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

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1266)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June	
	2019	2018
Sales volume of Steel *(tonnes)*	**1,374,234**	1,453,340
Revenue *(RMB)*		
Ordinary Steel – Rebar	**2,685 million**	2,934 million
Ordinary Steel – Wire Rod	**933 million**	783 million
Special Steel	**1,088 million**	1,356 million
Trading of commodities and sales of by-products	**1,254 million**	883 million
Total	**5,960 million**	5,956 million
Gross profit *(RMB)*	**552.4 million**	1,068.5 million
Gross profit per tonne *(RMB)* – Productions and sales of steel	**374 yuan**	726 yuan
Profit attributable to owners *(RMB)*	**182.5 million**	568.7 million
Net profit margin	**3.1%**	9.5%
Basic earnings per share *(RMB)*	**8.05 cents**	25.47 cents

The board (the "**Board**") of directors (the "**Directors**") of Xiwang Special Steel Company Limited (the "**Company**") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2019 (the "**Period**"), together with the comparative figures, as follows. The consolidated results are unaudited, but have been reviewed by the Company's audit committee ("**Audit Committee**").

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
NET CURRENT LIABILITIES	**(3,457,940)**	(3,999,747)
TOTAL ASSETS LESS CURRENT LIABILITIES	**7,100,506**	6,680,374
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**728,583**	489,081
Lease liabilities	**706**	–
Deferred tax liabilities	**35,843**	33,111
Other long term payable	**161,000**	161,000
Total non-current liabilities	**926,132**	683,192
Net assets	**6,174,374**	5,997,182
EQUITY		
Equity attributable to owners of the parent		
Share capital	**1,288,096**	1,287,602
Reserves	**4,886,278**	4,709,580
Total equity	**6,174,374**	5,997,182

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1.1 CORPORATE INFORMATION

The Company is a limited company and was incorporated in Hong Kong on 6 August 2007. The Company's registered office is located at Unit 2110, 21/F, Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong. The shares of the Company have been listed on the Stock Exchange since 23 February 2012. The Group is principally engaged in the production and sale of steel products in the PRC.

The immediate holding company of the Company is Xiwang Investment Company Limited ("**Xiwang Investment**") (西王投資有限公司) which is wholly owned by Xiwang Holdings Limited ("**Xiwang Holdings**") (西王控股有限公司). The ultimate holding company of the Company was Xiwang Group Company Limited ("**Xiwang Group**") (西王集團有限公司).

1.2 BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

The accounting policies and method of computation used in the preparation of these condensed consolidated interim financial statements are consistent with those adopted in the annual financial statements for the year ended 31 December 2018.

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

As at 30 June 2019, the Group had net current liabilities of approximately RMB3,457.9 million (31 December 2018: RMB3,999.7 million). The Directors are of the opinion that the Group will have sufficient working capital to finance its operations and to maintain its operating existence in the foreseeable future and accordingly have prepared the interim condensed consolidated financial statements on a going concern basis notwithstanding the net current liabilities position.

1.3 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

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

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

New definition of a lease

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

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

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

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

Impacts on transition

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

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

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

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

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

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

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

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

Summary of new accounting policies

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

Right-of-use assets

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

Lease liabilities

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

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

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

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

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

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

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

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

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

2. OPERATING SEGMENT INFORMATION

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

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

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

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

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

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

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

Geographical information

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

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

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

Information about major customers

For the six months ended 30 June 2019, no revenue (six months ended 30 June 2018: RMB876,959,000) from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

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

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

The unaudited segment results and other segment items included in profit before tax for the six months ended 30 June 2018 are as follows:

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

3. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

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

Revenue from contracts with customers

(i) Disaggregated revenue information

For the period ended 30 June 2019

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

For the period ended 30 June 2018

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

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

For the period ended 30 June 2019

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

For the period ended 30 June 2018

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

(ii) Performance obligations

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

Sale of goods

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

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

4. PROFIT BEFORE TAX

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

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

[#] *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 the reversal of impairment of other receivables are included in "Impairment loss on financial assets, net" in the interim condensed consolidated statement of profit or loss for the six months ended 30 June 2019, while they are included in "other expenses" in the interim condensed consolidated statement of profit or loss for the six months ended 30 June 2018.*

5. FINANCE COSTS

An analysis of finance costs is as follows:

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

6. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable in Mainland China have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof.

Pursuant to the PRC Corporate Income Tax Law effective on 1 January 2008, the PRC subsidiaries except for Xiwang Metal Science & Technology are subject to corporate income tax ("CIT") at a statutory rate of 25% on their respective taxable income for the six months ended 30 June 2019. Xiwang Metal Science & Technology is subject to CIT at a rate of 15% on its respective taxable income for the six months ended 30 June 2019 as a national-grade high-tech enterprise.

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

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

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

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

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

	Six months ended 30 June 2019 *RMB'000* **(Unaudited)**	Six months ended 30 June 2018 *RMB'000* (Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**182,549**	568,653

	Number of shares 30 June 2019 (Unaudited)	Number of shares 30 June 2018 (Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the Period used in the basic earnings per share calculation	**2,268,641,938**	2,232,707,093
Effect of dilution – weighted average number of ordinary shares		
Share option	**1,977,625**	2,561,220
Share-based payment	**100,000,000**	100,000,000
Convertible bonds	**136,046,511**	136,046,511
Weighted average number of ordinary shares used in the diluted earnings per share calculation	**2,506,666,074**	2,471,314,824

8. DIVIDENDS

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

9. TRADE AND BILLS RECEIVABLES

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

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

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

Bills receivable

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

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

Included in the Group's trade receivables are amounts due from the Group's fellow subsidiaries of RMB46,299,000 (31 December 2018: RMB24,414,000), which are repayable on credit terms similar to those offered to the major customers of the Group.

10. TRADE AND BILLS PAYABLES

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

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS REVIEW

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

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

Production and sales of steel

The ordinary steel products manufactured and sold by the Group included rebars and wire rods, which are mainly used for construction and infrastructure projects, which accounted for 76.9% of the total sales amount of steel during the Period (first half of 2018: 73.3%). The special steel products of the Group mainly included quality carbon structural steel used for mechanical processing and equipment production, and alloy structural steel used for machineries, bearing steel used for automobile manufacturing and ingots used in transportation, marine engineering and weaponries, constituting 23.1% of the total sales amount of steel during the Period (first half of 2018: 26.7%).

Important event(s) affecting the Group

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

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

II. FINANCIAL REVIEW

Business Performance

1. Revenue

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

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

	For the six months ended 30 June			
	2019		2018	
	Revenue *RMB million*	**Average selling price** *(RMB/tonne)*	Revenue *RMB million*	Average selling price *(RMB/tonne)*
Ordinary Steel				
Rebar	**2,685**	**3,349**	2,934	3,337
Wire rod	**933**	**3,436**	783	3,486
Subtotal/Average	**3,618**	**3,371**	3,717	3,367
Special Steel	**1,088**	**3,613**	1,356	3,880
Production and sales of steel	**4,706**		5,073	
Trading of commodities#	**977**		617	
Sales of by-products##	**277**		266	
Total	**5,960**		5,956	

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.

Breakdown of sales volume of steel:

	Sales volume For the six months ended 30 June			
	2019		2018	
	Tonnes	***Percentage***	*Tonnes*	*Percentage*
Ordinary Steel				
Rebar	**801,820**	**58.3%**	879,355	60.5%
Wire rod	**271,374**	**19.8%**	224,481	15.5%
Subtotal	**1,073,194**	**78.1%**	1,103,836	76.0%
Special Steel	**301,040**	**21.9%**	349,504	24.0%
Total	**1,374,234**	**100.0%**	1,453,340	100.0%

2. *Cost of sales*

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

3. *Gross profit*

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

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

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

4. *Other income and gains*

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

5. *Selling and distribution expenses*

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

6. *Administrative expenses*

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

Financial position

Liquidity and capital resources

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

Capital structure

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

Gearing ratio

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

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 Period.

Pledge of assets

As at 30 June 2019, RMB3,085,770,000 (31 December 2018: RMB2,732,712,000) of machinery and equipment, motor vehicles, buildings and office equipment and fixtures, RMB92,951,000 of right-of-use assets (31 December 2018: RMB94,062,000) and pledged deposits of RMB871,771,000 (31 December 2018: RMB637,100,000) were pledged as security for interest-bearing bank and other borrowings of the Group and fellow subsidiaries and bills payable, and pledged deposits of RMB300,000,000 (31 December 2018: RMB300,000,000) were pledged for counter guarantee .

Capital commitments

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

Foreign exchange risk

The majority of the operating income, costs and expenditures of the Group were denominated in RMB. As such, the Group has not been exposed to material foreign exchange risk during its operation. As at 30 June 2019, the Group mainly exposed to risks relating to its liabilities denominated in US dollar of RMB359,738,000 (31 December 2018: RMB175,404,000).

Employees and remuneration

As at 30 June 2019, the Group had a total of 3,869 employees (as at 30 June 2018: 4,430). Staff-related costs incurred during the Period was RMB141,551,000 (first half of 2018: RMB146,306,000). The remuneration was determined based on the performance and professional experience of employees as well as the prevailing market conditions. The management will regularly review the remuneration policy and arrangement of the Group. In addition to pensions, the Group will also distribute discretionary bonus to certain employees as incentives according to their performance.

III. BUSINESS OUTLOOK

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

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

- Ordinary steel:

  - The Group will continue to adopt the market-oriented approach, prioritise production schedules under the principle of maximising the profit of each variety of product, properly make use of its capacity converting between ordinary and special steel production in a flexible manner, and adjust the variety of product portfolio according to market changes.

  - Since the beginning of 2019, the National Development and Reform Commission has approved 26 traditional infrastructure projects involving transportation, energy and water conservancy, with a total investment amount of RMB600 billion. Specifically, inter-city railway for riverside metropolitan areas in Jiangsu, urban rail transit in Wuhan, the new airport in Hohhot, Xianyang Airport in Xi'an, Shaanxi, the newly built civil airport in Ezhou, Hubei and other transportation projects will have an aggregate investment amount of RMB400 billion, which will bring strong demand for ordinary steel in the next 3 to 5 years.

- Construction materials produced by the Group in accordance with the new national standard have been used in various key domestic engineering fields such as Jinan-Qingdao High-speed Railway, Shandong Expressway and Qingdao Metro, and are exported to foreign markets such as Korea and Southeast Asia. At the same time, the Group has also established a direct supply cooperation model with large-sized central enterprises and state-owned enterprises such as China Railway and China Railway Construction, and has become a strategic supplier of various key projects such as Jinan-Qingdao High-speed Railway and Lunan High-speed Railway in the province. As such, future demand for ordinary steel are guaranteed to some extent.

- Special steel:

  - In accordance with the requirements of the "Development Plan for the Advanced Steel Manufacturing Industry Base in Shandong Province" (《山東省先進鋼鐵製造產業基地發展規劃》), the Group will target the six sectors of special steel new products (including steel for advanced railway traffic, high-end bearing steel, steel for marine engineering and steel for special use) by deepening its cooperation with the Chinese Academy of Sciences and the Academy of Railway Sciences and based on the localisation of high-end equipment and new materials. The Group will further broaden its existing product coverage on top of the over 120 new products which it has already developed, and will strive to improve production process and product performance.

  - As a scientific research pilot base of the Chinese Academy of Sciences, the Group is developing new techniques and technologies for domestically produced high-end bearing steel and bearings, which are highly valued by relevant national ministries and commissions. The Group is currently making a joint application with the Chinese Academy of Sciences to declare a national key foundation consolidation project, signalling the Company has embarked on the transformation into a high-end bearing component manufacturing base. The construction project has been filed in Zouping City.

CORPORATE GOVERNANCE

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE

Audit Committee and Review of Financial Information

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

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Period.

INTERIM DIVIDEND

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

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

Hong Kong, 29 August 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

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

Non-executive Director
Mr. WANG Di