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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)**

**ANNOUNCEMENT OF INTERIM RESULTS  
FOR THE SIX MONTHS ENDED 30 JUNE 2022**

The board (the “**Board**”) of directors (the “**Directors**”) of Xiwang Special Steel Company Limited (the “**Company**”) hereby announces the unaudited condensed consolidated results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2022 (the “**Period**”), together with the comparative figures, as follows. The consolidated results are unaudited, but have been reviewed by the Company’s audit committee (the “**Audit Committee**”).

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

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

## 1.1 CORPORATE INFORMATION

Xiwang Special Steel Company Limited (the “**Company**”) is a limited company and was incorporated in Hong Kong on 6 August 2007. The Company’s registered office is located at Unit 2110, 21/F, Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong. The shares of the Company have been listed on the Stock Exchange since 23 February 2012. The Group is principally engaged in the production and sale of steel products, trading of commodities and sale of by-products mainly in the People’s Republic of China (the “**PRC**”).

## 1.2 BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”). The accounting policies and method of computation used in the preparation of these condensed consolidated interim financial statements are consistent with those adopted in the annual financial statements for the year ended 31 December 2021. These unaudited condensed consolidated interim financial statements should be read in conjunction with the Group’s audited 2021 annual financial statements, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”).

### Going concern

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

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

- Upon the gradual stabilisation of economic situation in the PRC, management has benchmarked to latest price level in the steel product market, together with rigorous cost control measures over its production, active market production, and consumption reduction to formulate a forecast which will generate enhanced positive operating cash flows.
- The Company has implemented technological transformation and innovation in the technical system to reduce costs, enhance efficiency and strengthen products’ quality and competitiveness.

- The Group has received a written confirmation dated 31 August 2022 from Xiwang Group Company Limited (“**Xiwang Group Company**”), the controlling shareholder, that it will provide continuing financial support to the Group to enable the Group to meet its financial obligations as and when they fall due for the foreseeable future, and agreed not to demand repayment of any of the amounts due to Xiwang Group Company by the Group in the next twelve months from the date of approval for issue of these condensed consolidated interim financial statements.
- The Group is currently soliciting different source of funds, including additional banking facilities with PRC financial institutions and strategic institutional investors and equity financing options, to further support the Group’s funding needs.

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 expect that the Group would improve its working capital in order to finance its operations and meet its financial obligations as and when they fall due in foreseeable future. As such, they are of the opinion that it is appropriate to prepare the condensed consolidated interim financial statements of the Company on a going concern basis.

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

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

### 1.3 APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

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

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

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

## 2. OPERATING SEGMENT INFORMATION

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

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

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

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

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

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

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.

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



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

For the six months ended 30 June 2022	Ordinary steel <i>RMB'000</i> (unaudited)	Special steel <i>RMB'000</i> (unaudited)	Trading of commodities <i>RMB'000</i> (unaudited)	By- products <i>RMB'000</i> (unaudited)	Consolidated <i>RMB'000</i> (unaudited)
<b>Segment revenue</b>					
Sales to external customers	3,832,021	1,816,345	2,552,094	272,823	8,473,283
Inter-segment sales	3,898,688	1,967,944	1,069,389	825,900	7,761,921
	<u>7,730,709</u>	<u>3,784,289</u>	<u>3,621,483</u>	<u>1,098,723</u>	<u>16,235,204</u>
Costs of sales	<u>(3,844,410)</u>	<u>(1,830,465)</u>	<u>(2,546,259)</u>	<u>(276,341)</u>	<u>(8,497,475)</u>
<b>Gross (loss)/profit</b>	<u>(12,389)</u>	<u>(14,120)</u>	<u>5,835</u>	<u>(3,518)</u>	<u>(24,192)</u>
<b>Reconciliation:</b>					
Other income and (losses)/gains, net					(11,756)
Selling and distribution expenses					(4,083)
Administrative expenses					(66,233)
Reversal of impairment loss of financial assets, net					158
Research and development costs					(223,964)
Finance costs					<u>(87,698)</u>
<b>Loss before tax</b>					<u>(417,768)</u>

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

For the six months ended 30 June 2021	Ordinary steel <i>RMB'000</i> (unaudited)	Special steel <i>RMB'000</i> (unaudited)	Trading of commodities <i>RMB'000</i> (unaudited)	By- products <i>RMB'000</i> (unaudited)	Consolidated <i>RMB'000</i> (unaudited)
<b>Segment revenue</b>					
Sales to external customers	4,953,709	2,302,547	2,365,036	269,536	9,890,828
Inter-segment sales	4,365,135	1,634,278	1,416,803	885,974	8,302,190
	<u>9,318,844</u>	<u>3,936,825</u>	<u>3,781,839</u>	<u>1,155,510</u>	<u>18,193,018</u>
Costs of sales	<u>(4,440,509)</u>	<u>(2,202,872)</u>	<u>(2,346,371)</u>	<u>(256,068)</u>	<u>(9,245,820)</u>
<b>Gross profit</b>	<u>513,200</u>	<u>99,675</u>	<u>18,665</u>	<u>13,468</u>	645,008
<b>Reconciliation:</b>					
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					<u>(146,511)</u>
<b>Profit before tax</b>					<u>233,358</u>

### Geographical information

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

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

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

#### Revenue from contracts with customers

##### *Disaggregated revenue information*

#### For the six months ended 30 June 2022

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

#### For the six months ended 30 June 2021

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

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

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

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

**4. (LOSS)/PROFIT BEFORE TAX**

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

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

## 5. FINANCE COSTS

An analysis of finance costs is as follows:

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

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

## 6. INCOME TAX (CREDIT)/EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2021: 16.5%) on the estimated assessable profits arising in Hong Kong during the Period. Taxes on profits assessable in PRC have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof.

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

	<b>Six months ended 30 June</b>	
	<b>2022</b>	<b>2021</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Current tax (credit)/charge	<b>(17,667)</b>	46,185
Deferred tax credit	<b>(105,973)</b>	(4,526)
	<hr/>	<hr/>
Total tax (credit)/charge for the Period	<b>(123,640)</b>	41,659
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**7. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY**

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

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

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

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

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

**8. DIVIDENDS**

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

## 9. TRADE AND BILLS RECEIVABLES

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

### Trade receivables

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

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

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

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

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

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

## Bills receivables

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

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.

## 10. TRADE AND BILLS PAYABLES

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

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

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

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

As at 30 June 2022, included in the trade and bills payables are trade payables of RMB3,962,000 (31 December 2021: RMB6,684,000) due to fellow subsidiaries which are non-interest-bearing and repayable on demand.

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

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



## MANAGEMENT DISCUSSION AND ANALYSIS

### I. BUSINESS REVIEW

In the first half of 2022, due to the impact of factors such as complicated global political and economic situation, sporadic outbursts of the pandemic in the PRC and the disrupted supply chains and industrial chains, the market conditions of the steel industry have worsened drastically. According to the relevant statistics, in the first half of the year, the crude steel output and steel output in the PRC recorded year-on-year decreases of 6.5% and 4.6%, to 526.88 million tonnes and 667.14 million tonnes, respectively, while the profit of the ferrous metal smelting industry recorded a year-on-year decrease of 68.7%. Under the stress of both high upstream raw fuel price and the collapse in downstream demand, the steel industry has become one of the industries experiencing the most significant decline in profit. Being a member of the industry, the Group was inevitably affected. For the Period, the Group recorded a gross loss of approximately RMB24.2 million, compared to a gross profit of approximately RMB645.0 million for the six months ended 30 June 2021 (the “**Previous Period**” or “**1H2021**”). The Group recorded a net loss of approximately RMB294.1 million during the Period, compared to a net profit of approximately RMB191.7 million for the Previous Period.

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

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

## II. FINANCIAL REVIEW

### Business Performance

#### 1. Revenue

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

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

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

<sup>#</sup> Trading of commodities mainly includes the trading of iron ore dust, pellet, steel billets and coke.

<sup>##</sup> By-products refer to steel slag, steam and electricity derived from the production of steel.

Breakdown of sales volume of steel:

	Sales volume			
	For the six months ended 30 June 2022		2021	
	Tonnes	Percentage	Tonnes	Percentage
<b>Ordinary Steel</b>				
Rebar	704,752	52%	798,455	48%
Wire rod	245,330	18%	355,441	21%
Subtotal	950,082	70%	1,153,896	69%
<b>Special Steel</b>	401,132	30%	525,610	31%
<b>Total</b>	<b>1,351,214</b>	<b>100%</b>	<b>1,679,506</b>	<b>100%</b>

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

## 2. *Cost of sales*

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

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

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

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

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

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

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

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

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

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

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

#### **5. Selling and distribution expenses**

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

#### **6. Administrative expenses**

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

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

## **7. Research and development costs**

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

## **Financial position**

### ***Liquidity and capital resources***

As at 30 June 2022, the Group had approximately RMB130.4 million in cash and cash equivalents (31 December 2021: approximately RMB332.2 million), and approximately RMB267.5 million in pledged bank deposits (31 December 2021: approximately RMB419.3 million). The Group had trade and bills payables of approximately RMB2,368.6 million (31 December 2021: approximately RMB2,254.1 million), bank and other borrowings due within one year in the amount of approximately RMB3,528.3 million (31 December 2021: approximately RMB3,540.9 million), and bank and other borrowings due after one year in the amount of approximately RMB100.0 million (31 December 2021: approximately RMB33.8 million). As at 30 June 2022, 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 of the Group and the subsidiaries of Xiwang Group Company, restricted bank deposits, 100% equity interests of Shandong Xiwang Recycling Resources Company Limited\* (山東西王再生資源有限公司), ordinary shares and convertible preference shares of a related company of the Company and/or guarantee by Mr. WANG Yong, and/or Mr. WANG Yong and Ms. ZHANG Shufang (spouse of Mr. WANG Yong), Mr. WANG Di, and/or Mr. WANG Di and Ms. SU Xin (spouse of Mr. WANG Di), and/or Xiwang Group Company and its subsidiaries. The Group mainly used its operating cash inflow to fund its working capital needs, while the capital requirement for acquiring additional production equipment was mainly satisfied by cash inflows from operating and financing activities.

### ***Capital structure***

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

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

### ***Gearing ratio***

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

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

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

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

### **Pledge of assets**

As at 30 June 2022, RMB4,841.3 million (31 December 2021: RMB5,011.5 million) of building, machinery and equipment, RMB85.5 million of leasehold land (31 December 2021: RMB86.6 million) and RMB266.6 million of pledged deposits (31 December 2021: RMB406.6 million) were pledged as security for interest-bearing bank and other borrowings of the Group and the subsidiaries of Xiwang Group Company and bills payable. The Group's other borrowings of RMB382.0 million (31 December 2021: 382.0 million) were also secured by the Group's 100% equity interest in Shangdong Xiwang Recycling Resources Company Limited.

### **Pledge of shares by controlling shareholders**

On 22 November 2019, the Company entered into the subscription agreement with, among others, the guarantors (being Mr. WANG Yong, Mr. WANG Di, Xiwang Group Company, Xiwang Hong Kong Company Limited ("**Xiwang Hong Kong**"), Xiwang Holdings Limited ("**Xiwang Holdings**") and Xiwang Investment Company Limited ("**Xiwang Investment**")) and the bond subscribers, pursuant to which the bond subscribers conditionally agreed to subscribe for, and the Company conditionally agreed to issue the bonds in an aggregate principal amount of US\$30.0 million with an original and extended maturity dates on 11 December 2019 and 31 May 2020 (the "**Bonds**").

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

### **Specific performance obligations of the controlling shareholders**

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

### **Disclosure obligation under Rules 13.19 and 13.21 of the Listing Rules**

References are made to the announcements of the Company dated 22 September 2017, 11 October 2017, 25 October 2019, 24 November 2019 and 12 December 2019 in relation to the convertible bond in the aggregate principal amount of US\$30.0 million issued by the Company which was originally due on 10 October 2019 and the Bonds in an aggregate principal amount of US\$30.0 million issued by the Company which was originally due on 11 December 2019, and was extended to 31 May 2020. As at 30 June 2022 and the date of this announcement, the Group was still discussing with the relevant bond subscribers as to the redemption schedule of the bonds in order to meet the repayment obligation.

### **Capital commitments**

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

## **Contingent liabilities**

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

As at 30 June 2022, the banking facilities guaranteed by the Group to Xiwang Group Company and its certain subsidiaries were utilised to the extent of approximately RMB1,400.0 million (31 December 2021: approximately RMB1,400.0 million) and RMB2,784.0 million (31 December 2021: approximately RMB2,790.0 million), respectively.

## **Foreign exchange risk**

The majority of the operating income, costs and expenditures of the Group were denominated in RMB. As such, the Group has not been exposed to material foreign exchange risk during its operation. As at 30 June 2022, the Group was mainly exposed to risks relating to its liabilities denominated in US dollar of approximately RMB186.3 million (31 December 2021: approximately RMB214.9 million). During the Period, the Group did not enter into any foreign exchange swaps to hedge against foreign exchange risks.

## **Employees and remuneration policy**

As at 30 June 2022, the Group had a total of 3,571 employees (as at 30 June 2021: 3,712). Staff-related costs incurred during the Period was approximately RMB152.1 million (1H2021: approximately RMB149.1 million). The remuneration was determined based on the performance and professional experience of employees as well as the prevailing market conditions. The management will regularly review the remuneration policy and arrangement of the Group. In addition to pension, the Group will also distribute discretionary bonus to certain employees as incentives according to their performance.



### III. BUSINESS OUTLOOK

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

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

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

## EVENTS OCCURRING AFTER THE REPORTING PERIOD

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

## PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S SECURITIES

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

## CORPORATE GOVERNANCE

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 confirms 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 model code for securities transactions by Directors. Having made specific enquiries, all the Directors confirmed that they have complied with the Model Code during the Period.

## INTERIM DIVIDEND

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

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

Hong Kong, 31 August 2022

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 Directors:*

Mr. WANG Di

\* For identification purpose only