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XIWANG SPECIAL STEEL COMPANY LIMITED

西王特鋼有限公司

(incorporated in Hong Kong with limited liability)

(Stock code: 1266)

**INTERIM RESULTS FOR THE SIX MONTHS
ENDED 30 JUNE 2021**

The Board of Directors of Xiwang Special Steel Company Limited (the “**Company**”) hereby announces the interim results of the Company and its subsidiaries for the six months ended 30 June 2021. This announcement, containing the full text of the 2021 interim report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”). This announcement is also published on the Company’s website (www.xiwangsteel.com) and the designated website of the Stock Exchange (www.hkexnews.hk). The printed version of the interim report for the six months ended 30 June 2021 will be despatched to the shareholders and available on the above websites in due course.

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

Hong Kong, 31 August 2021

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

Executive Directors

Mr. ZHANG Jian

Mr. SUN Xinqu

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

CONTENTS

Corporate Information	2
Management Discussion and Analysis	4
Other Information	14
Corporate Governance	21
Condensed Consolidated Statement of Profit or Loss	22
Condensed Consolidated Statement of Comprehensive Income	23
Condensed Consolidated Statement of Financial Position	24
Condensed Consolidated Statement of Changes in Equity	26
Condensed Consolidated Statement of Cash Flows	27
Notes to the Condensed Consolidated Financial Statements	28



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. ZHANG Jian (*Chief Executive Officer*)

Mr. SUN Xinhua

Ms. LI Hai Xia

Non-Executive Directors

Mr. WANG Di (*Chairman*)

Independent Non-Executive Directors

Mr. LEUNG Shu Sun Sunny

Mr. YU Kou

Mr. LI Bangguang

COMMITTEES

Audit Committee

Mr. LEUNG Shu Sun Sunny (*Chairman*)

Mr. YU Kou

Mr. LI Bangguang

Remuneration Committee

Mr. LI Bangguang (*Chairman*)

Mr. WANG Di

Mr. YU Kou

Nomination Committee

Mr. LI Bangguang (*Chairman*)

Mr. WANG Di

Mr. YU Kou

COMPANY SECRETARY

Mr. YU Chi Kit

AUTHORISED REPRESENTATIVES

Mr. WANG Di

Mr. YU Chi Kit

REGISTERED OFFICE

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

HEADQUARTERS

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Shandong Province
People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2110, 21/F
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Wanchai, Hong Kong

PRINCIPAL BANKERS

Bank of China
Agricultural Bank of China
Bank of Communications
China Zheshang Bank
Bank of Rizhao



CORPORATE INFORMATION

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Hong Kong

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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INVESTOR RELATIONS CONTACT

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MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS REVIEW

In the first half of 2021, Xiwang Special Steel Company Limited (the “**Company**”) and its subsidiaries (together referred to as the “**Group**”) achieved stable production, reduced costs and increased efficiency, and balanced production and sales by strengthening internal management and benchmarking improvements. The three major systems of production, supply, and sales were actively linked to efficiently stabilize production and create greater benefits for the Group. The Group has emphasized promotion of development through innovation and improvement through technology, and constantly accelerates the conversion of kinetic energy, accelerating the pace of transformation of the Group. The Group has achieved high-quality development, strictly controlling the quality of raw materials and steadily improving product quality and at the same time, strengthening safety education and training to enhance the safety awareness of all employees. The Group has emphasized on the positive incentive from performance appraisal, comprehensively improve comprehensive management, and promote the full realization of the Group’s performance. The Group arranged for and focused on work safety, cost reduction and efficiency enhancement, transformation and upgrading, talent training and other aspects. The Group placed emphasis on stabilizing production and efficiency through collaboration among all systems, so as to strictly control cost consumption; accumulating and analyzing data from previous years, comparing industry data, and improving market research and judgment capabilities; optimizing cooperation models, increasing the number of strategic customers, and improving market control capabilities at both ends of procurement and sales. The Group has emphasized energy-saving and carbon-reduction, to achieve improvement in comprehensive energy efficiency; strengthen the development of young cadres, enhance the competence of incumbent and reserve cadres, keep the team of cadres young and professional; control inventory according to market forecasts, and accelerate capital and inventory turnover. The Group further deepened the comprehensive cooperation with the Chinese Academy of Sciences, and new achievements and breakthroughs in product research and development and industrialization with the aid of the national strong foundation project and the research and development results of the Chinese Academy of Sciences.

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



MANAGEMENT DISCUSSION AND ANALYSIS

The Group's main source of revenue was derived from the production and sales of steel. The Group's primary production department was geographically located in Shandong Province, where the steel demand is mainly driven by real estate and infrastructure sectors. The Group flexibly adjusted its long and short production processes, increased the use of scrap steel in a timely manner, and expanded its channels to source raw materials, striving to reduce the impact of iron ore price. In addition, through its cooperation with the Chinese Academy of Sciences, the Group continued to develop its special steel products such as steel for high-end bearing steel, steel for high-performance marine projects, mould steel, steel for special use and other high-end equipment, so as to further improve products with better technology, expand its source of income and reduce its dependence on the ordinary steel market.

Production and sales of steel

The ordinary steel products manufactured and sold by the Group included rebars and wire rods, which are mainly used for construction and infrastructure projects. The special steel products of the Group mainly included quality carbon structural steel used for mechanical processing and equipment production, and alloy structural steel used for machineries, bearing steel used for automobile manufacturing and ingots used in transportation, marine engineering and weaponries.

Important event(s) affecting the Group

References are made to the announcements of the Company dated 16 August 2019, 11 October 2019, 10 January 2020, 10 March 2020, 26 June 2020, 29 July 2020, 26 November 2020, 8 January 2021 and 11 June 2021 in relation to, among others, the further delay of dividend distribution of the Company. The payment of the final dividend for the year ended 31 December 2018 and the despatch of the share certificates for the scrip shares to the shareholders have been further postponed.

As a result of the further postponement, the Final Dividend and the share certificates for the Scrip Shares are expected to be sent to the Shareholders on or around 30 December 2021 and the dealing in the scrip shares on the Stock Exchange is expected to commence on or around 31 December 2021.



MANAGEMENT DISCUSSION AND ANALYSIS

II. FINANCIAL REVIEW

Business Performance

1. Revenue

During the Period, revenue of the Group was RMB9,890,828,000 (first half of 2020 (“1H2020”): RMB4,740,347,000).

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

	For the six months ended 30 June			
	2021		2020	
	Revenue	Average selling price	Revenue	Average selling price
	(RMB '000)	(RMB/tonne)	(RMB '000)	(RMB/tonne)
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Ordinary Steel				
Rebar	3,352,906	4,199	2,392,258	2,991
Wire rod	1,600,803	4,504	885,787	3,020
Subtotal/Average	4,953,709	4,293	3,278,045	2,999
Special Steel	2,302,547	4,381	1,065,844	3,225
Production and sales of steel	7,256,256	4,320	4,343,889	3,051
Trading of commodities[#]	2,365,036		142,195	
Sales of by-products^{##}	269,536		254,263	
Total	9,890,828		4,740,347	

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

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



MANAGEMENT DISCUSSION AND ANALYSIS

Breakdown of sales volume of steel:

	Sales volume			
	For the six months ended 30 June			
	2021		2020	
	Tonnes	Percentage	Tonnes	Percentage
Ordinary Steel				
Rebar	798,455	48%	799,855	56%
Wire rod	355,441	21%	293,307	21%
Subtotal	1,153,896	69%	1,093,162	77%
Special Steel	525,610	31%	330,508	23%
Total	1,679,506	100%	1,423,670	100%

2. Cost of sales

During the Period, cost of sales was RMB9,245,820,000 (1H2020: RMB4,699,090,000).

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



MANAGEMENT DISCUSSION AND ANALYSIS

3. Gross profit

Gross profit for the Period amounted to RMB645,008,000 (1H2020: RMB41,257,000), while the gross profit margin for the Period increased to 6.5% (1H2020: 0.9%).

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

	For the six months ended 30 June			
	2021	Gross profit margin	2020	Gross profit margin
	RMB'000 (Unaudited)		RMB'000 (Unaudited)	
Ordinary steel	513,200	10.4%	55,722	1.7%
Special steel	99,675	4.3%	(30,990)	(2.9%)
Production and sales of steel	612,875	8.4%	24,732	0.6%
Trading of commodities	18,665	0.8%	(2,828)	(2.0%)
Sales of by-products	13,468	5.0%	19,353	7.6%
Total/Overall	645,008	6.5%	41,257	0.9%

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

Other income and gains/(losses), net for the Period amounted to RMB12,172,000 (1H2020: losses of RMB5,881,000).

Other income and gains/(losses), net mainly represented interest income from Xiwang Finance, government grants and other miscellaneous income and expenses.

5. Selling and distribution expenses

The Group's selling and distribution expenses for the Period amounted to RMB4,773,000 (1H2020: RMB4,133,000).

The increase was mainly attributable to the increase in sales and trading volume by the Group during the Period.

6. Administrative expenses

Administrative expenses for the Period amounted to RMB48,805,000 (1H2020: RMB42,490,000).

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

Financial position

Liquidity and capital resources

As at 30 June 2021, the Group had approximately RMB330,548,000 in cash and cash equivalents (31 December 2020: RMB386,812,000), and approximately RMB423,405,000 in pledged bank deposits (31 December 2020: RMB492,219,000). The Group had trade and bills payables of approximately RMB2,568,019,000 (31 December 2020: RMB2,135,866,000), bank and other borrowings due within one year in the amount of approximately RMB3,160,254,000 (31 December 2020: RMB3,041,364,000), and bank and other borrowings due after one year in the amount of approximately RMB484,434,000 (31 December 2020: RMB1,187,927,000). As at 30 June 2021, the bank and other borrowings were denominated in Renminbi, Hong Kong dollar and United States dollar. The Group mainly used its operating cash inflow to fund its working capital needs, while the capital requirement for purchasing production equipment was mainly satisfied by cash inflows from operating and financing activities.

Capital structure

As at 30 June 2021, the Group's total assets was approximately RMB16,083,180,000 (31 December 2020: RMB15,369,929,000), which was funded by the following: (1) share capital of approximately RMB1,369,681,000 (31 December 2020: RMB1,369,681,000), (2) reserves of approximately RMB4,545,474,000 (31 December 2020: RMB4,361,205,000) and (3) total liabilities of approximately RMB10,168,025,000 (31 December 2020: RMB9,639,043,000). For the Period, the Group adopted conservative treasury policies, and all of the Group's interest-bearing borrowings bore interest at fixed interest rate.

Gearing ratio

As at 30 June 2021, the Group's gearing ratio was 23.5% (31 December 2020: 28.4%).

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

As at 30 June 2021, the Company was interested in an unlisted equity investment, being a 5% equity interest in Xiwang Group Finance Company Limited* ("**Xiwang Finance**") (西王集團財務有限公司), a company established in the PRC with limited liability, with a carrying amount of RMB65,360,000 (31 December 2020: RMB75,498,000). The amount is irrevocably designated at fair value through other comprehensive income as the Group considers this investment to be strategic in nature. Xiwang Finance is intended to provide the member companies of Xiwang Group Company Limited ("**Xiwang Group**") (西王集團有限公司), including but not limited to the members of the Group, with professional financial services, as well as to minimize financial risks and enhance the general competitiveness of Xiwang Group. The Group has no intention to dispose of the investment in the near future.



MANAGEMENT DISCUSSION AND ANALYSIS

On 26 June 2020, Xiwang Special Steel Company Limited* (西王特鋼有限公司), a company established in the PRC and an indirectly owned subsidiary of the Company (the “**PRC Subsidiary**”), entered into the memorandum of understanding (the “**MOU**”) with The Institute of Metal Research, Chinese Academy of Sciences (中國科學院金屬研究所) (“**IMR**”) and 10 individuals (the “**Technical Personnel**”) in relation to the proposed formation of a joint venture company (the “**JV Company**”) between the PRC Subsidiary, IMR and the Technical Personnel for, among others, the production and sale of rare earth special steel, various types of steel and steel products (the “**Proposed Joint Venture Formation**”). It was agreed in the MOU that the parties will enter into a definitive agreement and obtain approval from the Company’s shareholders within nine months from the date of the MOU. By a supplemental memorandum dated 31 March 2021, the parties agreed to extend the time period for the approval to 30 June 2021. For details, please refer to the announcements of the Company dated 26 June 2020 and 31 March 2021.

On 16 August 2021 (after trading hours), the PRC Subsidiary (an indirect non-wholly owned subsidiary of the Company) entered into the Capital Contribution Agreement with IMR and the Technical Personnel in relation to the capital injection into the JV Company (subject to the approval to be obtained in the Company’s shareholder meeting), pursuant to which (i) the PRC Subsidiary agreed to provide a capital commitment by injecting certain machinery, equipment and facilities (including construction-in-progress) with a fair value of approximately RMB656 million (based on a preliminary value appraised by an independent valuer as at 31 May 2021) to the JV Company; and (ii) IMR and the Technical Personnel together agreed to provide a capital commitment by injecting certain intellectual properties with a fair value of RMB353 million (based on a preliminary value appraised by an independent valuer as at 31 May 2021) to the JV Company. For details, please refer to an announcement of the Company dated 16 August 2021 and a circular of the Company dated 24 August 2021.

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

Pledge of assets

As at 30 June 2021, RMB5,178,738,000 (31 December 2020: RMB5,353,374,000) of building, machinery and equipment, RMB87,705,000 of leasehold land (31 December 2020: RMB88,805,000) and RMB423,388,000 of pledged deposits (31 December 2020: RMB488,949,000) were pledged as security for interest-bearing bank and other borrowings of the Group and fellow subsidiaries and bills payable, and pledged deposits of Nil (31 December 2020: Nil) were pledged for counter guarantee. The Group’s other borrowings were also secured by the Group’s 100% equity interest in Shangdong Xiwang Recycling Resources Company Limited.

Pledge of shares by controlling shareholders

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



MANAGEMENT DISCUSSION AND ANALYSIS

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

Specific performance obligations of the controlling shareholders

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

Disclosure obligation under Rules 13.19 and 13.21

References are made to the announcements of the Company dated 22 September 2017, 11 October 2017, 25 October 2019, 24 November 2019 and 12 December 2019 in relation to the Convertible Bond in the aggregate principal amount of US\$30.0 million issued by the Company which was originally due on 10 October 2019 and the Bonds in an aggregate principal amount of US\$30.0 million issued by the Company which was due on 31 May 2020 and 11 December 2019. As at 30 June 2021 and the date of this report, the Group was still discussing with the Bond Subscribers as to the redemption schedule of the Bonds in order to meet the repayment obligation.

Capital commitments

As at 30 June 2021, the capital commitment of the Group was RMB562,485,000 (31 December 2020: RMB782,522,000), mainly used for renovation project and purchasing equipments.

Contingent liabilities

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



MANAGEMENT DISCUSSION AND ANALYSIS

Foreign exchange risk

The majority of the operating income, costs and expenditures of the Group were denominated in RMB. As such, the Group has not been exposed to material foreign exchange risk during its operation. As at 30 June 2021, the Group mainly exposed to risks relating to its liabilities denominated in US dollar of RMB34,239,000 (31 December 2020: RMB34,582,000). During the Period, the Group did not enter into any foreign exchange swaps to hedge against foreign exchange risks.

Employees and remuneration

As at 30 June 2021, the Group had a total of 3,712 employees (as at 30 June 2020: 3,628). Staff-related costs incurred during the Period was RMB149,066,000 (1H2020: RMB131,730,000). The remuneration was determined based on the performance and professional experience of employees as well as the prevailing market conditions. The management will regularly review the remuneration policy and arrangement of the Group. In addition to pension, the Group will also distribute discretionary bonus to certain employees as incentives according to their performance.

III. BUSINESS OUTLOOK

It is expected that the PRC government will continue to strengthen its structural reform with more specific and powerful policies. Green development is expected to become a new norm, while de-leveraging, merger and acquisition and corporate reorganization are expected to be further developed, creating a better operating environment for the steel industry. The “reflective review” on iron and steel capacity reduction and the curtailment of crude steel output will become important tasks in the second half of 2021. Both of them aim to principally focus on the curtailment of crude steel output churned out by enterprises with lower environmental performance, high energy consumption and relatively outdated technique and equipment by upholding the principles of marketization and law on the basis of consolidating and improving the results of iron and steel capacity reduction. Meanwhile, the introduction of the dual carbon targets of “carbon peak” and “carbon neutrality” will have a far-reaching effect on the steel industry, procuring steel companies to actively seek high-quality green and low-carbon development and move towards green and sustainable development featuring reasonable product portfolio, advanced technology and equipment, excellent quality and brand, high intelligentization, strong competitiveness and low carbon. Being a “green factory”, the Group will proactively make modifications to enable ultra-low emission and strive to realize transformation into the green and low-carbon style as soon as possible, taking the initiative to compete in the future. On the demand side, the growth in steel demand is expected to remain steady, as the infrastructure sector is expected to remain active, and the price of structural steel may benefit from the reduced output of crude steel. As supply and demand for steel become more balanced, this creates a greater and healthier market development space for the Group to grow and expand.



MANAGEMENT DISCUSSION AND ANALYSIS

For ordinary steel products, the PRC Government is expected to increase investment in infrastructure projects in order to stabilize the economy and to improve weak links. As a project lasts for three to five years, the projects verified last year and this year are expected to provide short-term support to the demand. With the objective of producing specialized hot rolled ribbed bars, steel enterprises are expected to strive to improve the quality of construction materials to meet the needs of government investment in railways, roads and water resources and capitalize on these major projects. This is expected to drive strong demands in the medium and high-end market of construction materials. Although the growth in real estate has slowed down, it will maintain steady development as guided by the persistent policy of “three types of stability”, and the scale of existing projects in progress and subsequent stable market development can still guarantee the demand for ordinary steel. The Group is expected to continue to follow the market trend, use steel price as guidance, and capitalize on its production capability to switch between production of ordinary steel and special steel to maximize revenue.

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

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



OTHER INFORMATION

INTERIM DIVIDEND

The Board resolved not to declare an interim dividend for the Period (1H2020: nil).

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

As at 30 June 2021, the Directors or chief executive of the Company and their respective associates had the following interests in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”)) which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code, were as follows:

Name of Director	Name of company/ associated corporation	Capacity	Number and class of securities held/interested (Note 1)	Approximate percentage shareholding in the same class of securities in the relevant corporation as at 30 June 2021
WANG Di	Company	Beneficial owner	9,333,333 shares (L)	0.39%
	Company	Beneficial owner	1,666,667 share options (L)	0.07%
	Xiwang Holdings	Beneficial owner	177 shares (L)	0.09%
	Xiwang Group	Beneficial owner	RMB35,460,000 (L)	1.54%
	Xiwang Property	Beneficial owner	3,000,000 share options (L)	0.21%
SUN Xinhua	Company	Beneficial owner	1,602,000 shares (L)	0.07%
	Company	Beneficial owner	500,000 share options (L)	0.02%
	Xiwang Holdings	Beneficial owner	89 shares (L)	0.04%
	Xiwang Group	Beneficial owner	RMB35,460,000 (L)	1.54%
	Xiwang Property	Beneficial owner	3,000,000 share options (L)	0.21%

Notes:

(1) The letter “L” represents the Director’s long position in the shares of the relevant corporation.

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

(a) Substantial shareholders of the Company

As at 30 June 2021, so far as it is known to the Directors of the Company, the following Companies/persons (other than the Directors and chief executives of the Company) had or were deemed or taken to have interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of substantial shareholder	Capacity	Number of shares of the Company held/interested (Note 1)	Approximate percentage of interest in the Company as at 30 June 2021 (Note 10)
WANG Yong	Interest of controlled corporation (Note 2, 3)	1,165,539,000 ordinary shares (L) (Note 4)	49.20%
ZHANG Shufang	Interest of spouse (Note 7)	1,165,539,000 ordinary shares (L)	49.20%
Xiwang Investment	Beneficial owner	1,165,539,000 ordinary shares (L)	49.20%
Xiwang Holdings	Interest of a controlled corporation (Note 5)	1,165,539,000 ordinary shares (L)	49.20%
Xiwang Hong Kong	Interest of controlled corporations (Notes 5, 6)	1,165,539,000 ordinary shares (L)	49.20%
Xiwang Group	Interest of controlled corporations (Notes 5, 6)	1,165,539,000 ordinary shares (L)	49.20%
Haitong International Investment Solutions Limited	Person having a security interest in shares (Note 8)	1,147,321,000	48.43%
Haitong International Financial Solutions Limited	Interest of a controlled corporation (Note 9)	1,147,321,000	48.43%



OTHER INFORMATION

Name of substantial shareholder	Capacity	Number of shares of the Company held/interested (Note 1)	Approximate percentage of interest in the Company as at 30 June 2021 (Note 10)
Haitong International Finance Company Limited	Interest of a controlled corporation (Note 9)	1,147,321,000	48.43%
Haitong International (BVI) Limited	Interest of a controlled corporation (Note 9)	1,147,321,000	48.43%
Haitong International Securities Group Limited	Interest of a controlled corporation (Note 9)	1,147,321,000	48.43%
Haitong International Holdings Limited	Interest of a controlled corporation (Note 9)	1,147,321,000	48.43%
Haitong Securities Co., Ltd.	Interest of a controlled corporation (Note 9)	1,147,321,000	48.43%

Notes:

- (1) The letter “L” represents the entity’s long position in the shares of the Company.
- (2) As at 30 June 2021, Xiwang Group is the ultimate holding company of the Company. Xiwang Group is owned as to 26.85% by Mr. WANG Yong, 34.41% by 20 individuals (including WANG Di) and the remaining 38.74% by other shareholders. Further, these 20 individuals are accustomed to act in accordance with the directions of Mr. WANG Yong in respect of the exercise by such 20 individuals of their voting powers as a shareholder of Xiwang Group. Accordingly, Mr. WANG Yong is deemed to be interested in 61.26% of the shares of the Company in which Xiwang Group is interested. Xiwang Hong Kong is a wholly-owned subsidiary of Xiwang Group. Xiwang Hong Kong directly holds 95% and Mr. WANG Yong and 22 individuals directly hold 5% of the issued share capital of Xiwang Holdings, respectively. Xiwang Investment is a wholly-owned subsidiary of Xiwang Holdings. Therefore, Xiwang Holdings, Xiwang Hong Kong and Xiwang Group are deemed to be interested in the number of shares of the Company held by Xiwang Investment.
- (3) As at 30 June 2021, Xiwang Investment, where the entire issued shares are deemed to be interested by Mr. WANG Yong, held 69.78% of ordinary shares of Xiwang Property Holdings Company Limited (“**Xiwang Property**”) and 99.75% of convertible preference shares of Xiwang Property.

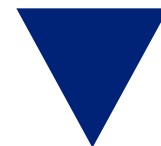


OTHER INFORMATION

- (4) These shares are registered in the name of Xiwang Investment. Mr. WANG Yong is deemed to have interest in all shares of the Company held by Xiwang Investment.
- (5) Xiwang Holdings directly holds 100% of the issued share capital of Xiwang Investment and therefore is deemed to be interested in the number of shares of the Company held by Xiwang Investment.
- (6) Xiwang Hong Kong directly holds 95% and Mr. WANG Yong and 22 individuals directly hold 5% of the issued share capital of Xiwang Holdings, respectively. Xiwang Hong Kong is in turn wholly-owned by Xiwang Group. Therefore, Xiwang Hong Kong and Xiwang Group are deemed to be interested in the number of shares of the Company held by Xiwang Investment.
- (7) Ms. ZHANG Shufang, being the spouse of Mr. WANG Yong, is deemed to be interested in all the shares of the Company in which Mr. WANG Yong is deemed to be interested.
- (8) 1,147,321,000 shares of the Company were held by way of security by Haitong International Investment Solutions Limited as at 30 June 2021.
- (9) Haitong International Investment Solutions Limited is a wholly-owned subsidiary of Haitong International Financial Solutions Limited, which in turn is wholly-owned by Haitong International Finance Company Limited. Haitong International Finance Company Limited is a wholly-owned subsidiary of Haitong International (BVI) Limited, which in turn is wholly-owned by Haitong International Securities Group Limited. Haitong International Securities Group Limited is a wholly-owned subsidiary of Haitong International Holdings Limited, which in turn is wholly-owned by Haitong Securities Co., Ltd. Therefore, all these companies are deemed to be interested in the number of shares in the Company held by Haitong International Investment Solutions Limited.
- (10) These percentages are calculated based on 2,369,110,999 listed shares in issue as at 30 June 2021.

(b) Other persons who are required to disclose their interests pursuant to Part XV of the SFO

Save as disclosed in the paragraph headed “Directors’ interests in shares, underlying shares and debentures of the Company and its associated corporations” and paragraph (a) above, as at 30 June 2021, no other person had interests or short positions in the shares or underlying shares of the Company which are recorded in the register required to be kept by the Company under section 336 of the SFO.



OTHER INFORMATION

SHARE OPTION SCHEME

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants for their contribution or would be contribution to the Group so as to encourage them to participate in the long-term development of the Group and to share common interests and objectives with the Group and/or to enable the Group to recruit and retain high calibre employees and attract human resources that are valuable to the Group. The share option scheme became effective on 3 September 2014, no share options lapsed during the six months ended 30 June 2021.

(1) Period of the Share Option Scheme

The share option scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme becomes unconditional. As at 30 June 2021, options to subscribe for 3,966,667 ordinary shares of the Company were outstanding, details of which are set out below:

Grantee	Date of grant	At 1 January 2021	Number of Share Options			At 30 June 2021	Exercise price per Share (HK\$)	Exercise period
			Granted	Exercised	Lapsed			
Directors								
WANG Di	25 August 2016 (Note 2)	1,666,667	-	-	-	1,666,667	0.73	25/8/2016 – 24/8/2021
SUN Xinqu	25 August 2016 (Note 2)	500,000	-	-	-	500,000	0.73	25/8/2016 – 24/8/2021
Employees (Note 1)	22 July 2016 (Note 2)	-	-	-	-	-	0.676	22/7/2016 – 21/7/2021
	25 August 2016 (Note 2)	1,600,000	-	-	-	1,600,000	0.73	25/8/2016 – 24/8/2021
	12 April 2017 (Note 2)	200,000	-	-	-	200,000	1.38	12/4/2017 – 11/4/2022
		3,966,667	-	-	-	3,966,667		

Notes:

- (1) Employees include employees of the Group (other than the Directors) working under employment contracts with the Group which are regarded as “continuous contracts” for the purpose of the Employment Ordinance (Chapter 57 of the Laws of Hong Kong).
- (2) The closing price of the Shares immediately before the date on which the options were granted were (i) 21 July 2016: HK\$0.67; (ii) 24 August 2016: HK\$0.71; and (iii) 11 April 2017: HK\$1.39.



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

Period for exercise of the share options	Maximum cumulative number of ordinary shares under the options that can be subscribed for pursuant to the exercise of the options
22 July 2018 to 21 July 2021	200,000
25 August 2016 to 24 August 2021	100,000
25 August 2017 to 24 August 2021	500,000
25 August 2018 to 24 August 2021	3,166,667
12 April 2019 to 11 April 2022	200,000

- (4) The share options represent personal interests held by the relevant Directors as beneficial owners.
- (5) No share options were cancelled under the Share Option Scheme during the Period.
- (6) No share options were granted during the Period.

(2) Fair value of Share Options Granted

The fair value of the share options granted is set below:

Date of grant	Fair value HK\$
19 September 2014	2,156,000
22 July 2016	313,000
25 August 2016	2,456,000
12 April 2017	287,000

The fair value of equity-settled share options granted during the year was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Options granted on 12 April 2017:

Dividend yield (%)	0
Expected volatility (%)	46
Risk-free interest rate (%)	1.18
Expected life of options (years)	1.00 – 5.00



OTHER INFORMATION

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other feature of the options granted was incorporated into the measurement of fair value. Save as disclosed above, at no time during the Period was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

CHANGES IN INFORMATION OF DIRECTORS AND CHIEF EXECUTIVES

Pursuant to Rule 13.51B (1) of the Listing Rules, there are no changes in information of Directors and chief executives of the Company subsequent to the date of the annual report of the Company for the year ended 31 December 2020 and up to the date of this interim report.

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

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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



CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

PUBLIC FLOAT

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

AUDIT COMMITTEE

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



CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	Six months ended 30 June	
		2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
REVENUE	3	9,890,828	4,740,347
Cost of sales		(9,245,820)	(4,699,090)
GROSS PROFIT		645,008	41,257
Other income and gains/(losses), net	3	12,172	(5,881)
Selling and distribution expenses		(4,773)	(4,133)
Administrative expenses		(48,805)	(42,490)
Impairment loss on financial assets, net		(34)	(910)
Research and development costs		(223,699)	(172,606)
Finance costs	5	(146,511)	(158,486)
PROFIT/(LOSS) BEFORE TAX	4	233,358	(343,249)
Income tax (expense)/credit	6	(41,659)	69,658
PROFIT/(LOSS) FOR THE PERIOD		191,699	(273,591)
Profit/(Loss) attributable to owners of the parent		191,699	(273,591)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7		
Basic		RMB8.09 cents	RMB(11.55) cents
Diluted		RMB8.09 cents	RMB(11.55) cents

The notes on pages 28 to 54 are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
PROFIT/(LOSS) FOR THE PERIOD	191,699	(273,591)
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	1,187	6,051
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	(10,138)	(15,980)
Income tax effect	1,521	2,397
	(8,617)	(13,583)
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		
Debt Investments at fair value through other comprehensive income:		
Change in fair value	-	5,811
Income tax effect	-	(848)
	-	4,963
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	(7,430)	(2,569)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	184,269	(276,160)
Total comprehensive income/(loss) attributable to owners of the parent	184,269	(276,160)



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	11,196,916	11,361,733
Right-of-use assets		89,655	90,668
Prepayments for long term assets	12	400,968	319,083
Other intangible assets		286,753	257,168
Equity investment designated at fair value through other comprehensive income		65,360	75,498
Deferred tax assets		25,419	16,653
Total non-current assets		12,065,071	12,120,803
CURRENT ASSETS			
Inventories	10	1,422,424	800,121
Trade and bills receivables	11	106,581	91,005
Prepayments, other receivables and other assets	12	1,735,151	1,478,969
Pledged deposits		423,405	492,219
Cash and cash equivalents		330,548	386,812
Total current assets		4,018,109	3,249,126
CURRENT LIABILITIES			
Trade and bills payables	13	2,568,019	2,135,866
Other payables and accruals	14	686,435	526,990
Contract liabilities	14	2,737,357	2,256,367
Dividend payables		290,369	290,369
Lease liabilities		508	613
Interest-bearing bank and other borrowings	15	3,160,254	3,041,364
Borrowing from the ultimate holding company		447	447
Income tax payable		72,964	35,310
Total current liabilities		9,516,353	8,287,326
NET CURRENT LIABILITIES		(5,498,244)	(5,038,200)
TOTAL ASSETS LESS CURRENT LIABILITIES		6,566,827	7,082,603

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	15	484,434	1,187,927
Lease liabilities		681	462
Deferred tax liabilities		36,557	33,328
Other long term payable		130,000	130,000
Total non-current liabilities		651,672	1,351,717
Net assets		5,915,155	5,730,886
CAPITAL AND RESERVES			
Share capital		1,369,681	1,369,681
Reserves		4,545,474	4,361,205
Total equity		5,915,155	5,730,886

WANG Di
Director

SUN Xihu
Director



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company									
	Share capital RMB'000	Contributed surplus RMB'000	Other reserve RMB'000	Fair value reserve RMB'000	Statutory surplus reserve RMB'000	Share option reserve RMB'000	Special reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 2021	1,369,681	78,938	56,084	(21,417)	687,200	1,051	163,823	3,278	3,392,248	5,730,886
Profit for the Period	-	-	-	-	-	-	-	-	191,699	191,699
Other comprehensive loss for the Period:										
Change in fair value of equity instruments at fair value through other comprehensive income, net of tax	-	-	-	(8,617)	-	-	-	-	-	(8,617)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	1,187	-	1,187
Total comprehensive income for the Period	-	-	-	(8,617)	-	-	-	1,187	191,699	184,269
At 30 June 2021 (Unaudited)	1,369,681	78,938*	56,084*	(30,034)*	687,200*	1,051*	163,823*	4,465*	3,583,947*	5,915,155
At 1 January 2020	1,369,681	78,938	56,084	(19,173)	682,959	1,051	164,099	9,666	3,377,845	5,721,150
Loss for the Period	-	-	-	-	-	-	-	-	(273,591)	(273,591)
Other comprehensive loss for the Period:										
Change in fair value of equity instruments at fair value through other comprehensive income, net of tax	-	-	-	(13,583)	-	-	-	-	-	(13,583)
Change in fair value of debt investments at fair value through other comprehensive income, net of tax	-	-	-	4,963	-	-	-	-	-	4,963
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	6,051	-	6,051
Total comprehensive loss for the Period	-	-	-	(8,620)	-	-	-	6,051	(273,591)	(276,160)
Profit appropriated to reserve	-	-	-	-	-	-	17,003	-	(17,003)	-
Utilised special reserve	-	-	-	-	-	-	(17,003)	-	17,003	-
At 30 June 2020 (Unaudited)	1,369,681	78,938*	56,084*	(27,793)*	682,959*	1,051*	164,099*	15,717*	3,104,254*	5,444,990

* These reserve accounts comprise the consolidated other reserves of RMB4,545,474,000 (30 June 2020: RMB4,075,309,000) in the condensed statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Cash generated from operations	769,298	42,792
Interest received	3,777	10,520
Government grants received	4,883	22,747
The People's Republic of China (the "PRC") tax paid	(9,605)	(7,150)
Net cash flows from operating activities	768,353	68,909
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(115,226)	(59,578)
Purchase of other intangible asset	(40,304)	–
Decrease in pledged deposits	68,814	307,839
Net cash flows (used in)/generated from investing activities	(86,716)	248,261
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank and other loans	318,040	820,302
Repayment of bank and other loans	(902,643)	(401,856)
Interest paid	(146,511)	(158,486)
Repayment of borrowing from the ultimate holding company	–	(1,146)
Principal portion of lease payments	(1,031)	(420)
Net cash flows (used in)/generated from financing activities	(732,145)	258,394
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(50,508)	575,564
Cash and cash equivalents at beginning of period	386,812	193,849
Effect of foreign exchange rate changes, net	(5,756)	(4,141)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	330,548	765,272



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 2020. These unaudited condensed consolidated interim financial statements should be read in conjunction with the Group's audited 2020 annual financial statements, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**"). As at 30 June 2021, the Group had net current liabilities of approximately RMB5,498,244,000 (31 December 2020: RMB5,038,200,000). The Directors are of the opinion that the Group will have sufficient working capital to finance its operations and to maintain its operating existence in the foreseeable future and accordingly have prepared the interim condensed consolidated financial statements on a going concern basis notwithstanding the net current liabilities position.

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

- Upon the gradual stabilisation of economic situation in the PRC after combating coronavirus pandemic, management has benchmarked to latest price level in the steel product market, together with rigorous cost control measures over its production, to formulate a forecast which will generate enhanced positive operating cash flows.
- In the first half of 2021, the Group has successfully renewed interest-bearing bank and other borrowings for another twelve months covering up to after 2021.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1.2 BASIS OF PREPARATION (Continued)

- In the first half 2021, the Group has renewed the one-year loan from Xiwang Group Finance Company Limited, a related party.
- The Group is currently soliciting different source of funds, including additional banking facilities with PRC financial institutions and strategic institutional investor, to further support the Group's funding needs should the aforesaid 2021 operating cash inflows turned out to be less than forecasted.

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

1.3 APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2021 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

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



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. OPERATING SEGMENT INFORMATION

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

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

Management monitors the results of the Group’s operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment loss, which is a measure of adjusted loss before tax. Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Geographical information

All of the Group’s customers are located in the PRC.

The revenue information above is based on the locations of the customers. The principal assets and capital expenditure of the Group were located and incurred in PRC. Accordingly, no further geographical information is presented.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. OPERATING SEGMENT INFORMATION (Continued)

The unaudited segment results and other segment items included in loss before tax for the six months ended 30 June 2021 are as follows:

For the six months ended 30 June 2021	Ordinary steel RMB'000	Special steel RMB'000	Trading of commodities RMB'000	By- products RMB'000	Consolidated RMB'000
Total revenue	4,953,709	2,302,547	2,365,036	269,536	9,890,828
Costs of sales	(4,440,509)	(2,202,872)	(2,346,371)	(256,068)	(9,245,820)
Gross profit	513,200	99,675	18,665	13,468	645,008
Other income and gains/(losses), net					12,172
Selling and distribution expenses					(4,773)
Administrative expenses					(48,805)
Impairment loss of financial assets, net					(34)
Research and development costs					(223,699)
Finance costs					(146,511)
Profit before tax					233,358



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. OPERATING SEGMENT INFORMATION (Continued)

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

	Notes	Ordinary steel RMB'000 (Unaudited)	Special steel RMB'000 (Unaudited)	Trading of commodities RMB'000 (Unaudited)	By- products RMB'000 (Unaudited)	Consolidated RMB'000 (Unaudited)
Segment revenue:						
Sales to external customers		3,278,045	1,065,844	142,195	254,263	4,740,347
Cost of sales		(3,222,323)	(1,096,834)	(145,023)	(234,910)	(4,699,090)
Gross (loss)/profit		55,722	(30,990)	(2,828)	19,353	41,257
Reconciliation:						
Other income and gains/(losses), net	3					(5,881)
Selling and distribution expenses						(4,133)
Administrative expenses						(42,490)
Impairment loss on financial assets, net						(910)
Research and development costs						(172,606)
Finance costs	5					(158,486)
Loss before tax						(343,249)



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

An analysis of revenue is as follows:

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Revenue from contracts with customers		
Sale of goods	9,890,828	4,740,347

Performance obligations

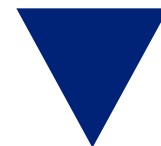
Information about the Group's performance obligations is summarised below:

Sale of industrial products

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

Other income and gains/(losses), net

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Bank interest income	707	1,712
Interest income from Xiwang Finance	784	4,924
Rental income	721	380
Foreign exchange differences, net	4,546	–
Government grants	4,883	10,267
Other income	1,291	–
Total other income	12,932	17,283
Late charge for late payment of tax	–	(5,504)
Loss on disposal of property, plant and equipment	–	(850)
Loss on derecognition of financial assets measured at fair value through other comprehensive income	–	(5,811)
Other expenses	(760)	(10,999)
Total other expenses	(760)	(23,164)
Other income and gains/(losses), net	12,172	(5,881)



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. PROFIT/(LOSS) BEFORE TAX

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

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Cost of inventories sold	9,245,820	4,699,090
Depreciation		
– property, plant and equipment	280,043	218,560
– right-of-use assets	1,110	1,155
Amortisation of other intangible assets	17,637	6,450
Research and development costs	223,699	172,606
Employee benefit expense (including directors' remuneration):		
Wages and salaries	133,451	124,910
Pension scheme contributions	13,392	4,653
Staff welfare expenses	2,223	2,167
	149,066	131,730
Impairment of financial assets, net:		
– Impairment of trade receivables	190	1,046
– Reversal of impairment of other receivables	(156)	(136)
	34	910



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Interest on bank and other borrowings	151,854	91,030
Finance cost on bills discounted	23,081	52,493
Interest on guaranteed secured bonds	9,783	10,644
Interest on borrowings from Xiwang Group Finance Company Limited (" Xiwang Finance ") (西王集團財務有限公司)	1,028	4,264
Interest on lease liabilities	61	51
Interest on borrowings from the ultimate holding company	–	4
Total interest expense on financial liabilities not at fair value through profit or loss	185,807	158,486
Less: Interest capitalised	(39,296)	–
	146,511	158,486

6. INCOME TAX (EXPENSE)/CREDIT

Hong Kong profits tax has been provided at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable in PRC have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. INCOME TAX (EXPENSE)/CREDIT (Continued)

Pursuant to the PRC Corporate Income Tax Law effective on 1 January 2008, the PRC subsidiaries except for Xiwang Metal Science & Technology are subject to corporate income tax (“CIT”) at a statutory rate of 25% on their respective taxable income for the six months ended 30 June 2020. Xiwang Metal Science & Technology is subject to CIT at a rate of 15% on its respective taxable income for the six months ended 30 June 2020 as a national-grade high-tech enterprise.

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax charge	46,185	2,737
Deferred tax credit	(4,526)	(72,395)
Total tax charge/(credit) for the Period	41,659	(69,658)

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

The calculation of the basic earnings/(loss) per share amounts is for the six months ended 30 June 2020 based on the profit/(loss) attributable to ordinary equity holders of the parent for the Period, and the weighted average number of 2,369,110,999 (six months ended 30 June 2020: 2,369,110,999) ordinary shares in issue during the Period.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The calculation of the basic and diluted earnings/(loss) per share for the six months ended 30 June 2021 is based on:

	Six months ended 30 June 2021 RMB'000 (Unaudited)	Six months ended 30 June 2020 RMB'000 (Unaudited)
Profit/(Loss) attributable to ordinary equity holders of the parent, used in the basic and diluted earnings/(loss) per share calculation	191,699	(273,591)
	Number of shares 30 June 2021 (Unaudited)	Number of shares 30 June 2020 (Unaudited)
Shares Weighted average number of ordinary shares in issue during the Period used in the basic earnings/(loss) per share calculation	2,369,110,999	2,369,110,999

8. DIVIDENDS

No interim dividend was proposed for the Period (six months ended 30 June 2020: nil).



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9. PROPERTY, PLANT AND EQUIPMENT

The Group's capital expenditure for the Period was approximately RMB233,000,000 (six months ended 30 June 2020: RMB130,000,000).

10. INVENTORIES

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Raw materials	581,532	378,714
Work in progress	327,929	161,101
Finished goods	512,963	260,306
	1,422,424	800,121

11. TRADE AND BILLS RECEIVABLES

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Bills receivable	62,717	41,393
Trade receivables	45,488	51,046
Impairment	(1,624)	(1,434)
Trade receivables, net of impairment	43,864	49,612
	106,581	91,005

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. TRADE AND BILLS RECEIVABLES (Continued)

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

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Within 3 months	21,997	24,880
3 to 6 months	17,378	19,655
6 months to 1 year	2,451	2,772
Over 1 year	2,038	2,305
	43,864	49,612

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

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
At as 1 January	1,434	510
Impairment losses, net	190	924
As at 30 June 2021/31 December 2020	1,624	1,434



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. TRADE AND BILLS RECEIVABLES (Continued)

Bills receivables

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Financial assets at FVTOCI	62,717	41,393

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 RMB652,000 (31 December 2020: RMB11,162,000), which are repayable on credit terms similar to those offered to the other customers of the Group.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

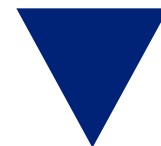
12. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Non-current		
Prepayments for long term assets	400,968	319,083
Current		
Prepayments for raw materials	1,619,699	1,385,033
Deposits and other receivables	113,862	88,042
Bank interest receivable	1,594	6,054
	1,735,155	1,479,129
Less: loss allowance	(4)	(160)
	1,735,151	1,478,969
	2,136,119	1,798,052

At 30 June 2021, included in the prepayments, other receivables and other assets are prepayments of RMB2,741,000 (31 December 2020: RMB76,730,000) due from the fellow subsidiaries, which are non-interest-bearing and repayable on demand.

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

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
At beginning of period/year	160	21,745
Write-offs	–	(21,610)
Reversals	(156)	–
Impairment losses, net	–	25
At end of period/year	4	160



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13. TRADE AND BILLS PAYABLES

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Trade payables	2,027,824	1,975,908
Bills payable	540,195	159,958
	2,568,019	2,135,866

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 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Within 1 month	1,081,162	899,221
1 to 3 months	634,042	527,344
3 to 6 months	212,606	176,828
6 to 12 months	179,503	149,296
Over 12 months	460,706	383,177
	2,568,019	2,135,866

As at 30 June 2021, the Group's bills payable amounting to RMB329,946,000 (31 December 2020: RMB55,898,000) were secured by the pledged deposits of RMB173,388,000 (31 December 2020: RMB27,949,000). The Group's certain bills payable are guaranteed by certain related parties, as further detailed in note 19(b)(i) to the financial statements. The trade payables are non-interest-bearing and are normally settled within six months.

At 30 June 2021, included in the trade and bills payables are trade payables of RMB17,454,000 (31 December 2020: RMB2,634,000) due to fellow subsidiaries which are non-interest-bearing and repayable on demand.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. OTHER PAYABLES AND ACCRUALS/CONTRACT LIABILITIES

Other payables and accruals

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Construction and equipment payables	382,804	357,432
Other payables	236,364	127,094
Salaries and welfare payables	59,355	30,493
Deferred revenue	7,912	11,971
	686,435	526,990

As at 30 June 2021, included in other payables are outstanding balances of RMB9,183,000 (31 December 2020: RMB18,563,000) due to fellow subsidiaries, are non-interest-bearing and repayable on demand. The remaining amounts of other payables and of RMB9,957,000 due to Xiwang Investment (31 December 2020: RMB11,513,000) are non-interest-bearing and have an average term of six months.

Contract liabilities

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Short-term advances received from customers		
Sale of goods	2,737,357	2,256,367

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



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	30 June 2021 Unaudited			31 December 2020 Audited		
		Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current							
Interest-bearing bank borrowings	(i)&(ii)&(v)	4.35-15.4	2021	758,777	3.35-15.4	2021	908,966
– secured							
Interest-bearing other borrowings	(j)&(ii)&(iii)	3.78-11.8	2021	2,173,779	2.84-11.8	2021	1,815,731
– secured	&(v)&(v)						
Interest-bearing other borrowings	(ii)&(v)	-	-	-	4.45-4.46	2021	38,218
– unsecured							
Borrowings from Xiwang Finance	(v)	4-5.97	2021	34,239	4-5.97	2021	82,768
– unsecured							
Guaranteed secured bonds	(vii)	10.00	2021	193,459	10.00	2021	195,681
				3,160,254			3,041,364
Non-current							
Long term interest-bearing bank borrowings	(ii)	13.5-15.4	2022	214,944	13.5-15.4	2022	535,964
– secured							
Long term interest-bearing other borrowings	(ii)&(iii)&(iv)	7.80-9.7	2022	269,490	7.80-11.80	2022	651,963
– secured							
				484,434			1,187,927
				3,644,688			4,229,291

	2021 RMB'000 (Unaudited)	2020 RMB'000 (Audited)
Analysed into:		
Bank and other borrowings repayable:		
Within one year	3,160,254	3,041,364
In the second year	484,434	1,187,927
	3,644,688	4,229,291

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Notes:

- (i) As at 30 June 2021, the Group's interest-bearing borrowings of RMB480,883,000 (31 December 2020: RMB987,352,000) were secured by pledged deposits of RMB250,000,000 (31 December 2020: RMB461,000,000).
- (ii) As at 30 June 2021, the Group's interest-bearing borrowings of RMB3,416,991,000 (31 December 2020: RMB3,912,624,000) were guaranteed by certain related parties, as further detailed in note 19(b)(ii) to the condensed consolidated financial statements.
- (iii) As at 30 June 2021, the Group's other borrowings of RMB382,000,000 (31 December 2020: RMB382,000,000) were secured by 100% equity interests of the subsidiary, Shandong Xiwang Recycling Resources Company Limited.
- (iv) As at 30 June 2021, the Group's other borrowings of RMB1,687,471,000 (31 December 2020: RMB1,705,913,000) were secured by a net carrying amount of approximately RMB3,466,404,000 (31 December 2020: RMB3,600,057,000) of the Group's machinery and equipment, motor vehicles and office equipment and fixtures.
- (v) As at 30 June 2021, RMB862,367,000 (31 December 2020: RMB1,455,240,000) interest-bearing bank and other borrowings were advances from the unrecognised Discounted Bills.
- (vi) The carrying amounts of the Group's interest-bearing bank and other borrowings approximate to their fair values.

16. RESERVES

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



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

17. CONTINGENT LIABILITIES

On 19 January 2021, the Group and Xiwang Group and its certain subsidiaries entered into the guarantee agreement (the “**Guarantee Agreement**”) in relation to the provision of guarantee services, which was effective from 1 January 2021 to 31 December 2023. Xiwang Group is the ultimate holding company of the Company. Therefore, Xiwang Group is a connected person of the Company under the Listing Rules.

Pursuant to the Guarantee Agreement, the Group agreed to provide the Xiwang Group and its certain subsidiaries with guarantee services under which the Group shall undertake to guarantee and bear any obligations and liabilities of Xiwang Group and its certain subsidiaries under the loan agreements to be entered between the lenders and Xiwang Group and/or its certain subsidiaries, in accordance with the terms of the specific guarantee agreements to be entered between the lenders and the Group. It was agreed that any loans repaid by the Group for and on behalf of Xiwang Group (and its certain subsidiaries) pursuant to the Guarantee Agreement shall be deemed to be a repayment of (i) the loans payable by the Group to Xiwang Group or its certain subsidiaries; or (ii) other amounts payable by the Group to Xiwang Group or its certain subsidiaries. It was also agreed that if the guarantee amount to be provided by the Group to Xiwang Group and its certain subsidiaries under the Guarantee Agreement exceeds the aggregate outstanding amount due from the Group to Xiwang Group, (i) the Group reserves the right to unilaterally terminate the specific guarantee(s) for an amount no less than the amount exceeding the aggregate outstanding amount due from the Group to Xiwang Group; and (ii) a guarantee fee of 0.5% per annum on the aggregate outstanding amount due from the Group to Xiwang Group shall be payable by Xiwang Group and/or its certain subsidiaries to the Group for the amount exceeding the aggregate outstanding amount due from the Group to Xiwang Group. Xiwang Group also undertook that it shall always continue to provide guarantees and loans to the Group and cannot unilaterally terminate any one of them without the Group’s consent.

As the Group has obtained a significant amount of loans from Xiwang Group for business operation, the provision of guarantee services to Xiwang Group by entering into the Guarantee Agreement would enhance the financing capacity of Xiwang Group, which in turn would promote Xiwang Group to provide more financial supports to the Group in the form of loans or financing guarantees.

It was agreed under the Guarantee Agreement that the guarantee amount to be provided by the Group to Xiwang Group and its certain subsidiaries under the Guarantee Agreement shall not exceed the aggregate outstanding amount due from the Group to Xiwang Group and shall be subject to a maximum cap of RMB5.0 billion for each of the three years ending 31 December 2021, 2022 and 2023. As of 31 December 2020, the actual guarantee amount was approximately RMB4.2 billion. During the term of the agreement, the transaction amount did not exceed the annual cap as set out in the agreement. For details of the Guarantee Agreement, please refer to the announcement of the Company dated 19 January 2021 and the circular of the Company dated 26 February 2021.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

17. CONTINGENT LIABILITIES (Continued)

Any borrowings to be repaid by the Company for and on behalf of Xiwang Group (and the Relevant Subsidiaries) pursuant to the Guarantee Agreement shall be offset by the borrowings payable by the Company to Xiwang Group, or as other amounts payable by the Company to Xiwang Group or the Relevant Subsidiaries. As at 30 June 2021, contingent liabilities not provided for in the condensed consolidated financial statements in respect of the Guarantee Amount were as follows:

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Guarantees given to banks in connection with facilities:		
Granted to the Xiwang Group	1,400,000	1,400,000
Granted to the Relevant Subsidiaries	2,797,230	2,754,960
	4,197,230	4,154,960

As at 30 June 2021, the outstanding amount was approximately RMB3,905,301,000 (31 December 2020: RMB3,917,480,000).

18. COMMITMENTS

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

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Contracted, but not provided for:		
Property, plant and equipment	562,485	782,522



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19. RELATED PARTY TRANSACTIONS AND BALANCES

- (a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the Period:

	Note	Six months ended 30 June	
		2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Rental expenses to Xiwang Group	(i)	91	91
Rental expenses to a fellow subsidiary	(i)		
– Lease of land		367	367
Delivery service fees to a fellow subsidiary	(i)		
– Delivery of steel		2,407	1,336
– Delivery of ore-powder		2,761	25,631
Interest expenses on borrowings from Xiwang Finance	(ii)	1,028	4,264
Interest on discounted bills paid to Xiwang Finance	(ii)	43	3,149
Interest income from Xiwang Finance		784	4,924
Sale of steam to a fellow subsidiary	(i)	14,420	18,959
Sale of cooling energy to fellow subsidiaries	(i)	3,981	7,414
Purchase of diesel oil from a fellow subsidiary	(i)	6,255	5,622
Purchase of scrap from fellow subsidiaries	(i)	622	281
Bills acceptance service from Xiwang Finance	(ii)	3,000	175,000
Purchase of electricity through a fellow subsidiary	(i)	457,087	402,121
Purchase of water from a fellow subsidiary	(i)	535	615

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



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

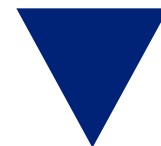
(b) Other related party transactions:

(i) Certain bills payable of the Group were guaranteed by certain related parties of the Group as follows:

	30 June 2021 (Unaudited) RMB'000	31 December 2020 (Audited) RMB'000
Guaranteed by: Xiwang Group, Mr. Wang Yong, a non-executive director and Mr. Wang Di, the Chairman, jointly and severally	513,116	55,898

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

	30 June 2021 (Unaudited) RMB'000	31 December 2020 (Audited) RMB'000
Guaranteed by: Mr. Wang Yong	245,048	247,917
Certain ordinary shares of a fellow subsidiary		
Certain convertible preference shares of a fellow subsidiary		
Xiwang Group	649,790	649,790
Mr. Wang Di and Ms. Su Xin (spouse of Mr. Wang Di) jointly and severally		
Mr. Wang Yong and Ms. Zhang Shufang (spouse of Mr. Wang Yong) jointly and severally		
Certain land and buildings from fellow subsidiaries		
Certain machinery and equipment from a fellow subsidiary		
Certain shares of fellow subsidiaries		
Xiwang Group	1,136,564	1,155,006
Xiwang Group and a fellow subsidiary	304,064	304,310
Xiwang Group, Mr. Wang Yong and Mr. Wang Di jointly and severally	699,524	688,444
Mr. Wang Yong and Mr. Wang Di jointly and severally	382,000	382,000



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

- (b) Other related party transactions: (Continued)
- (iii) The Group provided guarantee services to Xiwang Group and the relevant subsidiaries during the Period, details of which are included in note 17 to the condensed consolidated financial statements.
- (c) Outstanding balances with related parties:
- (i) The Group had long term interest-bearing borrowings from Xiwang Finance, a fellow subsidiary, as at 30 June 2021. Details of the interest-bearing borrowings from Xiwang Finance are disclosed in note 15 to the condensed consolidated financial statements.
- (ii) Details of the Group's outstanding balances due from its fellow subsidiaries are included in note 11 and note 12 to the condensed consolidated financial statements.
- (iii) Details of the Group's outstanding balances due to its fellow subsidiaries are included in note 13 and note 14 to the condensed consolidated financial statements.
- (iv) The Group had borrowings from its ultimate holding company with a carrying amount of RMB447,000 as at 30 June 2021 (31 December 2020: RMB447,000). The balance was unsecured, interest free and repayable on demand.
- (d) Compensation of key management personnel of the Group:

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Employee benefit expenses	3,553	2,705
Pension scheme contributions	71	65
Total compensation paid to key management personnel	3,624	2,770



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

20. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's and the Company's financial instruments approximate to their fair values.

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, financial assets included in other receivables and other assets, trade and bills payables, financial liabilities included in other payables and accruals, the current portion of interest-bearing bank and other borrowings approximated to their respective carrying amounts largely due to the short term maturities of these instruments. The Group's finance department is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the senior management and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the senior management. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

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

The fair values of the non-current portion of borrowings of interest-bearing bank and other borrowings and other long term payable have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for borrowings from the ultimate holding company, interest-bearing bank and other borrowings and other long term payable as at 30 June 2021 was assessed to be insignificant.

As 30 June 2021, the unlisted equity investment designated at fair value through other comprehensive income, has been estimated using a market-based valuation technique on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate price multiple, such as price-to-book ("**P/B**") ratio (excluding goodwill) multiple, for each comparable company identified. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

20. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(Continued)

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

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted equity investment	Valuation multiples	Average P/B ratio multiple of peers	0.66	5% increase/decrease in multiple would result in increase/ decrease in fair value by RMB3,268,000
		Discount for lack of marketability	15.80%	5% increase/decrease in discount would result in decrease/ increase in fair value by RMB631,500

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



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

20. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(Continued)

Fair value hierarchy

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

Assets measured at fair value:

As at 30 June 2021

	Fair value measurement using			Total RMB'000 (Unaudited)
	Quoted prices in active markets (Level 1) RMB'000 (Unaudited)	Significant observable inputs (Level 2) RMB'000 (Unaudited)	Significant unobservable inputs (Level 3) RMB'000 (Unaudited)	
Equity investments designated at fair value through other comprehensive income	-	-	65,360	65,360
Debt investments at fair value through other comprehensive income	-	62,717	-	62,717
	-	62,717	65,360	128,077

As at 31 December 2020

	Fair value measurement using			Total RMB'000 (Audited)
	Quoted prices in active markets (Level 1) RMB'000 (Audited)	Significant observable inputs (Level 2) RMB'000 (Audited)	Significant unobservable inputs (Level 3) RMB'000 (Audited)	
Equity investments designated at fair value through other comprehensive income	-	-	75,498	75,498
Debt investments at fair value through other comprehensive income	-	41,393	-	41,393
	-	41,393	75,498	116,891



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

21. COMPARATIVE FIGURES

Certain comparative amounts have been reclassified to conform with current period's presentation.

22. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the Board on 31 August 2021.

