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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)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2021

FINANCIAL HIGHLIGHTS

	Year ended 31 December	
	2021	2020
Sales volume of Steel *(tonnes)*	**2,964,119**	3,071,827
Revenue *(RMB'000)*		
Ordinary Steel – Rebar	**6,258,588**	5,144,095
Ordinary Steel – Wire Rod	**3,156,303**	2,095,615
Special Steel	**3,664,146**	2,662,448
Trading of commodities and sales of by-products	**6,037,084**	5,385,943
Total *(RMB'000)*	**19,116,121**	15,288,101
Gross profit *(RMB'000)*	**783,956**	468,807
Gross profit per tonne		
– Productions and sales of steel *(RMB)*	**239**	139
EBITDA[1] *(RMB'000)*	**946,358**	706,082
Profit attributable to owners *(RMB'000)*	**65,031**	18,368
Basic and diluted earnings per share *(RMB)*	**2.74 cents**	0.78 cents

The Board of Directors of the Company did not recommend the payment of a final dividend for the year ended 31 December 2021 (2020: Nil).

Note:

(1) EBITDA refers to profit before tax plus finance cost, depreciation, amortisation of other intangible assets.

The Board of Directors of Xiwang Special Steel Company Limited (the "**Company**") hereby announces the annual results of the Company and its subsidiaries for the year ended 31 December 2021 (the "**Year**"). The Group's financial information in this announcement was prepared based on the consolidated financial statements of the Group for the Year.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	**2021** ***RMB'000***	2020 *RMB'000*
REVENUE	*3*	**19,116,121**	15,288,101
Cost of sales		**(18,332,165)**	(14,819,294)
Gross profit		**783,956**	468,807
Other income and gains/(losses), net	*3*	**58,650**	65,373
Selling and distribution expenses		**(13,123)**	(8,254)
Administrative expenses		**(90,314)**	(75,400)
Impairment losses on financial assets, net		**(5,373)**	(949)
Research and development costs		**(387,076)**	(197,069)
Finance costs	*5*	**(289,473)**	(236,811)
PROFIT BEFORE TAX	*4*	**57,247**	15,697
Income tax credit	*6*	**7,784**	2,671
PROFIT FOR THE YEAR		**65,031**	18,368
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	*8*		
Basic and diluted		**RMB2.74 cents**	RMB0.78 cents

	2021 *RMB'000*	2020 *RMB'000*
PROFIT FOR THE YEAR	**65,031**	18,368
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**(3,778)**	(6,388)
Bills receivable at fair value through other comprehensive income:		
Changes in fair value	**–**	5,024
Income tax effect	**–**	(652)
Release on disposal	**591**	–
	591	4,372
	(3,187)	(2,016)
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	**(9,402)**	(7,784)
Income tax effect	**1,410**	1,168
	(7,992)	(6,616)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(11,179)**	(8,632)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY	**53,852**	9,736

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**31 December 2021** *RMB'000*	31 December 2020 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**11,218,379**	11,361,733
Right-of-use assets		**87,834**	90,668
Prepayments for long term assets	*10*	**198,361**	319,083
Other intangible assets		**477,917**	257,168
Equity investment designated at fair value through other comprehensive income		**66,096**	75,498
Deferred tax assets		**48,469**	16,653
Total non-current assets		**12,097,056**	12,120,803
CURRENT ASSETS			
Inventories		**1,387,544**	800,121
Trade and bills receivables	*9*	**57,505**	91,005
Prepayments, other receivables and other assets	*10*	**1,875,311**	1,478,969
Pledged deposits		**419,272**	492,219
Cash and cash equivalents		**332,182**	386,812
Total current assets		**4,071,814**	3,249,126
CURRENT LIABILITIES			
Trade and bills payables	*11*	**2,254,123**	2,135,866
Other payables and accruals	*12*	**660,789**	526,990
Contract liabilities	*12*	**3,389,324**	2,256,367
Dividend payables		**290,369**	290,369
Lease liabilities		**479**	613
Interest-bearing bank and other borrowings		**3,540,868**	3,041,364
Borrowings from the ultimate holding company		**447**	447
Income tax payable		**50,373**	35,310
Total current liabilities		**10,186,772**	8,287,326
NET CURRENT LIABILITIES		**(6,114,958)**	(5,038,200)
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,982,098**	7,082,603

	Notes	31 December 2021 RMB'000	31 December 2020 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**33,791**	1,187,927
Lease liabilities		**–**	462
Deferred tax liabilities		**33,569**	33,328
Other long term payable		**130,000**	130,000
Total non-current liabilities		**197,360**	1,351,717
Net assets		**5,784,738**	5,730,886
CAPITAL AND RESERVES			
Share capital		**1,369,681**	1,369,681
Reserves		**4,415,057**	4,361,205
Total equity attributable to equity shareholders of the Company		**5,784,738**	5,730,886

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1.1 CORPORATE AND GROUP INFORMATION

Xiwang Special Steel Company Limited (the “**Company**”) is a limited company and was incorporated in Hong Kong on 6 August 2007. The Company’s registered office is located at Unit 2110, 21/F, Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong. The Company and its subsidiaries (collectively referred to as the “**Group**”) are principally engaged in the production and sale of steel products, trading of commodities and sale of by-products mainly in the People’s Republic of China (“**PRC**”).

In the opinion of the directors, the immediate holding company of the Company is Xiwang Investment Limited Company (“**Xiwang Investment**”)(西王投資有限公司), which is wholly owned by Xiwang Holdings Limited(西王控股有限公司). During the year ended 31 December 2021, the ultimate holding company of the Company was Xiwang Group Company Limited (“**Xiwang Group**”)(西王集團有限公司), which is incorporated in Zouping, Shandong Province, the PRC.

1.2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Listing Rules**”) and by the Hong Kong Companies Ordinance. They have been prepared under the historical cost basis, except for financial instruments that are measured at fair value. These financial statements are presented in Renminbi (“**RMB**”) which is different from the functional currency of the Company of Hong Kong dollars (“**HK$**”). The directors of the Company adopted RMB as presentation currency as most of Group’s transactions are denominated and settled in RMB and this presentation is more useful for its current and potential investors. All values are rounded to the nearest thousand except when otherwise indicated.

Going concern

As at 31 December 2021, the Group’s net current liabilities amounted to approximately RMB6,114,958,000 (2020: RMB5,038,200,000), while its cash and cash equivalents amounted to approximately RMB332,182,000 (2020: RMB386,812,000) as at 31 December 2021. As at year end date, the Group had outstanding bank and other borrowings with aggregate amount of approximately RMB3,540,868,000 (2020: RMB3,041,364,000) which were due for repayment in the next twelve months after 31 December 2021.

These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group’s ability as a going concern, in particular the ability to discharge its liabilities due within the twelve months period in the normal course of business. In such circumstance, the Directors have taken the below measures in order to improve the Group’s short-term liquidity and cash flows in order for the Group to sustain as a going concern and adopted the going concern basis in the preparation of consolidated financial statements.

- Upon the gradual stabilisation of economic situation in PRC, 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.

- The Group has requested for extending the repayment of the outstanding bank and other borrowings for another twelve months upon their maturity during the coming year, of which were included in the Group's current liabilities as at 31 December 2021. Despite that the directors of the Company are confident in further extending the repayment of the principals of the bank and other borrowings, the terms were not finalised as at the date of approval of these consolidated financial statements.

- The Group has received a written confirmation dated 31 March 2022 from Xiwang Group, the ultimate holding company and the controlling shareholder, that it will provide continuing financial support to the Group to enable the Group to meet its financial obligations as and when they fall due for the foreseeable future, and agreed not to demand repayment of any of the amounts due to Xiwang Group by the Group in the next twelve months from the date of approval for issue of these consolidated financial statements.

- The Group is currently soliciting different source of funds, including, but not limited to, additional banking facilities with PRC financial institutions, and strategic institutional investor, to further support the Group's funding needs should the aforesaid operating cash inflows turned out to be less than forecasted.

The Directors have critically evaluated the practical realisation of those measures that being not yet happened, together with the management of the Company. 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.

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

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

1.3 APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountant ("HKICPA") for the first time for their annual reporting period commencing on or after 1 January 2021:

Amendment 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 year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts and the related Amendments[3]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendment to HKFRS 16	Covid-19-Related Rent, Concessions beyond 30 June 2021[1]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[3]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[3]
Amendments to HKAS 8	Definition of Accounting Estimates[3]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[2]
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020[2]

[1] *Effective for annual periods beginning on or after 1 April 2021.*

[2] *Effective for annual periods beginning on or after 1 January 2022.*

[3] *Effective for annual periods beginning on or after 1 January 2023.*

[4] *Effective for annual periods beginning on or after a date to be determined.*

The directors of the Company anticipate that the application of all new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

2. OPERATING SEGMENT INFORMATION

Segment reporting

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

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

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

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

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

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

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

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 2 to the consolidated financial statements. Segment profit/(loss) represents the profit earned/(losses) suffered by each segment without allocation of other income and gains/(losses), net, selling and distribution expenses, administrative expenses, impairment loss on financial assets, net, research and development costs and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

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

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

	Ordinary steel *RMB'000*	Special steel *RMB'000*	Trading of commodities *RMB'000*	By-products *RMB'000*	Consolidated *RMB'000*
Year ended 31 December 2021					
Segment revenue *(note 3):*					
Sales to external customers	**9,414,891**	**3,664,146**	**5,372,183**	**664,901**	**19,116,121**
Inter-segment sales	**8,486,909**	**2,846,689**	**2,005,311**	**1,439,148**	**14,778,057**
	17,901,800	**6,510,835**	**7,377,494**	**2,104,049**	**33,894,178**
Cost of sales	**(8,778,307)**	**(3,591,925)**	**(5,324,887)**	**(637,046)**	**(18,332,165)**
Gross profit	**636,584**	**72,221**	**47,296**	**27,855**	**783,956**
Reconciliation:					
Other income and gains/(losses), net					**58,650**
Selling and distribution expenses					**(13,123)**
Administrative expenses					**(90,314)**
Impairment loss on financial assets, net					**(5,373)**
Research and development costs					**(387,076)**
Finance costs					**(289,473)**
Profit before tax					**57,247**

	Ordinary steel *RMB'000*	Special steel *RMB'000*	Trading of commodities *RMB'000*	By-products *RMB'000*	Consolidated *RMB'000*
Year ended 31 December 2020					
Segment revenue *(note 3)*:					
Sales to external customers	7,239,710	2,662,448	4,838,902	547,041	15,288,101
Inter-segment sales	6,300,891	2,311,314	3,313,527	1,201,495	13,127,227
	13,540,601	4,973,762	8,152,429	1,748,536	28,415,328
Cost of sales	(6,831,813)	(2,642,566)	(4,830,627)	(514,288)	(14,819,294)
Gross profit	407,897	19,882	8,275	32,753	468,807
Reconciliation:					
Other income and gains/(losses), net					65,373
Selling and distribution expenses					(8,254)
Administrative expenses					(75,400)
Impairment loss on financial assets, net					(949)
Research and development costs					(197,069)
Finance costs					(236,811)
Profit before tax					15,697

Geographical information

During the years ended 31 December 2021 and 2020, the Group mainly operated in the PRC and the Group's revenue are derived from the PRC and most of the non-current assets of the Group are located in the PRC. Accordingly, no further analysis of the Group's result and assets by geographical area is presented.

Information about major customers

As at 31 December 2021, revenue from transactions with a single external customer amounted to approximately 64.6% (2020: 59.8%) of the Group's total revenue which are from sale of ordinary steel and special steel.

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

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2021

Segments	**Sale of ordinary steel** *RMB'000*	**Sale of special steel** *RMB'000*	**Trading of commodities** *RMB'000*	**Sale of by-products** *RMB'000*	**Total** *RMB'000*
Type of goods					
Sale of industrial products	**9,414,891**	**3,664,146**	**5,372,183**	**664,901**	**19,116,121**
Timing of revenue recognition					
A point in time	**9,414,891**	**3,664,146**	**5,372,183**	**664,901**	**19,116,121**

For the year ended 31 December 2020

Segments	Sale of ordinary steel *RMB'000*	Sale of special steel *RMB'000*	Trading of commodities *RMB'000*	Sale of by-products *RMB'000*	Total *RMB'000*
Type of goods					
Sale of industrial products	7,239,710	2,662,448	4,838,902	547,041	15,288,101
Timing of revenue recognition					
A point in time	7,239,710	2,662,448	4,838,902	547,041	15,288,101

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

(ii) Other income and gains/(losses), net

	2021	2020
	RMB'000	*RMB'000*
Gain on disposal of a subsidiary	**9,165**	–
Bank interest income	**5,661**	7,699
Interest income from Xiwang Finance	**2,932**	8,917
Rental income	**895**	895
Government grants *(note)*	**17,667**	26,477
Others	**(3,526)**	(2,422)
Foreign exchange differences, net	**30,060**	35,972
Late charge for late payment of tax	**(233)**	(5,504)
Loss on disposal of property, plant and equipment	**(2,353)**	(850)
Loss on derecognition of financial assets measured at fair value through other comprehensive income	**–**	(5,811)
Written off of trade receivables	**(1,618)**	–
	58,650	65,373

Note:

During the year ended 31 December 2021, government grants were mainly granted to the Group as subsidies to support the operation of the PRC subsidiaries, and during the year ended 31 December 2020, government grants were mainly granted to the Group as (i) subsidies to support the operation of the PRC subsidiaries, and (ii) Covid-19-related subsidies which is related to Employment Support Scheme provided by the Hong Kong government. The government grant had no conditions or contingencies attracted to them and they were non-recurring in nature.

4. PROFIT BEFORE TAX

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

	2021	2020
	RMB'000	*RMB'000*
Cost of inventories sold	**17,687,861**	14,201,001
Depreciation of property, plant and equipment	**561,226**	435,362
Depreciation of right-of-use assets	**2,820**	3,022
Amortisation of other intangible assets	**35,592**	15,190
Research and development costs	**387,076**	197,069
Lease payments not included in the measurement of lease liabilities	**5,116**	4,902
Auditor's remuneration		
– audit service	**1,500**	1,500
– non-audit service	**130**	130
Employee benefit expense (including directors' remuneration):		
Wages and salaries	**265,153**	256,798
Pension scheme and MPF Scheme contributions*	**20,973**	20,568
Equity-settled share option expenses	**–**	–
Staff welfare expenses	**4,523**	5,770
	290,649	283,136
Impairment losses of financial assets under expected credit loss model:		
Trade receivables	**(785)**	924
Other receivables	**6,158**	25
	5,373	949
Reversal of write-down of inventories	**–**	(17,096)

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

5. FINANCE COSTS

An analysis of finance costs is as follows:

	2021	2020
	RMB'000	*RMB'000*
Interest on bank and other borrowings	**321,645**	219,940
Finance costs on bills discounted	**41,540**	82,873
Interest on borrowings from the ultimate holding company	**4**	4
Interest on borrowings from Xiwang Group Finance Company Limited ("**Xiwang Finance**") (西王集團財務有限公司)	**2,067**	2,933
Interest on lease liabilities	**40**	61
Total interest expense on financial liabilities not at FVTPL	**365,296**	305,811
Less: Interest capitalised	**(75,823)**	(69,000)
	289,473	236,811

6. INCOME TAX 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 year. Taxes on profits assessable in PRC have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof.

Pursuant to PRC Corporate Income Tax Law effective on 1 January 2008, 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 years ended 31 December 2021 and 2020. Xiwang Metal Science & Technology is subject to CIT at a rate of 15% on its respective taxable income for the years ended 31 December 2021 and 2020 as a national-grade high-tech enterprise.

	2021	2020
	RMB'000	*RMB'000*
Current – PRC		
Charge for the year	**28,559**	12,508
Over-provision in prior years	**–**	(12,678)
	28,559	(170)
Deferred		
Credit for the year	**(36,343)**	(2,501)
Total tax credit for the year	**(7,784)**	(2,671)

7. DIVIDEND

No final dividend is proposed for the year ended 31 December 2021 (2020: Nil).

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

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

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

	2021	2020
	RMB'000	*RMB'000*
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share	**65,031**	18,368

	2021	2020
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share *(in thousands)*	**2,369,111**	2,369,111

For the years ended 31 December 2021 and 2020, the basic loss per share is the same as the diluted loss per share. The computation of diluted earnings per share does not assume the exercise of the Company's share options because the exercise price of those share options was higher than the average market price for the shares.

9. TRADE AND BILLS RECEIVABLES

	2021	2020
	RMB'000	*RMB'000*
Bills receivable	**–**	41,393
Trade receivables	**58,154**	51,046
Less: loss allowance	**(649)**	(1,434)
Trade receivables, net of impairment	**57,505**	49,612
Trade and bills receivables	**57,505**	91,005

Trade receivables

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

	2021	2020
	RMB'000	*RMB'000*
Within 3 months	**46,589**	24,880
3 to 6 months	**7,936**	19,655
6 months to 1 year	**2,257**	2,772
Over 1 year	**723**	2,305
Trade receivables, net of loss allowance	**57,505**	49,612

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

10. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2021	2020
	RMB'000	*RMB'000*
Non-current		
Prepayments for long-term assets	**198,361**	319,083
Current		
Prepayments for raw materials	**1,727,208**	1,385,033
Deposits and other receivables	**150,196**	88,042
Bank interest receivable	**4,225**	6,054
	1,881,629	1,479,129
Less: loss allowance	**(6,318)**	(160)
	1,875,311	1,478,969
	2,073,672	1,798,052

11. TRADE AND BILLS PAYABLES

	2021	2020
	RMB'000	*RMB'000*
Trade payables	**1,724,142**	1,975,908
Bills payable	**529,981**	159,958
	2,254,123	2,135,866

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

	2021	2020
	RMB'000	*RMB'000*
Within 1 month	**949,008**	899,221
1 to 3 months	**556,542**	527,344
3 to 6 months	**187,092**	176,828
6 to 12 months	**157,789**	149,296
Over 12 months	**403,692**	383,177
	2,254,123	2,135,866

As at 31 December 2021, the Group's bills payables amounting to approximately RMB313,116,000 (2020: RMB55,898,000) were secured by the pledged deposits approximately of RMB156,558,000 (2020: RMB27,949,000).

The Group's certain bills payables are guaranteed by certain related parties.

The trade and bills payables are non-interest-bearing and are settled with a range from six months to 1 year.

12. OTHER PAYABLES AND ACCRUALS/CONTRACT LIABILITIES

Other payables and accruals

	2021	2020
	RMB'000	*RMB'000*
Construction and equipment payables	**479,095**	357,432
Other tax payables	**8,900**	7,059
Other payables	**137,678**	120,035
Salaries and welfare payables	**26,808**	30,493
Deferred revenue *(Note)*	**8,308**	11,971
	660,789	526,990

Note: Assets related governments grants on the project on research and development.

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

Contract liabilities

Details of contract liabilities are as follows:

	2021	2020
	RMB'000	*RMB'000*
Short-term advances received from customers		
Sale of goods	**3,389,324**	2,256,367

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

Sale of industrial products

When the Group receives a deposit before the production activity commences, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the relevant contract

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 2.1 in the consolidated financial statements, which indicates that as at 31 December 2021, the Group's current liabilities exceeded its current assets by approximately RMB6,114,958,000 (2020: RMB5,038,200,000). As stated in note 2.1, these conditions, along with other matters as set forth in note 2.1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS REVIEW

The Group's principal source of revenue was steel production and sales during the year ended 31 December 2021 ("**the Year**"). The Group produces and sells ordinary steel products, including bars and wires, which are mainly used in construction and infrastructure projects. The Group's special steel products are used in machining and equipment manufacturing, alloy structural steel is used in machinery, bearing steel is used in automobile manufacturing, and ingots are used in transportation, offshore engineering and weapons and equipment production. Major customers of the Group have maintained long-term business relations with the Group. The group's steel sales customers are willing to make advance payments for the group's products. The Group has actively responded to the call of the state in recent years to promote the adjustment and upgrading of the iron and steel industry and carry out structural reform. It deepens the strategic cooperation with the Institute of Metallurgy, Chinese Academy of Sciences, steadily promotes the transformation and upgrading of enterprises, continuously improves innovation and R&D capabilities, effectively explores the special steel product market, improves environmental protection work, vigorously promotes ultra-low emission transformation, optimizes management and promotes cost reduction and efficiency increase.

2021 is a very extraordinary year for the steel industry. The national industrial policy has undergone major adjustments in that year, implementing the double control of "production capacity and output", canceling the steel export tax rebate, and launching the goal of "emission peak and carbon neutrality" for the first time. Furthermore, the ultra-low emission transformation, the "double control" assessment of energy consumption is strict, and it is difficult to guarantee production factors. Third, the market environment is complex, domestic and foreign markets fluctuate greatly, and commodity prices rise and fall sharply. The Group achieved stable production, cost reduction and efficiency improvement and balanced production and sales by strengthening internal management and upgrading benchmarking in the first half of 2021. Affected by the development of global novel coronavirus pneumonia and ultra-loose fiscal and monetary policies abroad, the prices of bulk commodities, especially iron ore, have been greatly pushed up by input factors, the upstream profits are difficult to transmit downward, and the production costs of steel enterprises are at a high level. Coal and coke prices have also increased significantly affected by environmental protection policies. Steel supply weakened in the fourth quarter. The price of raw fuel is rapidly adjusted back. The terminal price of steel dropped, the profitability of the Group was weakened in the second half of the year in addition to the weak demand for downstream real estate and the slowdown in investment in infrastructure and manufacturing, especially in the fourth quarter, and the cash flow was under pressure. Under this background, the management actively responded and overcome difficulties, striving for the smooth operation of the Group and safeguarding the interests of shareholders.

II. FINANCIAL REVIEW

1. Revenue

Revenue mainly represents production and sales of steel trading of commodities and sales of by-products.

During the Year, revenue of the Group increased to RMB19,116,121,000 in 2021 from RMB15,288,101,000 in 2020. The increase in revenue was mainly attributable to the increase in revenue from production and sales of steel.

Breakdown of revenue:

	2021		2020	
	Revenue *RMB'000*	**Average selling price** *(RMB/tonne)*	Revenue *RMB'000*	Average selling price *(RMB/tonne)*
Ordinary Steel				
Rebar	**6,258,588**	**4,291**	5,144,095	3,144
Wire rod	**3,156,303**	**4,578**	2,095,615	3,238
Subtotal/Average	**9,414,891**	**4,383**	7,239,710	3,171
Special Steel	**3,664,146**	**4,490**	2,662,448	3,377
Production and sales of steel	**13,079,037**	**4,412**	9,902,158	3,224
Trading of commodities[#]	**5,372,183**		4,838,902	
Sales of by-products[##]	**664,901**		547,041	
Total	**19,116,121**		15,288,101	

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

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

Breakdown of sales volume of steel:

	Sales volume			
	2021		2020	
	Tonnes	**Percentage**	Tonnes	Percentage
Ordinary steel				
Rebar	**1,458,657**	**49.2%**	1,636,134	53.3%
Wire rod	**689,395**	**23.3%**	647,266	21.1%
Subtotal	**2,148,052**	**72.5%**	2,283,399	74.3%
Special steel	**816,067**	**27.5%**	788,428	25.7%
Total	**2,964,119**	**100%**	3,071,827	100%

2. Cost of sales

Cost of sales mainly represents our cost incurred for iron ore powder, coke, scrap steel, coal, depreciation, electricity, staff costs, etc.

During the Year, the Group's cost of sales increased to RMB18,332,165,000 in 2021 from RMB14,819,294,000 in 2020. The increase was mainly attributable to the increase in raw material prices.

3. Gross profit

During the Year, gross profit increased to RMB783,956,000 in 2021 from RMB468,807,000 in 2020. Gross profit margin of the Group increased to 4.1% in 2021 from 3.1% in 2020. Breakdown of the contribution of gross profit and gross profit margin by products and business:

	2021		2020	
	RMB'000	**Gross profit margin**	*RMB'000*	Gross profit/(loss) margin
Ordinary steel	**636,584**	**6.8%**	407,896	5.6%
Special steel#	**72,221**	**2.0%**	19,883	0.7%
Production and sales of steel	**708,805**	**5.4%**	427,779	4.3%
Trading of commodities	**47,296**	**0.9%**	8,276	0.2%
Sales of by-products	**27,855**	**4.2%**	32,752	6.0%
Total/Overall	**783,956**	**4.1%**	468,807	3.1%

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

Other income and gains/(losses), net, amounted to RMB58,650,000 (2020: RMB65,373,000).

5. Selling and distribution expenses

Selling and distribution expenses increased to RMB13,123,000 in 2021 from RMB8,254,000 in 2020. The increase was in line with the increase in revenue of the Group in 2021.

6. Administrative expenses

Administrative expenses mainly include general office expenses, salaries of administrative staff, professional and legal fees and bank service charges. Administrative expenses increased to RMB90,314,000 in 2021 from RMB75,400,000 in 2020. The increase was in line with the increase in revenue of the Group.

Financial position

Liquidity and financial resources

As at 31 December 2021, the Group had RMB332,182,000 (2020: RMB386,812,000) in cash and cash equivalents, and RMB419,272,000 (2020: RMB492,219,000) in pledged bank deposits. The Group had trade and bills payables of RMB2,254,123,000 (2020: RMB2,135,866,000), bank and other borrowings due within one year in the amount of RMB3,540,868,000 (2020: RMB3,041,364,000), and bank and other borrowings due after one year in the amount of approximately RMB33,791,000 (2020: RMB1,187,927,000). As at 31 December 2021, the bank and other borrowings were denominated in Renminbi, Hong Kong dollar and United States dollar. All of the bank and other borrowings (excluding borrowing from Xiwang Group Finance Company Limited* (西王集團財務有限公司)) were secured by non-current assets, restricted bank deposits and/or guarantee by Mr. WANG Yong, and/or Mr. WANG Yong and Ms. ZHANG Shufang (spouse of Mr. WANG Yong), Mr. WANG Di, and/or Mr. WANG Di and Ms. SU Xin (spouse of Mr. WANG Di), and/or Xiwang Group. The Group mainly used its operating cash inflow to fund its working capital needs, while the capital requirement for acquiring additional production equipment was mainly satisfied by cash inflows from operating and financing activities.

Capital structure

As at 31 December 2021, the Group's total assets was RMB16,168,870,000 (2020: RMB15,369,929,000), which was funded by the followings: (1) share capital of RMB1,369,681,000 (2020: RMB1,369,681,000), (2) reserves of RMB4,415,057,000 (2020: RMB4,361,205,000) and (3) total liabilities of RMB10,384,132,000 (2020: RMB9,639,043,000).

Gearing ratio

As at 31 December 2021, the Group's gearing ratio was 22.9% (2020: 28.4%).

The Group monitors capital using a gearing ratio, which is total debt divided by total assets. Total debt includes interest-bearing bank and other borrowings, borrowings from the ultimate holding company, lease liabilities and other long term payable.

Funding and treasury policies and objectives

The Group adopts a prudent funding and treasury policy. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Currencies in which borrowing are made of in which as and cash equivalents are held

Most of the operating income of the Group's business is in RMB and the Group's assets held and all of the committed borrowings of the Group are mainly denominated in RMB, except for certain bank borrowings denominated in Hong Kong dollars and United States dollars held by the Group.

Extent to which borrowings are at fixed interest rates

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank and other borrowings. The Group's policy is to obtain the most favourable interest rate available. The Group has not used any interest swaps to hedge its exposure to interest rate risk. At the end of the reporting period, all of the Group's interest-bearing borrowings bore interest at fixed rates.

Use of financial instruments for hedging purposes

The Group currently does not use any financial instruments for hedging purposes.

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

As at 31 December 2021, the Company was interested in an unlisted equity investment represented a 5% equity interest in Xiwang Group Finance Company Limited*(西王集團財務有限公司), a company established in the PRC with limited liability, with a carrying amount of RMB66,096,000 (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. The business Xiwang Finance Company mainly involves the provision of financial services to the member companies of Xiwang Group, including but not limited to the members of the Group, with professional financial services and to minimize financial risks and enhance the general competitiveness of Xiwang Group. The Group does not intend to dispose of the investment in the near future. Save as disclosed in this announcement, the Group did not have any other significant investment, acquisition or disposal of subsidiaries during the Year.

On 16 August 2021, Xiwang Special Steel Company Limited(西王特鋼有限公司), a company incorporated in the PRC with limited liability and an indirectly non-wholly owned subsidiary of the Company, ("the **PRC Subsidiary**") entered into the Capital Contribution Agreement with IMR and the Technical Personnel in relation to the capital injection into the JV Company, 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. Please refer to the Company's announcement dated 16 August 2021 for the details.

Pledge of assets

As at 31 December 2021, RMB5,011,519,000 (2020: RMB5,353,374,000) of building, machinery and equipment, RMB86,605,000 (2020: RMB88,805,000) of leasehold land and pledged deposits of RMB406,558,000 (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 were pledged for counter guarantee.

Pledge of shares by controlling shareholders

On 22 November 2019, the Company entered into a 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. 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 agrees to pledge its 100% shareholding interest in Xiwang Investment, all in favour of the subscribers of the Bonds. Pursuant to the subscription agreement of the Bonds, each of the guarantors also agreed to provide personal or corporate guarantees in favour of the subscribers of the Bonds in respect of the obligations of the Company under the subscription agreement and the bond instrument. For further details of this transaction, please refer to the announcement of the Company dated 24 November 2019.

Capital commitments and contingent liabilities

As at 31 December 2021, the capital commitment of the Group for property, plant and equipment was RMB577,209,000 (2020：RMB782,522,000).

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

On 19 January 2021, the Company (and its subsidiaries) and Xiwang Group (and the Relevant Subsidiaries) entered into a guarantee agreement (the "**New Guarantee Agreement**"). Pursuant to the New Guarantee Agreement, the Group will provide Xiwang Group and the Relevant Subsidiaries with guarantee services for the period from 1 January 2021 to 31 December 2023, subject to the terms and conditions provided therein and the approval from the independent shareholders at the EGM. Please refer to the Company's announcement dated 19 January 2021 for the details of the New Guarantee Agreement.

The transaction was approved by the Independent Shareholders at the EGM held on 19 March 2021.

As at 31 December 2021, the bank facilities guaranteed by the Group to Xiwang Group and the Relevant Subsidiaries were utilized to the extent of approximately RMB1,400,000,000 (2020: RMB1,400,000,000) and RMB2,790,000,000 (2020: RMB2,754,960,000), respectively.

Equity fund raising activities

The Group did not have any material equity fund raising activities during the Year.

Foreign exchange risk

The majority of the operating income, costs and expenditures of the Group were denominated in RMB. As such, the Group has not been exposed to material foreign exchange risk during its operation. As at 31 December 2021, the Group was mainly exposed to risks related to its net liabilities denominated in US dollar amounted to RMB214,947,000 (2020: RMB34,582,000).

Employees and remuneration

As at 31 December 2021, the Group had a total of 3,459 (2020: 3,712) employees. Staff-related costs incurred during the Year were RMB290,649,000 (2020: RMB283,136,000). The remuneration was determined based on the performance and professional experience of employees as well as the prevailing market conditions. The management will regularly review the remuneration policy and arrangement of the Group. In addition to pensions, the Group will also distribute discretionary bonuses to certain employees as incentives based on their performance.

III. BUSINESS OUTLOOK

2021 is a historic milestone for the Party and the nation. We have achieved the goal of building a well-off society in an all-round way in the first century on schedule and started a new journey of building a socialist modernized country in an all-round way in the second century. In terms of macroeconomics, in 2021, China's GDP reached RMB114.4 trillion, an increase of 8.1% over last year, ranking second in the world and achieving a good start in the 14th Five-Year Plan with the great change that has not happened in a century, the novel coronavirus pneumonia epidemic, the complicated international situation and the arduous internal reform and development tasks. However, the Central Economic Work Conference in 2021 also pointed out that China's current economic development is facing triple pressures of "demand contraction, supply shock and expected weakening", indicating that in 2022, economic work should take the lead in stabilizing the macroeconomy, and all parties should shoulder the responsibility of stabilizing the macroeconomy, actively introduce policies conducive to economic stability, and the policy efforts should be properly advanced. The meeting put forward a more active fiscal policy. It is pointed out that fiscal and monetary policies should be coordinated and linked, cross-cyclical and counter-cyclical macro-control policies should be organically combined, "maintaining moderate expenditure intensity" implemented in 2020 should be changed to a more active "ensuring fiscal expenditure intensity", and new arrangements of "accelerating expenditure progress" and "developing infrastructure investment moderately ahead of schedule" should be added. At the same time, the local special debt continues to be under high pressure and penetrates the supervision. It is expected that key areas and weak links such as new infrastructure, old renovation and infrastructure construction in major areas will be the main starting point for follow-up investment, covering transportation infrastructure, water conservancy, energy, environmental protection, urban pipe network and other fields. According to incomplete statistics, the total investment scale of major projects started in various places will exceed RMB3 trillion in 2022. Shandong Province, where the Group's main business is located, announced a total investment of RMB2.14 trillion for major projects in 2022, including RMB1.05 trillion for infrastructure projects. The meeting also made it clear at the beginning of the year that in 2022, Shandong's transportation infrastructure construction will adhere to the principle of striving for stability and moderately advancing, and plans to complete investment in fixed assets of RMB270 billion, and go all out to promote construction, rapid construction and early production. Infrastructure investment has become the focus of steady growth. The industry will gradually enter a healthier development state with the soft landing of real estate and the steady economic growth due to infrastructure investment. In 2022, the Group will take the opportunity of favorable policies for downstream demand, give full play to the quality advantages and brand influence of the Group's products, thoroughly implement cost reduction and efficiency improvement, stabilize customer relations, open up new sales channels, seize opportunities and optimize performance.

In terms of industry, the Ministry of Industry and Information Technology and other three sectors recently issued the *Guiding Opinions on Promoting the High-quality Development of Iron and Steel Industry* (referred to as the *Opinions*), reaffirming the basic orientation of iron and steel industry as an "important basic industry", and the iron and steel industry has risen from "great significance for building a manufacturing power" to "important support for building a modern power". It is proposed that by 2025, the iron and steel industry will basically form a high-quality development pattern with a reasonable layout structure, stable resource supply, advanced technology and equipment, outstanding quality brand, high intelligent level, strong global competitiveness, green, low-carbon and sustainable. The *Opinions* clearly stated that it is necessary to continuously optimize the industrial structure and vigorously cultivate specialized and advantageous enterprises in various fields such as special steel and stainless steel. The strategic cooperation between the Group and Institute of Metal Research, Chinese Academy of Sciences is closely in line with the spirit of the Opinions. A series of high-quality special steel preparation technologies independently developed by the Institute of System Transformation Metals of the Group have created a leading domestic and internationally advanced "Demonstration Line for Clean and Intelligent Preparation of Special Steel for High-end Equipment", realizing the safe, stable, clean, intelligent and efficient production of special steel for high-end equipment. On this basis, facing the urgent demand for high-quality special steel in national key projects, major equipment and other fields, the two sides deepened cooperation and jointly built a national high-end special steel new material support base to contribute to the development of national high-end equipment manufacturing. Beginning in 2022, we will accelerate cooperation, launch new special steel products, and establish the Group's specialized competitive advantage in the special steel field. The Opinions also require promoting the high-quality and efficient utilization of scrap steel resources and encouraging the development of short-process steelmaking in electric furnaces. The Group has a full-process steelmaking production line with a high degree of informationization and automation, which can flexibly and efficiently switch steelmaking processes according to policy requirements and market conditions. The *Opinions* require that by 2025, we should strive to build a resource recycling system with inter-industry coupling development, complete ultra-low emission transformation of more than 80% of steel production capacity, reduce comprehensive energy consumption per ton of steel by more than 2%, and reduce water resources consumption intensity by more than 10%, so as to ensure that carbon peaks before 2030. The Group laid out the resource recycling system of steel production and corn deep processing in advance to achieve a stable operation and achieve good environmental protection and economic benefits. The Group pays full attention to environmental protection, invests in improving environmental protection facilities and management systems, is selected into the third batch of green manufacturing list of the Ministry of Industry and Information Technology, and is awarded "Green Factory", and constantly improves environmental protection work, and helping enterprises to develop with high quality. The *Opinions* put forward to vigorously develop intelligent manufacturing in the steel industry, enhance the innovation capability of the industry, and promote the intelligent upgrading of the whole industry. The Group will further enhance the level of intelligence and digitalization according to the requirements of the Opinions, help enterprises transform and develop, and implement refined management, cost reduction and efficiency improvement in depth based on remarkable operation results of the overall intelligent management and control system. According to the *Opinions*, by 2025, the ability to ensure diversification of resources is strove to be significantly enhanced, the production capacity, scale and intensification level of domestic iron mines is greatly improved, the scrap recycling and processing system is basically sound, and the scrap resources utilized by the iron and steel industry reaches more than 300 million tons, gradually improving the fundamental problems of high dependence on foreign iron ore and weak bargaining power, and ensuring the safe and stable operation and healthy development of China's iron and steel industry.

Looking forward to 2022, macroeconomic policy regulation and the *Guiding Opinions on Promoting the High-quality Development of Iron and Steel Industry* have created a good external environment and opportunities for the future development of the Group, and at the same time put forward higher requirements facing the downward pressure of economy and the dual-carbon target and dual-control of energy consumption constraining the supply of steel industry. From 2022, the Company will improve its development strategy, intensified innovation, accelerated transformation and upgrading, implement the development of energy conservation and emission reduction in low-carbon life, improve its intelligence level, vigorously promote cost reduction and efficiency improvement, seized market opportunities, and promote the stable and healthy development of enterprises.

The Group has always been emphasizing on technology development. We have deepened our co-operation with The Institute of Metal Research, Chinese Academy of Sciences（中國科學院金屬研究所）through jointly establishing of the. Facing the urgent demand for high-quality special steel in national key Zhongke Xiwang Special Steel Company Limited*（中科西王特鋼有限公司）projects, major equipment and other fields, the Group developed various typical categories of special steel, namely the high-end rare-earth metal bearing steel, rareearth metal die steel, rare-earth metal gear steel, rare-earth metal spring steel, rareearth metal shaft steel, rare-earth metal heat-resistant steel, rare-earth metal highstrength steel and rare-earth metal welding steel, for the purpose of realising the industrialisation of high-quality special steel and providing robust support to the independent and controlled manufacture of basic components such as bearings, gears, moulds and spindles, and as a result establishing a unique and ingenious brand of Chinese rare-earth metal special steel and offering leadership for the transformation and upgrading of steel industry.

IMPACT OF COVID-19 OUTBREAK ON THE GROUP'S PERFORMANCE

Effect of the COVID-19 pandemic on its operations

Ever since being declared a pandemic in March 2020, the COVID-19 outbreak, after going through ups and downs, had shown multiple rounds of widespread and rebound all over the world in 2021. With the emergence of Delta variant, which is of higher transmissibility, more pathogenic and is more capable in escaping immunity, as well as the Omicron variant, the one with more mutations and is more contagious, the pandemic had breached the lines of defense of numerous countries and has spread rapidly, causing a surge in number of confirmed cases and death toll. In the midst of the pandemic, the uncertainty in worldwide economic recovery arises, and with the influences of factors such as adjustment of global monetary policies and ensuring securities in supply and prices, causing the wrestling between the long and short in the black product market, amplifying the magnitude of fluctuation of the industry. With additional factors such as environmental protection, the prices of iron ore, coke and alloy maintain at high levels, where the demands starts to decline. Despite the drop in price of iron ore during the fourth quarter, the extent of decrease has failed to compensate the extents in increase of prices of coke and alloy, thus resulting in impacts on profits.

Starting from March 2022, the pandemic has dispersed to various places in China. The number of newly-infected local cases remains at a relatively high level, and the outbreak has reached a wider scope of places and cities. Under its development stage, the pandemic has not only affected consumption and service industry, but also imposed its influence to the manufacturing and construction industries through logistics and real-estate sales. It is estimated that the current wave of pandemic would cause the decrease of 0.3 to 0.8 percentage points in GDP growth rate for a quarter. China has been insisting on the "dynamic clearing" policy to fight the pandemic, resulting in hindrance in logistics for certain regions and impact on productivity, bringing challenges to the procurement of raw materials and the distribution of finished goods, and at the same time, to a certain level, resulting in impact on commodity and postponement in expected timing of realization in demand. All of the above would affect the operation of the Company, and require better capabilities in seizing market opportunities and discovering targets from us.

Risks or uncertainties that will materially affect their future performance

The outbreak of the COVID-19 epidemic adversely affected our business, results of operations and financial performance. If the outbreak of the COVID19 epidemic continues, it may further affect the sales of the Group's products, the Group's financial performance and the Group's expansion plan. The outbreak may also affect the operations of the Group's customers and suppliers. In response to the severity of the COVID-19 epidemic, a number of countries issued travel advisories recommending that persons travelling to certain affected areas, including certain areas of the PRC, for instance, all but essential travel were postponed, and entry of persons having been to the affected areas were denied by certain countries. The COVID-19 epidemic may cause damage to the trading industries as well as the overall economy. Any economic downturn as a result of the COVID-19 epidemic may have an adverse effect on the Group's business, results of operations and financial performance.

Assessments of the liquidity positions and working capital sufficiency

The Company's financial performance deteriorated in terms of (i) financing; and (ii) operation. Firstly, due to the adverse effects of the epidemic, the Group was facing difficulties in soliciting new source of funds, including additional banking facilities with PRC financial institutions to further support the Group's funding needs. Also, the credit market in the PRC remained challenging as a result of tightened credit measures by the PRC government. Secondly, apart from the higher iron ore prices which had led to reduction of supply, the coke market had been in a state of tight supply as a result of the implementation of the elimination of excess production capacity, which had led to an increase in coke price and greatly pushed up our production costs. As a result of the above, the cash paid for purchasing costs of raw materials for production increased significantly.

Measures such as cost control, funding and adjustments to business plans taken or to be taken to manage the impact of the COVID-19 pandemic

The Group is in the process of implementing the following actions to manage the impact of the COVID-19 pandemic: – (i) Cost control measures: The management of the Group had benchmarked the latest price level in the steel product market, together with rigorous cost control measures over its production, to formulate a forecast which is expected to generate enhanced positive operating cash flows. The procurement system proactively 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. (ii) Soliciting different sources of funds: The Group had made progress in obtaining financing and had signed credit agreements with a few banks and financial institutions, which have maintained a good and stable relationship with the Group in recent years, and have adopted a cyclical continuation model after the relevant facilities expired. (iii) Close monitoring of the downstream demand: With the effective control of the COVID-19 outbreak, and the gradual resumption of work and production in the PRC, the downstream demand for the Group's products is expected to increase. The Group will continue to closely monitor the downstream demand for the Group's products in order to optimize the sales price and production volume. (iv) Speeding up of cash collection: The Group will continue to speed up cash collection, increase sales volume to the Group's core customers, improve the volume and frequency of procurement and sales to further improve liquidity. Upon the gradual recovery of economic situation in the PRC, management of the Company had 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. On the other hand, the Group is currently soliciting different source of funds, including, but not limited to, additional banking facilities with PRC financial institutions and strategic institutional investors, to further support the Group's funding needs. With the effective control of the COVID-19 epidemic, and the gradual resumption of work and production and recovery of economic activities in the PRC, the downstream demands for the Group's products are expected to increase. The management will continue to speed up cash collection, increase the sales volume to the Group's core customers, improve the volume and frequency of procurement and sales, and to further improve operations. The sales system reform and incentive policy adjustment implemented by the Group had further optimized the structure of the sales team, stimulated the sales team's incentive and promoted the linkage of production and sales.(v) Exploring new financing channels: As a result of the Board's continuing efforts to explore new sources of financing, the Group had recently obtained a new and secured credit line from a bank which will offer deposits, loans, settlement, bill discounting, trade financing and international businesses services to the Group. The Company intends to utilize the new credit line for the purchase of goods and services to support the Group's operating activities in view of the difficult business environment and manage the impact of the COVID 19 epidemic. (vi)

Securing existing financing sources: The Group had been successful in renewing all credit lines from PRC banks and financial institutions. Many of these financial institutions have maintained a good and stable relationship with the Group in recent years and have adopted a cyclical continuation model after the relevant facilities expired, which also reflects their commitment to support the Group's production, operations and development. (vii) Cost control and efficiency enhancement measures: The Group implemented new management method throughout the Group and carried out technological innovation, energy conservation and consumption reduction, with a view to reducing costs and boosting efficiency on one hand, and strengthening product quality and market competitiveness in the high-end special steel field on the other hand.

Against the backdrop of nation-wide adjustment and upgrade initiatives and the structural reform of the iron and steel industry, the Group continued to adhere to the national policy and engaged in steady transformation and upgrading according to corporate needs. Nonetheless, the external environmental uncertainties caused by the COVID-19 pandemic had an enormous impact on the Group's strategic layout and production operation.

ANNUAL GENERAL MEETING

The forthcoming AGM is proposed to be held on 27 May 2022. For details, please refer to the notice of the AGM which will be published and dispatched to the shareholders of the Company as soon as practicable in accordance with the Company's articles of association and the Listing Rules.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the forthcoming AGM The register of members in respect of ordinary shares of the Company will be closed from 24 May 2022 to 27 May 2022 (both days inclusive), during which period no transfer of shares of the Company may be registered, for the purposes of ascertaining shareholders' entitlement to attend and vote at the forthcoming AGM. In order to be eligible to attend and vote at the forthcoming AGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Boardroom Share Registrars (HK) Limited at 2103B, 21/F., 148 Electric Road, North Point, Hong Kong for registration not later than 4:30 p.m. on 23 May 2022.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S SECURITIES

During the Year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the Year.

CORPORATE GOVERNANCE

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. The Company has made specific enquiries of all the Directors, and all Directors confirmed that they have complied with the required standards set out in the Model Code for the year ended 31 December 2021.

AUDIT COMMITTEE

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

SCOPE OF WORK ON THE ANNUAL RESULTS ANNOUNCEMENT BY AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 31 December 2021 as set out in the preliminary announcement have been agreed by the Group's auditors, HLB Hodgson Impey Cheng Limited, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by HLB Hodgson Impey Cheng Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by HLB Hodgson Impey Cheng Limited on the preliminary announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is also published on the Company's website (www.xiwangsteel.com) and the designated website of the Stock Exchange (www.hkexnews.hk). The annual report for the year ended 31 December 2021 containing all the information required by Appendix 16 of the Listing Rules will be despatched to the shareholders and available on the above websites in due course.

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

Hong Kong, 31 March 2022

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

* *For identification purpose only*