**1,826.7**	2,412.1
Special Steel	**2,853.8**	2,547.1
Trading of commodities and sales of by-products	**1,229.0**	2,341.5
Total	**11,917.5**	12,362.5
Gross profit *(RMB million)*	**1,966.9**	2,025.2
Gross profit per tonne		
– Productions and sales of steel *(RMB)*	**652**	647
EBITDA[1] *(RMB million)*	**1,959.4**	1,815.8
Profit attributable to owners *(RMB million)*	**961.6**	898.1
Basic earnings per share *(RMB)*	**42.72 cents**	44.15 cents
Diluted earnings per share *(RMB)*	**39.22 cents**	41.93 cents

The Board of Directors of the Company recommended the payment of a final dividend of RMB12.8 cents per ordinary share for the year ended 31 December 2018 (2017: RMB13.0 cents).

Note:

(1) EBITDA refers to profit before tax plus finance cost, depreciation, amortization of prepaid land lease payments and other intangible assets.

The board (the "**Board**") of directors (the "**Directors**") of Xiwang Special Steel Company Limited (the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2018 (the "**Year**"). The Group's financial information in this announcement was prepared based on the consolidated financial statements of the Group for the Year.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	Notes	**2018**	2017
		RMB'000	*RMB'000*
REVENUE	*3*	**11,917,535**	12,362,478
Cost of sales		**(9,950,680)**	(10,337,237)
Gross profit		**1,966,855**	2,025,241
Other income and gains	*3*	**132,846**	29,763
Selling and distribution expenses		**(12,821)**	(102,651)
Administrative expenses		**(125,538)**	(98,044)
Impairment loss on financial assets, net		**(298)**	–
Other expenses		**(79,532)**	(51,115)
Research and development costs		**(362,735)**	(371,198)
OPERATING PROFIT		**1,518,777**	1,431,996
Finance costs	*5*	**(356,570)**	(328,680)
PROFIT BEFORE TAX	*4*	**1,162,207**	1,103,316
Income tax expense	*6*	**(200,657)**	(205,263)
PROFIT FOR THE YEAR		**961,550**	898,053
Profit attributable to owners of the parent		**961,550**	898,053
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*8*		
Basic		**RMB42.72 cents**	RMB44.15 cents
Diluted		**RMB39.22 cents**	RMB41.93 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	2018	2017
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**961,550**	898,053
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**16,532**	14,644
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:		
Equity investments at fair value through other comprehensive income:		
Changes in fair value	**(24,213)**	–
Income tax effect	**1,861**	–
	(22,352)	–
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	**(5,820)**	14,644
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/ ATTRIBUTABLE TO OWNERS OF THE PARENT	**955,730**	912,697

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	**31 December 2018** *RMB'000*	31 December 2017 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**10,164,532**	10,206,774
Prepaid land lease payments		**91,841**	94,062
Prepayments for long term assets	*10*	**231,545**	282,394
Other intangible assets		**87,829**	97,802
Available-for-sale investment		**–**	100,000
Equity investments designated at fair value through other comprehensive income		**87,593**	–
Deferred tax assets		**16,781**	16,271
Total non-current assets		**10,680,121**	10,797,303
CURRENT ASSETS			
Inventories		**820,320**	797,129
Trade and bills receivables	*9*	**345,271**	240,750
Prepayments, other receivables and other assets	*10*	**678,494**	193,164
Pledged deposits		**937,100**	513,829
Cash and cash equivalents		**935,676**	125,644
Total current assets		**3,716,861**	1,870,516
CURRENT LIABILITIES			
Trade and bills payables	*11*	**1,479,522**	1,772,353
Receipts in advance, other payables and accruals	*12*	**909,102**	1,204,982
Contract liabilities		**683,384**	–
Derivative financial instruments		**22,696**	44,118
Interest-bearing bank and other borrowings		**4,342,329**	2,380,062
Convertible bonds		**187,077**	–
Income tax payable		**92,498**	10,760
Total current liabilities		**7,716,608**	5,412,275

	31 December 2018 RMB'000	31 December 2017 RMB'000
NET CURRENT LIABILITIES	**(3,999,747)**	(3,541,759)
TOTAL ASSETS LESS CURRENT LIABILITIES	**6,680,374**	7,255,544
NON-CURRENT LIABILITIES		
Convertible bonds	**–**	156,763
Interest-bearing bank and other borrowings	**489,081**	1,769,390
Borrowings from the ultimate holding company	**–**	4,401
Deferred tax liabilities	**33,111**	18,337
Other long term payable	**161,000**	161,000
Total non-current liabilities	**683,192**	2,109,891
Net assets	**5,997,182**	5,145,653
EQUITY		
Equity attributable to owners of the parent		
Share capital	**1,287,602**	1,091,561
Reserves	**4,709,580**	4,054,092
Total equity	**5,997,182**	5,145,653

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1.1 CORPORATE AND GROUP 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 Company and its subsidiaries (collectively referred to as the "**Group**") are principally engaged in the production and sale of steel products in the People's Republic of China (the "**PRC**").

In the opinion of the directors, the immediate holding company of the Company is Xiwang Investment Limited Company（西王投資有限公司）which is wholly owned by Xiwang Holdings Limited（西王控股有限公司）. During the year ended 31 December 2018, the ultimate holding company of the Company was Xiwang Group Company Limited ("**Xiwang Group**")（西王集團有限公司）.

1.2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments, bill receivables, embedded derivative component of convertible bonds and equity investments which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

The unaudited financial information relating to the year ended 31 December 2018 and the financial information relating to the year ended 2017 included in this preliminary announcement of annual results 2018 do not constitute the Company's statutory annual consolidated financial statements for those years but, in respect of the year ended 2017, 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 is as follows:

The financial statements for the year ended 31 December 2018 have yet to be reported on by the Company's auditor and will be delivered to the Registrar of Companies in due course.

The Company has delivered the financial statements for the year ended 31 December 2017 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 these financial statements for the year ended 31 December 2017. The auditor's report was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

Going concern

As at 31 December 2018, the Group's current liabilities exceeded its current assets by approximately RMB3,999.7 million (2017: RMB3,541.8 million). The directors of the Company have considered the following factors:

- the Group's expected cash inflows from operating activities in 2018;
- the directors of the Company are also confident that bank borrowings, which will expire during the next 12 months, could be renewed upon expiration based on the Group's past experience and credit standing; and
- other available sources of financing from banks and the ultimate shareholder given the Group's credit history.

The directors of the Company believe that the Group has adequate resources to continue operation for the foreseeable future of not less than 12 months from the end of the reporting period. The directors of the Company therefore are of the opinion that it is appropriate to adopt the going concern basis in preparing the consolidated financial statements.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

1.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKAS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Except for the amendments to HKFRS 4 and *Annual Improvements to HKFRSs 2014-2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) Amendments to HKFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

(b) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments*: *Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

		HKAS 39 measurement					HKFRS 9 measurement	
		Category	Amount	Reclassification	ECL	Other	Amount	Category
	Notes		*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	
Financial assets								
Equity investments designated at fair value through other comprehensive income	*(i)*	N/A	–	100,000	–	11,806	111,806	FVOCI[1] (equity)
From: Available-for-sale investments				100,000	–	11,806		
Available-for-sale investments		AFS[2]	100,000	(100,000)	–	–	–	N/A
To: Equity investments designated at fair value through other comprehensive income				(100,000)	–	–		
Trade and bills receivables	*(ii)*							
Bills receivable		L&R[3]	152,916	–	–	–	152,916	FVOCI[1] (debt)
Trade receivables		L&R	87,834	–	(174)	–	87,660	AC[4]
Financial assets included in prepayments, other receivables and other assets		L&R	40,584	–	–	–	40,584	AC
Pledged deposits		L&R	513,829	–	–	–	513,829	AC
Cash and cash equivalents		L&R	125,644	–	–	–	125,644	AC
			1,020,807	–	(174)	11,806	1,032,439	
Financial Liabilities								
Trade and bills payables		AC	1,772,353	–	–	–	1,772,353	AC
Financial liabilities included in receipts in advance, other payables and accruals		AC	631,587	–	–	–	631,587	AC
Borrowings from the ultimate holding company		AC	4,401	–	–	–	4,401	AC
Interest-bearing bank and other borrowings		AC	4,149,452	–	–	–	4,149,452	AC
Other long term payable		AC	161,000	–	–	–	161,000	AC
Convertible bonds		AC	156,763	–	–	–	156,763	AC
Derivative financial instruments		FVPL[5]	44,118	–	–	–	44,118	FVPL
			6,919,674	–	–	–	6,919,674	

1 *FVOCI: Financial assets at fair value through other comprehensive income*

2 *AFS: Available-for-sale investments*

3 *L&R: Loans and receivables*

4 *AC: Financial assets or financial liabilities at amortised cost*

5 *FVPL: Financial liabilities at fair value through profit or loss*

Notes:

(i) The Group has elected the option to irrevocably designate its previous available-for-sale equity investments as equity investments at fair value through other comprehensive income.

(ii) The Group has classified its bills receivable previously classified as loans and receivables as financial assets measured at other comprehensive income as these bills receivable pass the contractual cash flow characteristics test and is held within a business model with the objective of both holding to collect contractual cash flows and selling in HKFRS 9.

Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9.

	Impairment allowances under HKAS 39 at 31 December 2017	**Re-measurement**	**ECL allowances under HKFRS 9 at 1 January 2018**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	–	(174)	(174)
Financial assets included in prepayments, other receivables and other assets	(21,610)	–	(21,610)
	(21,610)	(174)	(21,784)

Impact on reserves and retained profits

The impact of transition to HKFRS 9 on reserves and retained profits is as follows:

	Reserves and retained profits
	RMB'000
Fair value reserve under HKFRS 9 (available-for-sale investment revaluation reserve under HKAS 39)	
Balance as at 31 December 2017 under HKAS 39	–
Remeasurement of equity investments designated at fair value through other comprehensive income previously measured at cost under HKAS 39	11,806
Balance as at 1 January 2018 under HKFRS 9	11,806
Retained profits	
Balance as at 31 December 2017 under HKAS 39	3,104,266
Recognition of expected credit losses for trade receivables under HKFRS 9	(174)
Balance as at 1 January 2018 under HKFRS 9	3,104,092

(c) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in note 3 to the financial statements.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of HKFRS 15 didn't involve an adjustment to the opening balance of retained profits as at 1 January 2018. The comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

The Group mainly engages in principally engaged in the production and sale of steel products in PRC. The Group's contracts with customers for the sale of goods generally include one performance obligation. The Group has concluded that revenue from sale of goods should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. Therefore, the adoption of HKFRS 15 did not have a material impact on the timing and amount of revenue recognition.

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in advances from customers. Under HKFRS 15, the amount is classified as contract liabilities.

Therefore, upon adoption of HKFRS 15, the Group reclassified RMB418,956,000 from advances from customers to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under HKFRS 15, RMB683,384,000 were reclassified from advances from customers to contract liabilities in relation to the consideration received from customers in advance for the sale of goods.

(d) Amendments to HKAS 40 clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments have had no impact on the financial position or performance of the Group.

(e) HK(IFRIC)-Int 22 provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

2. OPERATING SEGMENT INFORMATION

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

(a) the ordinary steel segment, which engages in the production and sale of ordinary steel products;

(b) the special steel segment, which engages in the production and sale of special steel products;

(c) the trading of commodities segment, which mainly engages in the trading of commodities such as iron ore dust, pellets, steel billets and coke; and

(d) the by-products segment, which includes the sale of by-products such as steel slag, steam and electricity.

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

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

Geographical information

	2018	2017
	RMB'000	*RMB'000*
Mainland China	**11,834,921**	12,167,548
Countries and regions other than Mainland China	**82,614**	194,930
	11,917,535	12,362,478

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

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

Information about major customers

For the years ended 31 December 2018 and 2017, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

The segment results and other segment items included in profit before tax for the reporting period are as follows:

	Ordinary steel	**Special steel**	**Trading of commodities**	**By-products**	**Consolidated**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Year ended 31 December 2018					
Segment revenue:					
Sales to external customers	**7,834,708**	**2,853,861**	**709,711**	**519,255**	**11,917,535**
Cost of sales	**(6,183,500)**	**(2,558,735)**	**(701,901)**	**(506,544)**	**(9,950,680)**
Gross profit	**1,651,208**	**295,126**	**7,810**	**12,711**	**1,966,855**
Reconciliation:					
Other income and gains					**132,846**
Selling and distribution expenses					**(12,821)**
Administrative expenses					**(125,538)**
Research and development costs					**(362,735)**
Impairment loss on financial assets, net					**(298)**
Other expenses					**(79,532)**
Finance costs					**(356,570)**
Profit before tax					**1,162,207**

	Ordinary steel *RMB'000*	Special steel *RMB'000*	Trading of commodities *RMB'000*	By-products *RMB'000*	Consolidated *RMB'000*
Year ended 31 December 2017					
Segment revenue:					
Sales to external customers	7,473,866	2,547,073	1,992,394	349,145	12,362,478
Cost of sales	(5,889,670)	(2,132,617)	(1,975,561)	(339,389)	(10,337,237)
Gross profit	1,584,196	414,456	16,833	9,756	2,025,241
Reconciliation:					
Other income and gains					29,763
Selling and distribution expenses					(102,651)
Administrative expenses					(98,044)
Research and development costs					(371,198)
Other expenses					(51,115)
Finance costs					(328,680)
Profit before tax					1,103,316

3. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2018 ***RMB'000***	2017 *RMB'000*
Revenue from contracts with customers		
Sale of goods	**11,917,535**	12,362,478

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

Segments	Sale of ordinary steel *RMB'000*	Sale of special steel *RMB'000*	Trading of commodities *RMB'000*	Sale of by-products *RMB'000*	Total *RMB'000*
Type of goods or services					
Sale of goods	7,834,708	2,853,861	709,711	519,255	11,917,535
Geographical markets					
Mainland China	7,796,441	2,809,514	709,711	519,255	11,834,921
Countries and regions other than Mainland China	38,267	44,347	–	–	82,614
	7,834,708	2,853,861	709,711	519,255	11,917,535
Timing of revenue recognition					
Goods transferred at a point in time	7,834,708	2,853,861	709,711	519,255	11,917,535

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

Segments	Sale of ordinary steel *RMB'000*	Sale of special steel *RMB'000*	Trading of commodities *RMB'000*	Sale of by-products *RMB'000*	Total *RMB'000*
Revenue from contracts with customers					
External customers	7,834,708	2,853,861	709,711	519,255	11,917,535
Intersegment sales	10,890,013	3,269,286	2,820,417	1,630,124	18,609,840
	18,724,721	6,123,147	3,530,128	2,149,379	30,527,375
Intersegment adjustments and eliminations	(10,890,013)	(3,269,286)	(2,820,417)	(1,630,124)	(18,609,840)
Total revenue from contracts with customers	7,834,708	2,853,861	709,711	519,255	11,917,535

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2018
	RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sale of goods	418,956

(ii) Performance obligations

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

Sale of goods

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

	2018	2017
	RMB'000	*RMB'000*
Other income		
Bank interest income	**8,157**	8,356
Subsidy income	**99,075**	12,868
Write-back of inventories to net realiseable value	**–**	2,157
Others	**2,013**	1,371
Gains		
Foreign exchange gains, net	**–**	5,011
Fair value gains on derivative financial instruments	**998**	–
Fair value gains on embedded derivative component of convertible bonds	**22,603**	–
	132,846	29,763

4. PROFIT BEFORE TAX

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

	2018 *RMB'000*	2017 *RMB'000*
Cost of inventories sold	**9,950,680**	10,337,237
Depreciation	**425,838**	355,192
Minimum lease payments under operating leases	**4,021**	3,434
Amortisation of prepaid land lease payments	**2,221**	2,221
Amortisation of other intangible assets	**12,529**	26,377
Research and development costs	**362,735**	371,198
Auditor's remuneration	**1,850**	1,750
Employee benefit expense (including directors' remuneration):		
Wages and salaries	**265,138**	235,654
Pension scheme contributions*	**21,473**	15,416
Equity-settled share option expenses	**338**	1,035
Staff welfare expenses	**10,616**	3,125
	297,565	255,230
Foreign exchange differences, net	**45,239**	(5,011)
Impairment of financial assets:		
Impairment of trade receivables**	**234**	–
Impairment of other receivables**	**64**	21,610
Write-down/(write-back) of inventories to net realisable value	**21,446**	(2,157)
Losses on disposal of items of property, plant and equipment	**19,884**	8,774
Fair value (gains)/losses on derivative financial instruments (excluding embedded derivative component of convertible bonds)	**(998)**	4,041
Fair value (gains)/losses on embedded derivative component of convertible bonds	**(22,603)**	4,007

* *As at the end of the reporting period, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years.*

** *The impairment of trade receivables and other receivables are included in "Impairment loss on financial assets" of 2018 in the consolidated statement of profit or loss, while they are included in "Other expense" in the consolidated statement of profit or loss in 2017.*

5. FINANCE COSTS

An analysis of finance costs is as follows:

	2018	2017
	RMB'000	*RMB'000*
Interest on bank and other borrowings	**190,176**	84,277
Interest on a finance lease	**–**	21,362
Interest on convertible bonds	**37,370**	7,512
Finance cost on bills discounted	**130,602**	52,709
Interest on borrowings from the ultimate holding company	**3,197**	73,791
Interest on borrowings from Xiwang Group Finance Company Limited ("Xiwang Finance")（西王集團財務有限公司）	**9,953**	130,354
Total interest expense on financial liabilities not at fair value through profit or loss	**371,298**	370,005
Less: Interest capitalised	**(14,728)**	(41,325)
	356,570	328,680

6. INCOME TAX EXPENSES

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable in Mainland China have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof.

Pursuant to the PRC Corporate Income Tax Law effective on 1 January 2008, the PRC subsidiaries except for Xiwang Metal Science & Technology Co., Ltd ("**Xiwang Metal Science & Technology**") are subject to corporate income tax ("**CIT**") at a statutory rate of 25% on their respective taxable income for the year ended 31 December 2018. Xiwang Metal Science & Technology is subject to CIT at a rate of 15% on its respective taxable income for the year ended 31 December 2018 as a national-grade high-tech enterprise.

	2018	2017
	RMB'000	*RMB'000*
Current – Mainland China		
Charge for the year	**184,532**	201,666
Deferred	**16,125**	3,597
Total tax charge for the year	**200,657**	205,263

The income tax charge for the year of RMB184,532,000 (2017: RMB201,666,000) is after deduction of the effect of the super deduction of research expenses of RMB25,142,000 (2017: RMB29,055,000). The super deduction of research expenses was approved by the local tax authorities in 2018.

The Group has tax losses arising in Hong Kong of approximately RMB136,846,000 as at 31 December 2018 (2017: RMB102,169,000), that are available for offsetting against future taxable profits of the Company in which the loss arose. The Group has tax losses arising in Mainland China of nil as at 31 December 2018 (2017: RMB26,886,000), that will expire in one to five years for offsetting against future taxable profits. Deferred tax asset has not been recognised as at the end of the reporting period in respect of the tax losses as the directors of the Company consider that it is uncertain of the extent that future profits will be available against which tax losses can be utilised in the foreseeable future.

7. DIVIDEND

	2018	2017
	RMB'000	*RMB'000*
Proposed final dividend – RMB12.8 cents (2017: RMB13.0 cents) per ordinary share	**290,369**	294,187

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the interest on the convertible bonds and fair value (gains)/loss of the embedded derivative component of convertible bonds, where applicable (see blow). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2018	2017
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**961,550**	898,053
Add:		
Interest on convertible bonds, net of tax	**31,204**	6,273
Fair value (gains)/losses on the derivative component of the convertible bonds, net of tax	**(18,874)**	4,007
Profit attributable to ordinary equity holders of the parent before interest on convertible bonds and fair value (gains)/losses on the embedded derivative component of the convertible bonds	**973,880**	908,333

	2018	2017
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,250,756,186**	2,034,137,899
Effect of dilution – weighted average number of ordinary shares		
Share options	**2,546,621**	5,051,946
Share-based payments	**100,000,000**	100,000,000
Convertible bonds	**129,520,806**	27,187,836
	2,482,823,613	2,166,377,681

9. TRADE AND BILLS RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Bills receivable	**202,600**	152,916
Trade receivables	**142,851**	87,834
Impairment	**(180)**	–
	345,271	240,750

Trade receivables

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

	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**116,452**	63,606
3 to 6 months	**19,823**	11,558
6 months to 1 year	**3,677**	2,874
Over 1 year	**2,719**	9,796
	142,671	87,834

Bills receivable

	2018	2017
	RMB'000	*RMB'000*
Classification under HKFRS 39		
Loans and receivables	**–**	152,916
Classification under HKFRS 9		
Financial assets at fair value through other comprehensive income	**202,600**	–
At end of year	**202,600**	152,916

10. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2018	2017
	RMB'000	*RMB'000*
Non-Current		
Prepayments for long term assets	**231,545**	282,394
Current		
Prepayments	**608,697**	146,545
Bank interest receivable	**–**	1,313
VAT recoverable	**599**	3,814
Deposits and other receivables	**88,651**	60,881
Current portion of prepaid land lease payments	**2,221**	2,221
	700,168	214,774
Impairment of other receivables	**(21,674)**	(21,610)
	678,494	193,164
	910,039	475,558

As at 31 December 2018 and 2017, the amounts were interest-free, unsecured and repayable within one year.

11. TRADE AND BILLS PAYABLES

	2018	2017
	RMB'000	*RMB'000*
Bills payable	**173,442**	673,000
Trade payables	**1,306,080**	1,099,353
	1,479,522	1,772,353

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

	2018	2017
	RMB'000	*RMB'000*
Within 1 month	**515,504**	471,445
1 to 3 months	**383,055**	353,385
3 to 6 months	**242,215**	738,479
6 to 12 months	**228,208**	66,492
Over 12 months	**110,540**	142,552
	1,479,522	1,772,353

As at 31 December 2018, the Group's bills payable amounting to RMB70,560,000 (2017: RMB673,000,000) were secured by the pledged time deposits of RMB35,630,000 (2017: RMB336,500,000).

Included in the trade and bills payables are trade payables of RMB4,064,000 as at 31 December 2018 (2017: RMB52,057,000) due to fellow subsidiaries which are non-interest bearing and repayable on demand.

The trade payables are non-interest-bearing and are normally settled on term of six months.

12. RECEIPTS IN ADVANCE, OTHER PAYABLES AND ACCRUALS

	2018	2017
	RMB'000	*RMB'000*
Advances from customers	**–**	418,956
Salaries and welfare payables	**49,651**	50,006
Other tax payables	**253,650**	143,277
Construction and equipment payables	**458,112**	446,110
Deferred revenue	**11,252**	11,162
Other payables	**136,437**	135,471
	909,102	1,204,982

As at 31 December 2018, included in other payables are outstanding balances of RMB32,258,000 (2017: RMB50,470,000) due to fellow subsidiaries, and of RMB1,000 (2017: RMB432,000) due to Xiwang Group, which are non-interest-bearing and repayable on demand.

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

MANAGEMENT DISCUSSION AND ANALYSIS

I. Business Review

During the year ended 31 December 2018 (the "**Year**"), the Group's main source of revenue was the production and sales of steel. The Group's primary production base was geographically located in Shandong Province, which remained as the main sales region of the Group, contributing approximately 68.1% of the Group's total revenue during the Year (2017: 68.0%). During the Year, Shanghai City had a relatively high demand for steel, and was the second largest contributor to the Group's revenue, which accounted for approximately 6.0% of the total revenue (2017: 3.1%) of the Group.

Regarding the performance of the Group in the fourth quarter, as the production restriction for environmental protection has been loosened up to a certain extent, the Ministry of Environmental Protection clarified that environment protection policy should not be across-the-board, and a suitable margin of allowance relaxation can be given if production meets certain environmental protection targets. Thus, as the production restriction on supply-side during the heat season was more relaxed than expected, the steel price sled significantly in November. In respect of cost, the PRC announced and implemented the new national standard for the construction material of hot rolled ribbed bars in the fourth quarter. From 1 November 2018 onwards, major construction projects in the PRC have to procure non-cold rolling hot rolled ribbed bars as construction material in order to meet the new national standard. In accordance with the new national standard, all hot rolled ribbed bars production enterprises used the precious metal of vanadium for microalloying to guarantee the steel properties and metallographic structures in order to meet the new national standard. Thus, the cost for PRC steel enterprise increased generally in the fourth quarter and the profits decreased, resulting in a less than expected profit for the Group in the fourth quarter. In fact, market demand was not weaken in the fourth quarter, and the Group made timely adjustments to the operation strategy according to the market situation, and lowered stocks level in raw materials and products. Through high circulation and high turnover, the Group has lowered the negative effect from the market price fluctuation. Our Group is cooperating with the Chinese Academy of Science and Shanghai University to research and develop new procedures to increase quality and lower cost.

Production and Sales of Steel

The ordinary steel products manufactured and sold by the Group included rebars and wire rods, which are mainly used for construction and infrastructure projects, accounted for 73.3% of the total sales amount of steel during the Year (2017: 74.6%). The special steel products of the Group used for mechanical processing and equipment production, alloy structural steel used for machineries, bearing steel used for automobile manufacturing, and ingots used in transportation, marine engineering and weaponries production, accounted for 26.7% of the total sales amount of steel during the Year (2017: 25.4%).

The average time by which our main customers stay with the Group is over five to eight years. The top ten customers accounted for 41.7% for our sales of steel, and are generally willing to prepay for our products.

Project Review

Against the backdrop of nation-wide adjustment and upgrade initiatives and of structural reform of the iron and steel industry, the Group continued to adhere to the national policy, and engaged in steady transformation and upgrading according to corporate needs.

Our products and research and development results are as follows:

- The Group constructed the Shandong Technology Centre（山東技術中心）with the Chinese Academy of Sciences. The Shandong Province Special Steel and New Construction Material Engineering Technology and Research Centre for High-end Equipment（山東省高端裝備用特殊鋼新材料工程技術研究中心）was established within the Group with the approval from the Department of Science and Technology of Shandong province in 2018；

- For the industrialization of our products, a high speed heavy load high intensity rail steel project was set up internally in the Group with a project investment of RMB2.55 billion. In 2018, the foundation work for the factory pillars has been completed, while pile foundation and facility foundation works have been started, and some factory columns works were completed. Procurement work for the main facilities of the production line has been completed with down payments made, and it is currently being constructed in accordance with design requirement;

- Awarded with the CRCC supplier certificate and high speed axle steel EA4T product certificate from companies under the CRCC in 2018. The Group has commenced bulk supply of billet axle IDC35e and the new product EA1N for export；

- Organised and participated in nine national standard amendment exercises, and applied for six patents. The research and development of deep sea oil field drilling high strength-toughness alloy steel new product was approved by the National Standardization Administration, and Xiwang Special Steel organised and formulated the national standard for "Deep Sea Oil Field Drilling High Strength-Toughness Alloy Steel Pole" (《深海油田鑽採用高強韌合金鋼棒》).

Our environmental achievements are as follows:

- Awarded with the third batch of "Green Factory" title run by the Ministry of Industry and Information Technology；

- Improved flue gas desulphurisation work process to guarantee ultra-low emission and non-white smoke emission on sintering machine heads；

- Constructed a new jack system and closed corridor for ground granulated blast-furnace slag, upgraded and improved the existing dust collector to guarantee that controlled and uncontrolled emission met ultra-low emission standards;

- Won the 2018 "Zhaogang.com Cup", a national environmental protection knowledge competition for the national steel industry.

Our other achievements are as follows:

- The establishment of the first national "Special Steel National Standard Research and Development Work Station"（特殊鋼國家標準研發工作站）by Xiwang Special Steel with the approval from the national Iron and Steel Standardization Administration of China；

- Awarded with the honourable name of "National Center for Mobilization of National Economy"(國家國民經濟動員中心), being the only steel enterprise out of the 14 national centers for mobilization of national economy in Shandong Province;

- Awarded with the 2018 China Industry-University-Institute Cooperation and Innovation Achievement Award(中國產學研合作創新成果獎), First Class Award and Second Class Award in the Shandong Province Innovation Competition for Scientists and Technicians(山東省科技工作者創新項目大賽), the Greatest Promotional Value Award(最具推廣價值獎) in the Shandong Province Innovation Competition for Scientists and Technicians(山東省科技工作者創新項目大賽), winner of eight Binzhou City Science and Technology Awards(濱州市科學技術獎), winner of three Binzhou City Patent Awards(濱州市專利獎) (including a major patent award), winner of one Zouping City Science and Technology Award (鄒平市科學技術獎), winner of one Zouping City Patent Award(鄒平市專利獎), and being responsible for one major project in Binzhou City.

II. Financial Review

1. Revenue

During the year, revenue of the Group was RMB11,917,535,000 (2017: RMB12,362,478,000), representing a slight decrease of 3.6% as compared to that of last year.

The decrease in revenue was mainly attributable to the decrease in revenue from trading of commodities from RMB1,992,394,000 last year to RMB709,711,000 for the Year, representing a decrease of 64.4%. The sales volume of ordinary steel and special steel for the Year was 2,235,432 tonnes and 751,189 tonnes, respectively, representing a decrease of 4.0% and 1.1% as compared to the sales volume of 2,327,931 tonnes and 759,548 tonnes, respectively, last year. However, the average selling price of ordinary and special steel increased from RMB3,211 per tonne and RMB3,353 per tonne last year, respectively, to RMB3,505 per tonne and RMB3,799 per tonne for the Year, respectively. The total sales of ordinary and special steel increased by 6.7% from RMB10,020,939,000 last year to RMB10,688,569,000 for the Year. The decrease in revenue from trading of commodities outweighed the increase in total sales of ordinary and special steel, therefore, the overall revenue decreased for the Year.

During the Year, the geographical distribution of the sales of steel of the Group by region was similar to that of last year. Shandong continued to be the top sales region. During the Year, the export sales amounted to RMB82,614,000 (2017: RMB194,930,000), which accounting for 0.8% (2017: 1.9%) of the total sales of steel.

Breakdown of revenue:

	2018		2017	
	Revenue *RMB'000*	**Average selling price** *(RMB/tonne)*	Revenue *RMB'000*	Average selling price *(RMB/tonne)*
Ordinary Steel				
Rebar	**6,007,970**	**3,482**	5,061,769	3,185
Wire rod	**1,826,738**	**3,581**	2,412,097	3,265
Subtotal/Average	**7,834,708**	**3,505**	7,473,866	3,211
Special Steel	**2,853,861**	**3,799**	2,547,073	3,353
Production and sales of steel	**10,688,569**		10,020,939	
Trading of commodities#	**709,711**		1,992,394	
Sales of by-products##	**519,255**		349,145	
Total	**11,917,535**		12,362,478	

Trading of commodities mainly includes the trading of iron ore dust, pellet and coke.

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

Breakdown of sales volume of steel:

	Sales volume			
	2018		2017	
	Tonnes	***Percentage***	*Tonnes*	*Percentage*
Ordinary steel				
Rebar	**1,725,300**	**57.8%**	1,589,044	51.5%
Wire rod	**510,132**	**17.1%**	738,887	23.9%
Subtotal	**2,235,432**	**74.8%**	2,327,931	75.4%
Special steel	**751,189**	**25.2%**	759,548	24.6%
Total	**2,986,621**	**100.0%**	3,087,479	100.0%

2. Cost of sales

During the Year, our cost of sales was RMB9,950,680,000 (2017: RMB10,337,237,000), representing a decrease of 3.7% as compared to that of last year. It was mainly attributable to the decrease in cost of trading of commodities and cost of sales of by-products from RMB2,314,950,000 last year to RMB1,208,445,000 for the Year, representing a decrease of 47.8%. The total cost of production and sales of steel for the Year was RMB8,742,235,000 (2017: RMB8,022,287,000), representing an increase of 9.0% as compared to that of last year. The increase was mainly attributable to the increase in average production costs of steel per tonne. The average production costs of steel per tonne increased from RMB2,598 last year to RMB2,927 per tonne for the Year, representing an increase of RMB329 or 12.7% per tonne. The decrease in cost of trading of commodities and cost of sales of by-products outweighed the increase in the total cost of production and sales of steel, therefore, the overall cost of sales decreased for the Year.

Cost structure of steel remained gradually unchanged during the Year since the major raw materials used were iron ore dust and coke, which represented 51.1% (2017: 53.2%) of steel production costs. The composition of the total production cost between raw materials and production overhead remained relatively stable during the Year. The raw materials and production overhead represented 84.7% and 15.3% (2017: 85.7% and 14.3%) of the total production costs, respectively.

3. Gross profit

During the Year, gross profit of the Group was RMB1,966,855,000 (2017: RMB2,025,241,000), representing a decrease of 2.9% as compared to that of last year. During the Year, steel has contributed RMB1,946,334,000 to our overall gross profit, which accounted for 99.0% of our overall gross profit, of which RMB1,651,208,000 and RMB295,126,000 was attributable to sales of ordinary steel and special steel, respectively, accounted for approximately 84.0% and 15.0% of our overall gross profit. The increase in the average selling price per tonne was in line with the increase in the average production cost of steel per tonne for the Year, therefore, the overall profit margin of the Group remained at a similar level for the Year of 16.5% (2017: 16.4%).

Breakdown of the contribution of gross profit and gross profit margin by products and business:

	2018		2017	
	RMB'000	***Gross profit margin***	*RMB'000*	*Gross profit margin*
Ordinary steel	**1,651,208**	**21.1%**	1,584,196	21.2%
Special steel	**295,126**	**10.3%**	414,456	16.3%
Production and sales of steel	**1,946,334**	**18.2%**	1,998,652	19.9%
Trading of commodities	**7,810**	**1.1%**	16,833	0.8%
Sales of by-products	**12,711**	**2.4%**	9,756	2.8%
Total/Overall	**1,966,855**	**16.5%**	2,025,241	16.4%

4. Other income and gains

Other income mainly includes bank interest income and government subsidies. Other income and gains for the Year amounted to RMB132,846,000 (2017: RMB29,763,000), representing an increase of 3.5 times as compared to that of last year. The increase was mainly due to the increase in subsidies from the PRC government under the policy implemented in the late 2017 and fair value gain on embedded derivative component of convertible bonds incurred during year.

5. Selling and distribution expenses

The Group's selling and distribution expenses for the Year amounted to RMB12,821,000 (2017: RMB102,651,000), representing a decrease of 87.5% as compared to that of last year. The decrease was mainly attributable to the reallocation of transportation costs to cost of sales in accordance with the newly effective accounting standard.

6. Administrative expenses

Administrative expenses mainly include general office expenses, salaries of administrative staff, professional and legal fees and bank service charges. Administrative expenses for the Year amounted to RMB125,538,000 (2017: RMB98,044,000), representing an increase of 28.0% as compared to the corresponding period of last year. Such increase was mainly attributable to the increase in wages and salaries during the Year as compared to that of last year and farmland cultivation fees newly incurred during the year.

Financial position

Liquidity and financial resources

As at 31 December 2018, the Group had approximately RMB935.7 million in cash and cash equivalents (2017: RMB125.6 million), and approximately RMB937.1 million in pledged bank deposits (2017: RMB513.8 million). The Group had trade and bills payables of approximately RMB1,479.5 million (2017: RMB1,772.4 million), bank and other borrowings due within one year in the amount of approximately RMB4,342.3 million (2017: RMB2,380.1 million), and bank and other borrowings due after one year in the amount of approximately RMB489.1 million (2017: RMB1,769.4 million). As at 31 December 2018, the bank and other borrowings are denominated in Renminbi, Hong Kong dollar and United States dollar. All of the bank and other borrowings (excluding borrowing from Xiwang Finance) were secured by non-current assets, restricted bank deposits 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. The Group mainly used its operating cash inflow to fund its working capital needs, while the capital requirement for addition of production equipment was mainly satisfied by cash inflows from operating and financing activities.

Capital structure

As at 31 December 2018, the Group's total assets was approximately RMB14,397.0 million (2017: RMB12,667.8 million), which was funded by the following: (1) share capital of approximately RMB1,287.6 million (2017: RMB1,091.6 million), (2) reserves of approximately RMB4,709.6 million (2017: RMB4,054.1 million) and (3) total liabilities of approximately RMB8,399.8 million (2017: RMB7,522.2 million).

Gearing ratio

As at 31 December 2018, the gearing ratio, being the total interest-bearing debts (including interest-bearing bank and other borrowings, borrowings from the ultimate holding company and convertible bonds) divided by total equity, was 0.86 (2017: 0.87). The slight decrease in this ratio was mainly due to the decrease in the borrowings from the Xiwang Group in 2018. The annual interest rate of the banks and other borrowings for the year ended 31 December 2018 varied from 3.31% to 13.50% (2017: 2.40% to 9.00%).

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

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

Pledge of assets

As at 31 December 2018, RMB2,732,712,000 (2017: RMB599,098,000) of machinery and equipment, RMB94,062,000 of leasehold land (2017: Nil) and pledged deposits of RMB637,100,000 (2017: RMB336,500,000) were pledged as security for interest-bearing bank and other borrowings of the Group and fellow subsidiaries and bills payable, and pledged deposits of RMB300,000,000 (2017: Nil) were pledged for counter guarantee .

Capital commitments and contingent liabilities

As at 31 December 2018, the capital commitment of the Group for property, plant and equipment was RMB1,019,575,000 (2017: RMB848,580,000). The Group also entered into a technical cooperation agreement with Luoyang Bearing Research Centre Company Limited* to enhance its product quality. As at 31 December 2018, commitment in respect of this technical consultation service was nil (2017: RMB300,000).

On 4 January 2016, the Company entered into a guarantee agreement with Xiwang Group for a term of three years commencing from 4 January 2016, pursuant to which the Company will provide Xiwang Group and its subsidiaries other than the Group (the "**Relevant Subsidiaries**") with guarantee services (the "**Guarantee Agreement**"). On 1 November 2018, the Company entered into a supplementary guarantee agreement with Xiwang Group to revise the terms and conditions.

As the Guarantee Agreement will be expired on 31 December 2018, the Group and Xiwang Group Company agreed to renew the transaction terms, and entered into the new guarantee agreement (the "**New Guarantee Agreement**") on 10 November 2017, which is valid for a term of three years commencing from 1 January 2018 to 31 December 2020. Pursuant to the New Guarantee Agreement, the Group shall undertake to guarantee and bear any obligations and liabilities of Xiwang Group and the Relevant Subsidiaries provided under the loan agreement to be entered between the lenders and Xiwang Group and/or the Relevant Subsidiaries subject to the terms of the specific guarantee agreements to be entered between the lenders and the Group. The guarantee amount to be provided by the Company to Xiwang Group and the Relevant Subsidiaries under the New Guarantee Agreement shall not exceed the aggregate amount due from the Group to Xiwang Group and the Relevant Subsidiaries (including but not limited to the borrowings provided by Xiwang Group to the Group) and the aggregate amount of the Group's borrowing which is guaranteed and/or secured by Xiwang Group and the Relevant Subsidiaries, less the aggregate amount due from Xiwang Group and the Relevant Subsidiaries to the Group (including but not limited to the deposits placed by the Group with Xiwang Group Finance Company Limited) and shall be subject to the maximum cap of RMB5 billion. Any loans to be repaid by the Group for and on behalf of Xiwang Group (and the Relevant Subsidiaries) pursuant to the New Guarantee Agreement shall be offset by the loans payable by the Group to Xiwang Group, or as other amounts payable by the Group to Xiwang Group or the Relevant Subsidiaries.

For details, please refer to the Company's announcements dated 10 November 2017 and 9 January 2018 and the circular dated 19 December 2017, respectively.

The upper limit of the bank facilities guaranteed by the Group to the ultimate holding company and fellow subsidiaries were RMB180,000,000 and RMB3,757,542,000 respectively. As at 31 December 2018, the bank facilities guaranteed by the Group to Xiwang Group and the Relevant Subsidiaries were utilised to the extent of approximately RMB180,000,000 and RMB2,869,990,000.

Equity fund raising activities

On 25 January 2018, the Company and Guotai Junan Securities (Hong Kong) Limited, Zhong Tai International Securities Ltd and SBI China Capital Financial Services Limited entered into a placing and subscription agreement pursuant to which (i) Xiwang Investment Company Limited has agreed to place, through Guotai Junan Securities (Hong Kong) Limited, Zhong Tai International Securities Ltd and SBI China Capital Financial Services Limited, 151,111,000 placing shares at the top up placing price of HK$1.59 per top-up placing share; and (ii) Xiwang Investment Company Limited has agreed to subscribe for 151,111,000 top-up subscription shares at the top-up subscription price of HK$1.59 per top-up subscription share. The Company intends to utilise the net proceeds of approximately HK$235.2 million from the top-up subscription for general working capital of the Group. The Company has fully utilised the net proceeds and applied them for general working capital.

Save as disclosed in this announcement, the Group did not have any other material equity fund raising activities during the Year.

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 31 December 2018, the Group was mainly exposed to risks related to its net liabilities denominated in US dollar amounted to RMB175,404,000 (2017: RMB241,809,000).

Employees and remuneration

As at 31 December 2018, the Group had a total of 4,276 employees (2017: 4,289). Staff-related costs incurred during the Year was RMB297,565,000 (2017: RMB255,230,000). The remuneration was determined based on the performance and professional experience of employees as well as the prevailing market conditions. The management will regularly review the remuneration policy and arrangement of the Group. In addition to pensions, the Group will also distribute discretionary bonuses to certain employees as incentives based on their performance.

Recognition as a High and New Technology Enterprise and Tax Preferential Treatment

A subsidiary of the Company, Xiwang Metal Science & Technology Company Limited* (西王金屬科技有限公司) ("**Xiwang Metal**"), has obtained the High and New Technology Enterprise Certificate* (高新技術企業證書) (No. GR201737001201) which was effective from 28 December 2017 and is valid for three years. Accordingly, Xiwang Metal is entitled to enjoy a preferential tax rate at the enterprise income tax rate of 15% for the three financial years from 2017 to 2019. For details, please refer to the announcement of the Company dated 1 March 2018.

III. Business Outlook

In 2018, the PRC government strengthened structural reform with a more specific and powerful policy. Green development became a new norm, de-leveraging, merger and acquisition and corporate reorganization were further developed, resulting in a better operating environment for the steel industry. On the demand side, the growth in steel demand remained steady, as the infrastructure sector remained active. As supply and demand for steel become more balanced, this creates a greater and healthier market development space for the Group and other enterprises that comply with laws and regulations to grow and expand.

Looking forward to 2019, the demand for ordinary steel will remain strong, with special steel seeing great market potential.

- Ordinary steel products：

  - The Central Government will increase investment in infrastructure projects in order to stabilise the economy and improve weak links. As a project takes three to five years, the projects verified in last year and this year will provide short-term support demand；

  - With the objective of producing specialized hot rolled ribbed bars, steel enterprises will strive to improve the quality of construction material in order to meet the needs of government investment in railways, roads and water resources in order to capitalise on such major projects. This will provide strong demand in the medium and high-end market in construction material；

- Although the growth in real estate has slowed down, demand in such sector remains relatively inelastic. It is expected that real estate will grow in the future and bring about demand for the ordinary steel；

- In view of that, the Xiwang Special Steel will continue to follow the market trend. Using steel price as guidance, the Group will capitalise on its production capability to switch between production of ordinary steel and special steel, so as to maximize revenue.

- Special steel products：

  - With a site area of 236 mu and a gross floor area of 144,530 sqm, the steel track production facility is mainly for producing high speed heavy load high intensity steel track products. With a comprehensive product offering of steel track as the primary product and various types of steel, big poles, square poles and flat poles as secondary products, the overall design and production capability of the production facility is 100 million tonnes. On 26 June 2018, the project was included into the Shandong Province Shift to New Growth Drivers Major Production First Priority Special Selection Item List（山東省新舊動能轉換重大項目庫第一批優選項目名單）. It is expected to commence production in 2020. With such upgrade, the special steel capacity of the Group can be increased significantly, and support the gross profit margin for the Group；

  - Develop high end special steel products, focusing on development in the six special steel new products (steel for advanced railway traffic, high end bearing steel, steel for marine engineering, mould steel, spring steel and steel for special use); utilise the national science and innovation platform to reach a market-leading status in industry technology research and development; increase the proportion of special steel production, utilise the Group's competitive advantage, and enhance the long-term profitability of the Group；

  - Deepen the strategic operation with the Chinese Academy of Science, quickly capitalise on the scientific research achievements of the Academy, continuously improve research and development capabilities in relation to special steel new products, speed up the shift to new growth drivers and increase the pace of product transformation and integration, and using technology innovation to achieve high quality development.

Apart from product development, Xiwang Special Steel will increase research and development investment. The Group currently established five research and development units in different sectors (such as on special steel research, railway steel research and bearing steel research). Every year, there are more than 10 research and development projects which can lead to the development of new products that can carry intellectual property rights, which provides strong technical support to the research and development of the six sectors of special steel new products. Through specialised research and development, improvement on products, a commitment to protecting the environment and increasing productivity, Xiwang Special Steel will continue to maintain a good renveue level.

DIVIDEND

The Board recommended the payment of a final dividend of RMB12.8 cents per ordinary share, for the year ended 31 December 2018 to the shareholders of the Company whose names appear on the register of members of the Company at the close of business on Wednesday, 19 June 2019. The payment of final dividend on Monday, 8 July 2019 are subject to the approval of the shareholders of the Company at the forthcoming Annual General Meeting of the Company (the "**AGM**") to be held on Thursday, 6 June 2019. The proposed final dividend shall be declared in RMB and paid in Hong Kong dollars. The final dividend payable in Hong Kong dollars will be converted from RMB at the average middle rate of RMB to Hong Kong dollars as announced by the People's Bank of China for the period from Monday, 3 June 2019 to Thursday, 6 June, 2019.

ANNUAL GENERAL MEETING

The forthcoming AGM will be held on Thursday, 6 June 2019. For details, please refer to the notice of the AGM which will be published and dispatched to the shareholders of the Company as soon as practicable in accordance with the Company's articles of association and the Listing Rules.

CLOSURE OF REGISTER OF MEMBERS

(a) For determining the entitlement to attend and vote at the forthcoming AGM

The register of members in respect of ordinary shares of the Company will be closed from Monday, 3 June 2019 to Thursday, 6 June 2019 (both days inclusive), during which period no transfer of shares of the Company may be registered, for the purposes of ascertaining shareholders' entitlement to attend and vote at the forthcoming AGM. In order to be eligible to attend and vote at the forthcoming AGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Boardroom Share Registrars (HK) Limited at 2103B, 21/F., 148 Electric Road, North Point, Hong Kong for registration not later than 4:30 p.m. on Friday, 31 May 2019.

(b) For determining the entitlement to the final dividend

The register of members of the Company will be closed from Monday, 17 June 2019 to Wednesday, 19 June 2019 (both days inclusive), during which period no transfer of shares of the Company may be registered, for the purposes of ascertaining shareholders' entitlement for the proposed final dividend. The record date for the proposed final dividend shall be Wednesday, 19 June 2019. In order to qualify for the proposed final dividend, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Boardroom Share Registrars (HK) Limited at 2103B, 21/F., 148 Electric Road, North Point, Hong Kong for registration not later than 4:30 p.m. on Friday, 14 June 2019.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S SECURITIES

During the Year, two grantees of the share option scheme of the Company adopted on 3 September 2014, Mr. Wang Di and Mr. Sun Xinhu, exercised a total of 4,333,333 share options of the Company.

Save as disclosed in this announcement, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the Year.

CORPORATE GOVERNANCE

The Company has adopted the code provisions in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**") as its own code of corporate governance. The Board considers that the Company was in compliance with all applicable code provisions set out in the CG Code throughout the Year.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. The Company has made specific enquiries of all the Directors, and all Directors confirmed that they have complied with the required standards set out in the Model Code for the year ended 31 December 2018.

AUDIT COMMITTEE

During the Year, the audit committee of the Company (the "**Audit Committee**") was comprised of three Directors, namely, Mr. LEUNG Shu Sun Sunny, Mr. LI Bangguang and Mr. YU Kou who are independent non-executive directors. Mr. LEUNG Shu Sun Sunny serves as the chairman of the Audit Committee. The Audit Committee has reviewed with the management the accounting policies and practices adopted by the Group and discussed with the management internal control and financial reporting matters of the Company, including the review of the Group's consolidated financial results for the Year.

SCOPE OF WORK ON THE ANNUAL RESULTS ANNOUNCEMENT BY AUDITOR

The figures in respect of the Group's results for the year ended 31 December 2018 as set out in the preliminary announcement have been agreed by the Company's auditors Ernst & Young, Certificated Public Accountants ("**Ernst & Young**") to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagements in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is also published on the Company's website (www.xiwangsteel.com) and the designated website of the Stock Exchange (www.hkexnews.hk). The annual report for the year ended 31 December 2018 containing all the information required by Appendix 16 of the Listing Rules will be despatched to the shareholders and available on the above websites in due course.

By order of the Board
Xiwang Special Steel Company Limited
WANG Di
Chairman

Hong Kong, 29 March 2019

As at the date of this announcement, the Board comprises the following directors:

Executive Directors
Mr. ZHANG Jian
Mr. SUN Xinhu
Ms. LI Hai Xia

Non-executive Directors
Mr. WANG Di
Mr. WANG Yong

Independent non-executive Directors
Mr. LEUNG Shu Sun Sunny
Mr. LI Bangguang
Mr. YU Kou

* *For identification purpose only*