



XIWANG SPECIAL STEEL COMPANY LIMITED

西王特鋼有限公司

Xiwang Special Steel (HKEx: 1266) Announces 2014 Interim Results

Turnover Ups 30.6% to RMB4.7 billion

Gross profit Ups 18.9% to RMB378.5 million

Interim Highlights

- Turnover increased by 30.6% to RMB4.7 billion
- Gross profit increased by 18.9% to RMB378.5 million
- Net profit increased by 11.7% to RMB203.0 million
- Gross profit margin of production and sales of steel, the principal business of the Group, increased 1.8 ppts to 9.5%
- Shandong Xiwang Special Steel, listed as one of the 307 enterprises fulfilling the iron and steel industry specification by the Ministry of Industry and Information Technology of the PRC, will be beneficial to market consolidation opportunities
- With annual capacity of 3 million tonnes special steel by using iron ore dust as raw materials upon the completion of technological renovation of two electric arc furnaces ("EAF"), the Group gradually transforms into an enterprise producing high-end bearing steel and special steel of higher margin, and fills the capacity gaps in Shandong Province
- Entered into a technical cooperation agreement with Luoyang Bearing Research Centre in respect of the establishment of the "Bearing Steel Research and Development Centre" to accelerate the pace of product upgrades to seize the high-quality bearing steel market

<u>Financial Summary</u>	For the 6 months ended 30 June (RMB'000)		
	2014	2013	Change
Revenue	4,696,743	3,596,340	+30.6%
Gross profit	378,546	318,332	+18.9%
Net profit	203,040	181,725	+11.7%
EBITDA	540,746	390,101	+38.62%
Gross profit margin (%)	8.1	8.9	-0.8pt
Gross profit margin (%) of production and sales of steel	9.5%	7.7%	+1.8ppts
Net profit margin (%)	4.3	5.1	-0.8pt
EBITDA margin (%)	11.5%	10.8%	+0.7%

*Exclude trading of commodities such as iron ore dust, pellet, steel billets and coke

(Hong Kong, 4 September 2014) Xiwang Special Steel Company Limited ("Xiwang Special Steel", "the Company" or "the Group", HKEx: 1266), today announced its 2014 interim results for the 6 months ended 30 June 2014 (the "Period").

During the period, revenue of the Group was RMB4.7 billion (1H2013: RMB3.6 billion), representing an increase of 30.6% as compared to the corresponding period of last year. The increase in revenue was mainly attributable to the significant growth of commodities trading business to RMB938.6 million, accounting for 20.0% of the total revenue. Moreover, due to production capacity expansion during the Period, the sales volume of steel amounted to 123.3 million tonnes (1H2013: 107.2 million tonnes), representing an increase of 15.0% as compared with the corresponding period of last year. Revenue derived from production and sales of steel slightly increased by 3.5% to RMB3.7 billion (1H2013: RMB3.5 billion) in the corresponding period of last year. The mild growth in revenue was mainly due to the increase of overall sales volume and the drop of selling price of steel. Due to the increase in production volume, revenue of by-products increased by 59.8% to RMB104.5 million (1H2013: RMB65.4 million).

During the Period, gross profit of the Group increased by 18.9% to RMB378.5 million (1H2013: RMB318.3 million) as compared to the corresponding period of last year. The increase was mainly due to the increase in sales volume of steel as compared to the corresponding period of last year and the decrease in the selling price of steel because of the keen market competition and decrease in the purchase price of raw materials. During the Period, gross profit of production and sales of steel increased by 28.1% as compared to the corresponding period of last year. The Group recorded significant increase in sales of commodities trading business with gross profit margin of 2.1% during the Period, which was lower than that of production and sales of steel, resulting gross profit margin to decrease slightly by 0.8 percentage point to 8.1%. The overall gross profit margin of the production and sales of steel, the principal business of the Group, increased 1.8 percentage points from 7.7% to 9.5%. To reduce the production costs, the Group commenced the operation of its blast furnaces and converters and upgraded its production facilities so that iron ore dust, with lower cost, was used as the key raw material to produce steel. Therefore, the overall gross profit margin of production and sales of steel increased. During the Period, the net profit of the Group increased by 11.7% to RMB203.0 million. The Group recorded an EBITDA of RMB540.7 million, representing an increase of 38.6% as compared to the corresponding period of last year.

Mr. WANG Hui, Executive Director and Chief Executive Officer of Xiwang Special Steel, said, "In response to the intense competition in steel industry and market condition in recent years, we have expanded our production facilities and improved our production technology to boost the turnover and gross profits of the Group. We have also strengthened our capacity to cope with the competition in the market. In addition, we have expanded our source of income by developing the trading business. The Chinese government is committed to boosting the development of urbanization, which is important for fueling domestic demand. The market demand of the steel industry, especially the special steel market, will remain strong despite various challenges. We are confident of the business outlook of the Group through enhancement in production efficiency and effective response to market changes."

Business Review

<u>Turnover</u>	For the 6 months ended 30 June				
	2014		2013		Change in turnover
	RMB '000	% to Group's Turnover	RMB '000	% to Group's Turnover	
Ordinary steel	2,459,480	52.4%	2,276,291	63.3%	+8.1%
Special steel	1,194,168	25.4%	1,254,669	34.9%	-4.8%
Trading of commodities	938,645	20.0%	-	-	-
Sales of by-products	104,450	2.2%	65,380	1.8%	+59.8%

The Group produced and sold ordinary steel and special steel and mainly traded raw materials, such as iron ore dust and pellet, during the Period. While ordinary steel mainly includes rebar and wire rod, special steel includes quality carbon structural steel, alloy structural steel and bearing steel. Ordinary steels produced by the Group can satisfy the demand of construction and infrastructure industry, and its special steels also face great demand for its applications in automobile, shipbuilding, chemical and petrochemical, machinery and equipment sectors. During the Period, revenue of ordinary steel was approximately RMB2.5 billion, representing an increase of 8.1% as compared to the corresponding period of last year. Revenue of special steel was RMB1.2 billion, representing a slight decrease of 4.8% as compared to the corresponding period of last year. The decrease was mainly due to a short-term decline in the bearing steel production volume for upgrades of production technology and facilities in the cooperation with Luoyang Bearing Research Centre.

The sales of steel of the Group is mainly distributed to Shandong Province, which accounts for 75.1% of sales of the Group during the Period, while the remainders are distributed to Jiangsu, Shanghai, Zhejiang and other provinces of China. Xiwang Special Steel is strategically located, which takes advantage of the adjacent consumer market and raw materials market. The Group is located near two renowned markets of special steel, Liaocheng City and Linyi City in Shandong Province, where Liaocheng City is a principal market of bearing steel with annual consumption exceeding 1 million tonnes. In addition, Tai'an is the largest steel market in North China. With production base located in Xiwang Industrial Area, Zouping County, Shandong Province of China, Xiwang Special Steel operate an integrated production process from iron smelting and steel smelting to secondary metallurgy, continuous casting and steel rolling. Recently, the Group has carried out technological renovation of its production facilities. Currently, the Group has an aggregate designed annual smelting capacity of EAFs and converters of approximately 3.3 million tonnes, and an aggregate designed annual rolling capacity of 3.0 million tonnes. The total designed annual capacity of our blast furnaces and sintering furnaces are 2.1 million tonnes and 3.7 million tonnes, respectively.

In recent years, the Chinese government issued a series of policies and regulations in regard to the steel industry, aiming to solve the problem of excess steel production capacity and consolidate the industry standards and management. Particularly, the State Council of PRC released "Guiding Opinions of the State Council on Resolving Serious Production Overcapacity Conflicts" in October 2013 to promote structural modulation of steel industry in provinces like Shandong, Hebei, Liaoning, Jiangsu, Shanxi and Jiangxi, etc. Through active integration of dispersed production capacity, the local government aims to eliminate more than 80 million tonnes of steel production capacity. In addition, the Ministry of Industry and Information Technology of the PRC published a total of 307 enterprises in three batches which fulfilling the steel industry specification. Shandong Xiwang Special Steel was on the list in recognition of the operation and technology level of the Group. As the leading high-end special steel manufacturer located in Shandong Province of China, the Group will be beneficial to the market consolidation opportunities of steel market, as well as huge domestic demand for steel, especially the special steel market. The Group is well prepared to seize the commanding heights of the market.

As the major product category of the Group, bearing steel faces huge market demand and strong support from the 12th Five-Year Plan. According to the "New Materials Industry Development in 12th Five-Year Plan", during the 12th Five-Year period, it is estimated that 1.8 million tonnes of high-quality bearing steel will be required annually in the development of high-end equipment manufacturing industry includes aerospace and rail transportation. Furthermore, in the "Steel Industry 12th Five-Year Plan" it is also estimated that the aggregate demand of high-end bearing steel will reach 5 million tonnes, where Shandong Province takes account of 1 million tonnes of bearing steel consumption. Although the annual domestic output of bearing steel ranks first in the world, the low-end bearing steel among which takes up most of the total amount. The high-quality bearing steel used in heavy machinery industry such as aerospace, nuclear power, vehicles, high-speed rail, wind power, precision machine tools, metallurgical machinery mainly relies on imports.

In June 2014, Shandong Xiwang Special Steel entered into a technical cooperation agreement with Luoyang Bearing Research Centre Company Limited in respect of the establishment of the “Bearing Steel Research and Development Centre” for the research and development and improvement of the quality of bearing steel products. The Group aims to forge ahead with the high-end bearing steel product market. Under the agreement, the cooperation between the Group and Luoyang Bearing Research Centre aims to form the largest high-end bearing steel production base in the north of Yangtze River region; further improve the research and development capacity of high-quality bearing steel as well as the current standard of techniques, facilities and inspection equipment in order to meet the market demand for bearing steel in the near future; meanwhile enhance the distribution channel of its special bearing steel and benefit the Group’s business. Particularly, it is expected that the steel purity of the Group’s products will reach international advanced level. The Group’s high-quality GCr15 bearing steel products will meet the standards of Swedish SKF (Svenska Kullagerfabriken AB) and USA TMK in the coming five years. It is also expected that its annual sales volume will reach 200,000 tonnes in 2015, and more than 500,000 tonnes in five years, which facilitate the Group to become the first-class special steel enterprise in China.

Mr. WANG Hui, Executive Director and Chief Executive Officer of Xiwang Special Steel, concluded, “We will put in unremitting efforts to continue with our high-quality management, cost control and strive for production quality. In the meantime, we will forge ahead with the high-end special steel market including that of high-end bearing steel with the ultimate goal to enhance the revenue and profitability of the Group and maximize the rewards for our shareholders.”

- End -

About Xiwang Special Steel Company Limited (stock code: 01266.HK)

Xiwang Special Steel, the only special steel enterprise with mass production capability of bearing steel bar and wire rods products in Shandong Province, its products mainly include high-quality and high-strength building materials including bearing steel, gear steel, engineering machinery steel, with an annual output capacity of 3 million tonnes of steel products respectively. In December 2013, Xiwang Special Steel passed the site inspection by the Ministry of Industry and Information Technology, and has become one of the second-batch enterprises that fulfils the standard of Iron and Steel Industry. Founded in 2003, Xiwang Special Steel was listed on the Main Board of the Hong Kong Stock Exchange in February 2012. After 10 years of development, the company formed a high-quality special steel production and operation mode which mainly focused on the production of bearing steel, gear steel, steel cord, automotive steel and Engineering Machinery steel. Xiwang Special Steel gradually transformed into a high-end steel production enterprise, and strives to become a “sophisticated special steel enterprise in Shandong Province”.

The press release is distributed by MP Finance on behalf of Xiwang Special Steel Company Limited.

For enquiry, please contact:

Mr. Marcus Keung	Tel: (852) 2529 8611	Email: marcus.keung@mphk.com
Ms. Christine Chan	Tel: (852) 2529 1616	Email: christine.chan@mphk.com