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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

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
AND NEW ANNUAL CAPS FOR 2019 TO 2021 –
(I) MAJOR AND CONTINUING CONNECTED TRANSACTIONS –
FINANCIAL SERVICES AGREEMENT
(II) CONTINUING CONNECTED TRANSACTIONS –
LOGISTICS AGREEMENTS (STEEL DELIVERY
SERVICE AGREEMENT AND ORE POWDER DELIVERY
SERVICE AGREEMENT)**

Reference is made to the Announcements and Circulars in relation to, among other things, the 2015 Financial Services Agreement as supplemented by the 2016 Financial Services Agreement and the 2015 Logistics Agreements with the relevant connected persons of the Company.

The Company intends to continue the Relevant Transactions and to set new Annual Caps for a term of three years commencing from 1 January 2019 and expiring on 31 December 2021. Accordingly, the Board announces that on 18 October 2018, (a) the Company entered into the Financial Services Agreement with Xiwang Finance Company and Xiwang Group Company has executed a Guarantee in favour of the Company to secure the performance of obligations of Xiwang Finance Company under the Financial Services Agreement, and (b) the Company entered into the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement with Xiwang Logistics, with details set out below:

- (i) Financial Services Agreement with Xiwang Finance Company, being a major transaction and a continuing connected transaction, pursuant to which Xiwang Finance Company will provide the Company and the Qualified Subsidiaries with deposit services, loan services, bill discounting services, bill acceptance services and other financial services for a term of three years commencing on 1 January 2019 and ending on 31 December 2021; and Xiwang Group Company has executed a Guarantee in favour of the Company to secure the performance of obligations of Xiwang Finance Company under the Financial Services Agreement.
- (ii) Steel Delivery Service Agreement with Xiwang Logistics, being a continuing connected transaction, pursuant to which Xiwang Logistics will provide delivery service to the Company for the delivery of the Group's steel to Shandong Province and other provinces in the PRC, for a term of three years commencing on 1 January 2019 and ending on 31 December 2021; and
- (iii) Ore Powder Delivery Service Agreement with Xiwang Logistics, being a continuing connected transaction, pursuant to which Xiwang Logistics will provide delivery service to the Company for the delivery of the Group's ore powder from Shandong Province and other provinces in the PRC to the Company for a term of three years commencing on 1 January 2019 and ending on 31 December 2021.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Xiwang Investment is the controlling shareholder of the Company and is wholly owned by Xiwang Holdings. Xiwang Holdings is held as to 95% by Xiwang Hong Kong and Xiwang Hong Kong is in turn wholly-owned by Xiwang Group Company. Xiwang Finance Company is a subsidiary of Xiwang Group Company and is owned as to 5% by the Company. Xiwang Logistics is a non-wholly owned subsidiary of Xiwang Group Company. Therefore, Xiwang Finance Company and Xiwang Logistics are each an associate of Xiwang Investment and also a connected person (as defined in Chapter 14A of the Listing Rules) of the Company and the transactions contemplated under the Financial Services Agreement, Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Financial Services Agreement

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of each of the provision of deposit services, bill discounting services and bill acceptance services under the Financial Services Agreement exceeds 25%, each of the provision of deposit services, bill discounting services and bill acceptance services under the Financial Services Agreement constitutes a major transaction and non-exempt continuing connected transactions of the Company, which is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14 and 14A of the Listing Rules.

The loan services to be provided by Xiwang Finance Company to the Company under the Financial Services Agreement will constitute financial assistance to be provided by a connected person for the benefit of the Company. As such services are on normal commercial terms which are similar to or even more favourable than those offered by other commercial banks for comparable services in the PRC, and no security over the assets of the Company will be granted in respect of the loan services, the loan services are exempt under Rule 14A.90 of the Listing Rules from all reporting, announcement and Independent Shareholders' approval requirements.

The Company expects that each of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) of the fees payable by the Company to Xiwang Finance Company in respect of the provision of other financial services under the Financial Services Agreement will fall within the de minimis threshold as stipulated under Chapter 14A of the Listing Rules. The Company will comply with the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules if the fees payable by the Company to Xiwang Finance Company for the provision of other financial services under the Financial Services Agreement exceed the relevant de minimis threshold. The Company will also disclose the relevant details of the Financial Services Agreement in its next published annual report and accounts in accordance with the relevant requirements as set out in Rule 14A.49 of the Listing Rules.

The provision of guarantee by Xiwang Group Company to the Group will constitute financial assistance to be received by the Group from a connected person. As the transactions under the Guarantee will be conducted on normal commercial terms or better and will not be secured over the assets of the Group, such guarantee is exempt from the independent shareholders' approval, annual review and all disclosure requirements under Rule 14A.90 of the Listing Rules.

Steel Delivery Service Agreement and Ore Powder Delivery Service Agreement

Since the transactions contemplated under the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement are similar in nature, and all of them were entered into between the Company and Xiwang Logistics, the transactions contemplated under the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement are aggregated for the classification of connected transactions in accordance with Rule 14A.81 and Rule 14A.82 of the Listing Rules. Given that one of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the annual caps for the provisions of the services under the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement is more than 5%, the transactions contemplated under the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement will constitute non-exempt continuing connected transactions of the Company, and are subject to reporting, annual review, announcement and Independent Shareholders' approval requirements as set out in 14A of the Listing Rules.

BACKGROUND

Reference is made to the Announcements and Circulars in relation to, among other things, the 2015 Financial Services Agreement as supplemented by the 2016 Financial Services Agreement and the 2015 Logistics Agreements with the relevant connected persons of the Company.

The Company intends to continue the Relevant Transactions and to set new Annual Caps for a term of three years commencing from 1 January 2019 and expiring on 31 December 2021.

On 18 October 2018, the Company entered into the Financial Services Agreement with Xiwang Finance Company with a term of three years commencing from 1 January 2019. Pursuant to the Financial Services Agreement, Xiwang Finance Company will provide the Company and the Qualified Subsidiaries with deposit services, loan services, bill discounting services, bill acceptance services and other financial services subject to the terms and conditions provided therein.

In addition, on 18 October 2018, the Company has entered into two agreements with Xiwang Logistics, namely, the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement. Pursuant to the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement, Xiwang Logistics will (i) provide delivery service to the Company for the delivery of the Group's steel to Shandong Province and other provinces in the PRC and (ii) provide delivery service to the Company for the delivery of the Group's ore powder from Shandong Province and other provinces in the PRC to the Company, respectively for a term of three years commencing from 1 January 2019.

FINANCIAL SERVICES AGREEMENT

Date

18 October 2018

Parties

- (a) the Company; and
- (b) Xiwang Finance Company

Term

The Financial Services Agreement is valid for a term of three years commencing from 1 January 2019 to 31 December 2021. However, no deposit services, bill discounting services and bill acceptance services will be provided until the Company has obtained the approval from the Independent Shareholders at the EGM.

Major Terms

1. Xiwang Finance Company shall provide the Company and the Qualified Subsidiaries with deposit services, loan services, bill discounting and bill acceptance services and other financial services approved by the CBRC, subject to the terms and conditions provided therein.
2. Xiwang Finance Company has undertaken to adhere to the principles below in relation to the provision of the aforementioned financial services to the Company:
 - (i) the interest rate payable by Xiwang Finance Company to the Company for any deposits shall not be lower than the benchmark interest rate as announced by the PBOC and the interest rate paid by other independent commercial banks in the PRC for comparable deposits during the same period;
 - (ii) the rates to be charged by Xiwang Finance Company for the provision of loan services and financing services (including bill discounting and bill acceptance services) to the Company shall not be higher than the relevant rates to be charged by other independent commercial banks in the PRC for comparable loan services and financing services (including bill discounting and bill acceptance services) during the same period; and
 - (iii) no service fee will be charged by Xiwang Finance Company for the provision of settlement services, being one of other financial services, to the Company.

Capital Risk Control Measures

1. Xiwang Finance Company shall ensure the secure operation of its funds management network and safety of funds, control the asset-debt risks and satisfy the payment requirements of the Company;
2. Xiwang Finance Company shall ensure that it is in strict compliance with the risk monitoring indicators applicable for Xiwang Finance Company issued by the CBRC and that its major regulatory indicators such as asset-liability ratio and liquidity ratio will also comply with the requirements of the CBRC and other relevant laws and regulations;
3. Xiwang Finance Company shall, on the condition that there are any events that may threaten the safety of the deposits of the Company as specified in the Financial Services Agreement, provide two days prior notice in writing to the Company and adopt effective measures to control or avoid losses to be caused by such events;
4. when any of the aforesaid events occurs, the Company has the right to (i) require Xiwang Finance Company to explain the underlying reasons and offer the relevant measures to prevent, control and resolve the issues; (ii) in the event that Xiwang Finance Company defaults in its payment obligations, require Xiwang Group Company to adopt remedial measures and increase the capital fund of Xiwang Finance Company to settle such payment obligations; or (iii) suspend or terminate the Financial Services Agreement; and
5. for the deposit services, the Directors shall review the historical daily deposit balances (including any interest accrued therefrom) when a Board meeting is convened, which should be at least four times a year.

Historical transaction amounts

Xiwang Finance Company was established on 15 December 2015 and entered into the 2015 Financial Services Agreement with the Company as supplemented by the 2016 Financial Services Agreement for the provision of deposit services, loan services, bill discounting and bill acceptance services and other financial services to the Company and the Qualified Subsidiaries between 1 January 2016 and 31 December 2018.

The actual transaction amounts with Xiwang Finance Company for the years ended 31 December 2016 and 2017, and the nine months ended 30 September 2018 were:

- (i) in respect of maximum daily deposit balance, were RMB0.600 billion, RMB1.061 billion and RMB1.153 billion, respectively;
- (ii) in respect of actual aggregate annual transaction amounts of bill discounting, were RMB0.495 billion, RMB0.432 billion and RMB0.624 billion, respectively;
- (iii) in respect of actual aggregate annual transaction amounts of bill acceptance, were RMB0.200 billion, RMB0.400 billion and RMB0.780 billion, respectively; and
- (iv) in respect of maximum loan amounts (including any accrued interest), were RMB2.200 billion, RMB2.408 billion and RMB1.221 billion, respectively.

Proposed Caps

Deposit Services

The proposed caps in respect of the maximum daily deposit balance (including any interest accrued therefrom) with Xiwang Finance Company are as follows:

Period	Transaction amounts (Billion RMB)
From 1 January 2019 to 31 December 2019	2.10
From 1 January 2020 to 31 December 2020	2.30
From 1 January 2021 to 31 December 2021	2.50

The above proposed caps were determined after taking into account of the following:

1. the deposits of the Group (including any interest accrued therefrom) (whether placed with Xiwang Finance Company or other financial institutions) reached the highest of RMB1.3 billion, RMB1.7 billion and RMB1.7 billion during the years ended 31 December 2016 and 2017 and during the nine months ended 30 September 2018, respectively;
2. the expected increase in the amount of deposit of the Group in the next three years due to the expected increase in the asset scale of the Group; and
3. the expected increase in the amount of deposit of the Group to be placed with Xiwang Finance Company in the next three years given the established business relationships with Xiwang Finance Company.

The Directors (excluding the independent non-executive Directors, whose views will be contained in the circular after considering the advice from the Independent Financial Adviser) consider that the above proposed caps in respect of the deposit services are fair and reasonable.

Bill discounting services

The proposed caps in respect of the amount of bill discounting provided by Xiwang Finance Company are as follows:

Period	Transaction amounts <i>(Billion RMB)</i>
From 1 January 2019 to 31 December 2019	5.50
From 1 January 2020 to 31 December 2020	6.00
From 1 January 2021 to 31 December 2021	6.60

The above proposed caps in respect of bill discounting were determined after taking into account of the following:

1. the historical amount of bill discounting of the Group (whether made with Xiwang Finance Company or other financial institutions), which was approximately RMB1.0 billion, RMB2.1 billion and RMB3.5 billion for the years ended 31 December 2016 and 2017, and for the nine months ended 30 September 2018, respectively; and
2. the expected increase in the amount of bill discounting of the Company in the next three years in light of the expected increase in business scale of the Group; and
3. the expected increase in the amount of bill discounting of the Group to be made with Xiwang Finance Company in the next three years given the established business relationships with Xiwang Finance Company.

The Directors (excluding the independent non-executive Directors, whose views will be contained in the circular after considering the advice from the Independent Financial Adviser) consider that the above proposed caps in respect of the bill discounting services are fair and reasonable.

Bill acceptance services

The proposed caps in respect of the amount of bill acceptance provided by Xiwang Finance Company are as follows:

Period	Transaction amounts (Billion RMB)
From 1 January 2019 to 31 December 2019	5.50
From 1 January 2020 to 31 December 2020	6.00
From 1 January 2021 to 31 December 2021	6.60

1. the historical amount of bill acceptance of the Group (whether made with Xiwang Finance Company or other financial institutions), which was approximately RMB3.3 billion, RMB3.4 billion and RMB3.8 billion for the years ended 31 December 2016 and 2017, and for the nine months ended 30 September 2018, respectively; and
2. the expected increase in the amount of bill acceptance of the Company in the next three years in light of the expected increase in business scale of the Group; and
3. the expected increase in the amount of bill acceptance of the Group to be made with Xiwang Finance Company in the next three years given the established business relationships with Xiwang Finance Company.

The Directors (excluding the independent non-executive Directors, whose views will be contained in the circular after considering the advice from the Independent Financial Adviser) consider that the above proposed caps in respect of the bill acceptance services are fair and reasonable.

Loan Services

Since the loan services to be provided by Xiwang Finance Company to the Company are on normal commercial terms which are similar to or even more favourable than those offered by other major commercial banks in the PRC, and that no security over the assets of the Company will be granted in respect of the loan services, the loan services are exempt under Rule 14A.90 of the Listing Rules from all reporting, announcement and Independent Shareholders' approval requirements.

The Directors (including the independent non-executive Directors) consider that the loan services to be provided under the Financial Services Agreement are fair and reasonable and in the interests of the Shareholders as a whole.

Other Services

Apart from the deposit services, bill discounting and bill acceptance services and the loan services, Xiwang Finance Company may also provide the Company with other financial services approved by the CBRC.

Other financial services to be provided under the Financial Services Agreement will be on normal commercial terms and on terms similar to or even more favourable than those offered by other independent commercial banks in the PRC. The Directors (including the independent non-executive Directors) consider that other financial services to be provided under the Financial Services Agreement are fair and reasonable and in the interests of the Shareholders as a whole.

The Company expects that each of the applicable percentage ratios (as defined in Chapter 14 of the Listing Rules) of the fees payable by the Company to Xiwang Finance Company for the provision of other financial services under the Financial Services Agreement will fall within the de minimis threshold as stipulated under Chapter 14A of the Listing Rules. The Company will comply with the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules if the fees payable by the Company to Xiwang Finance Company for the provision of other financial services under the Financial Services Agreement exceed the relevant de minimis threshold.

Internal Control on Pricing

The interest rates for deposit, loan, bill discounting, the fee for bill acceptance, and the service fees for other financial services are arrived at after considering the interest rates and service fees charged by/offered by other independent commercial banks and financial institutions in the PRC for provision of similar level of services.

There are stringent internal control policies with regard to financial service transactions. The finance department of the Company would compare the interest rates for deposit, loan, bill discounting, the fee for bill acceptance, and the service fees for other financial services quoted from the Xiwang Finance Company with the terms from other independent third parties (including at least 2 financial institutions and/or commercial banks in the PRC) to ensure that the most favourable terms are obtained from Xiwang Finance Company.

In addition, the financial service transactions under the Financial Services Agreement will be reported to and approved by the head of the finance department of the Company. The internal control policies will also be applied to the financial service transactions with Xiwang Finance Company to ensure the interest rates for deposit, loan and bill discounting services, the fee for bill acceptance services, and the service fees for other financial services charged by/offered by Xiwang Finance Company shall not be less favourable than the interest rates and services fees charged by/offered by other independent commercial banks for comparable services.

By adopting the policy set out above, the Company can ensure that (i) the interest rate payable for the Company's deposits shall not be lower than the interest rate offered by other independent commercial banks for comparable deposits in the PRC; and (ii) the interest rates for loans and bill discounting, the fee for bill acceptance and service fees for other financial services to be charged by Xiwang Finance Company shall not be higher than those charged by other independent commercial banks for providing comparable services in the PRC.

Provision of Guarantee by Xiwang Group Company

On 18 October 2018, Xiwang Group Company executed a Guarantee in favour of the Company to secure the performance of obligations of Xiwang Finance Company under the Financial Services Agreement. The Guarantee will be effective from the date on which the Financial Services Agreement becomes effective. No fees will be charged by Xiwang Group Company for the provision of such guarantee.

Pursuant to the terms of the Guarantee, Xiwang Group Company has undertaken that if Xiwang Finance Company experiences or foresees to experience any liquidity problems, Xiwang Group Company will inject capital to Xiwang Finance Company based on Xiwang Finance Company's needs in order to maintain the normal operations of Xiwang Finance Company. Xiwang Group Company has also undertaken to compensate the Company and/or the Qualified Subsidiaries jointly and severally with Xiwang Finance Company for all the substantial risks or losses (including but not limited to the deposits, interests and related expenses incurred) caused by or potentially caused by Xiwang Finance Company's breaches or potential breaches of PRC laws and regulations, or by any major operational problems or difficulties with liquidity on the part of Xiwang Finance Company, or by Xiwang Finance Company's non-performance of any terms or default of the Financial Services Agreement.

Reasons for and Benefits of Entering into the Financial Services Agreement

1. The interest rates on deposits, loans and discount of bills, the fee for bill acceptance and the service fees for other financial services to be offered by Xiwang Finance Company to the Company will be equal to or more favourable than those offered by other independent commercial banks in the PRC in respect of comparable services.
2. Xiwang Finance Company is established as a non-banking financial institution regulated by the PBOC and the CBRC, and provides its services in accordance with the rules and operational requirements of these regulatory authorities. In addition, capital risks are reduced through the introduction of the risk control measures stipulated in the Financial Services Agreement.

3. The Company is expected to benefit from Xiwang Finance Company's better understanding of the operations of the Company which will allow more expedient and efficient services than those rendered by other PRC commercial banks. For example, in the event that the Company considers that it is necessary to obtain loan and guarantee from Xiwang Finance Company in view of its business and financial needs, it is expected that the time required for the examination and approval of the loans and guarantee to be provided by Xiwang Finance Company will be shorter than that required by other commercial banks.
4. By entering into the Financial Services Agreement with Xiwang Finance Company, the Company will be able to centralise its control and management over the financial resources of the Company, therefore improve the utilisation and efficiency of fund usage and mitigate its operating risks. It can also accelerate the turnover of funds and reduce transaction costs and expenses, thereby further enhancing the amount and efficiency of funds utilisation. Meanwhile, the financial services to be provided under the Financial Services Agreement are diversified and can meet the business needs of the Company.

In view of the above, the Directors (excluding the independent non-executive Directors whose views will be contained in the circular after considering the advice from the Independent Financial Adviser) are of the view that the capital risk control measures under the Financial Services Agreement and the Guarantee are adequate to cover the risks involved in depositing funds of the Company with Xiwang Finance Company, the terms of the Financial Services Agreement and the Guarantee are fair and reasonable and the Financial Services Agreement is entered into on normal commercial terms, and on terms no less favourable than those available from independent third parties under the prevailing local market conditions, in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole.

STEEL DELIVERY SERVICE AGREEMENT

Date

18 October 2018

Parties

- (1) Xiwang Logistics
- (2) the Company

Major terms of the Steel Delivery Service Agreement

The major terms of the Steel Delivery Service Agreement are as follows:

- 1) Subject matter: Pursuant to the Steel Delivery Service Agreement, Xiwang Logistics agree to provide delivery service to the Company for the delivery of the Group's steel to Shandong Province and other provinces in the PRC, during the term of the agreement.
- 2) Consideration: The cost of delivery service shall be determined according to the weight of steel for each delivery with reference to prevailing market prices.
- 3) Settlement and payment: Settlement shall be made by the Company after the receipt of the value-added tax invoice from Xiwang Logistics.
- 4) Term: three years commencing on 1 January 2019 (or a date when the shareholders' approval is obtained, if it is later than 1 January 2019) and ending on 31 December 2021 (both dates inclusive).
- 5) Transactions contemplated under the Steel Delivery Service Agreement will be conducted:
 - (a) in the ordinary and usual course of business of the Company and Xiwang Logistics;
 - (b) on normal commercial terms and on terms not less favourable offered by independent third parties;
 - (c) on terms that are fair and reasonable; and
 - (d) in compliance with all requirements under the Listing Rules (including the requirement that the annual amounts of the transactions shall not exceed the Steel Delivery Service Annual Caps), applicable laws and the terms of the Steel Delivery Service Agreement.

Internal Control and Pricing Policy

In order to ensure that the terms of the Steel Delivery Services Agreement are not less favourable than those available from independent third parties, the Group has adopted the following measures:

- 1) the price for the steel delivery service will be negotiated on arm's length basis and at a price with reference to the prevailing market prices of similar logistics companies, which will be determined through reviewing two sets of terms offered by independent third parties by the staff of the sales department of the Group;

- 2) the Company's external auditors will conduct an annual review on the pricing and the annual caps of the continuing connected transactions; and
- 3) the independent non-executive Directors will conduct an annual review of the implementation and enforcement of the continuing connected transactions.

Steel Delivery Service Historical Figures and Annual Caps

Shandong Xiwang Special Steel (now known as Xiwang Metal), a wholly-owned subsidiary of the Company, and Xiwang logistics had entered into the 2015 Steel Delivery Services Agreement on similar terms as the Steel Delivery Service Agreement for the period from 1 January 2016 to 31 December 2018. The actual transaction amounts with Xiwang Logistics were RMB8.22 million, RMB59.53 million and RMB36.42 million for the years ended 31 December 2016 and 2017, and the nine months ended 30 September 2018, respectively.

It is expected that the maximum aggregate annual transaction amounts under the Steel Delivery Service Agreement for each of the three years ending 31 December 2021 will be RMB124 million, RMB143 million and RMB165 million, respectively.

If the actual transaction amount exceeds the Steel Delivery Service Annual Caps, the Company shall re-comply with the reporting, announcement and shareholder's approval requirements (as the case may be).

The Steel Delivery Service Annual Caps are estimated based on:–

- (i) the actual amount of the steel delivered and the transportation cost incurred from the delivery of steel of the Group (whether by Xiwang Logistics or other parties) for the years ended 31 December 2016 and 2017, and the nine months ended 30 September 2018, which was approximately RMB11.0 million, RMB88.5 million and RMB57.6 million, respectively;
- (ii) an estimated yearly growth of steel needed to be delivered by the Group resulting from the continuous growth in the scale of business in the next three years; and
- (iii) the expected amount of steel to be delivered by Xiwang Logistics in the next three years.

Reasons for and benefits of entering into the Steel Delivery Service Agreement

Xiwang Logistics is located in Handianzhen, Zouping County, Shandong Province, which is less than 500 meters away from the Company. It is the closest logistics company to the Company, which has logistics capability, possesses adequate vehicles and can deliver the goods in a timely manner.

In light of the above, the Directors (excluding the independent non-executive Directors whose views will be contained in the circular to be despatched to the Shareholders after considering the views of the Independent Financial Adviser on the terms of the Steel Delivery Service Agreement) consider that the terms of the Steel Delivery Service Agreement and the Steel Delivery Service Annual Caps are fair and reasonable and are entered into on normal commercial terms, and on terms no less favourable than those available to independent third parties under the prevailing local market conditions, in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole.

ORE POWDER DELIVERY SERVICE AGREEMENT

Date

18 October 2018

Parties

- (1) Xiwang Logistics
- (2) the Company

Major terms of the Ore Powder Delivery Service Agreement

The major terms of the Ore Powder Delivery Service Agreement are as follows:

- 1) Subject matter: Pursuant to the Ore Powder Delivery Service Agreement, Xiwang Logistics agreed to provide delivery service to the Company for the delivery of ore powder from Shandong Province and other provinces in the PRC to the the Company's location during the term of the agreement.
- 2) Consideration: The cost of delivery service shall be determined according to the weight of ore powder for each delivery with reference to prevailing market prices.
- 3) Settlement and payment: Settlement shall be made by the Company after the receipt of the value-added tax invoice from Xiwang Logistics.
- 4) Term: three years commencing on 1 January 2019 (or a date when the shareholders' approval is obtained, if it is later than 1 January 2019) and ending on 31 December 2021 (both dates inclusive).

- 5) Transactions contemplated under the Ore Powder Delivery Service Agreement will be conducted:
- (a) in the ordinary and usual course of business of the Company and Xiwang Logistics;
 - (b) on normal commercial terms and on terms not less favourable offered by independent third parties;
 - (c) on terms that are fair and reasonable; and
 - (d) in compliance with all requirements under the Listing Rules (including the requirement that the annual amounts of the transactions shall not exceed the Ore Powder Delivery Service Annual Caps), applicable laws and the terms of the Ore Powder Delivery Service Agreement.

Internal Control and Pricing Policy

In order to ensure that the terms of the Ore Powder Delivery Services Agreement are not less favourable than those available from independent third parties, the Group has adopted the following measures:

- 1) the price for the ore powder delivery service will be negotiated on arm's length basis and at a price with reference to the prevailing market prices of similar logistics companies, which will be determined through reviewing two sets of terms offered by independent third parties by the staff of the procurement department of the Group;
- 2) the Company's external auditors will conduct an annual review on the pricing and the annual caps of the continuing connected transactions; and
- 3) the independent non-executive Directors will conduct an annual review of the implementation and enforcement of the continuing connected transactions.

Ore Powder Delivery Service Historical Figures and Annual Caps

Shandong Xiwang Special Steel (now known as Xiwang Metal), a wholly-owned subsidiary of the Company, and Xiwang logistics had entered into the 2015 Ore Powder Delivery Services Agreement on similar terms as the Ore Powder Delivery Service Agreement for the period from 1 January 2016 to 31 December 2018. The actual transaction amounts with Xiwang Logistics were RMB74.57 million, RMB173.50 million and RMB106.72 million for the years ended 31 December 2016 and 2017, and the nine months ended 30 September 2018, respectively.

It is expected that the maximum aggregate annual transaction amounts under the Ore Powder Delivery Service Agreement for each of the three years ending 31 December 2021 will be RMB236 million, RMB273 million and RMB315 million, respectively.

If the actual transaction amount exceeds the Ore Powder Delivery Service Annual Caps, the Company shall re-comply with the reporting, announcement and shareholder's approval requirements (as the case may be).

The Ore Powder Delivery Service Annual Caps are estimated based on:–

- (i) the actual amount of the ore powder delivered and the transportation cost incurred from the delivery of ore powder of the Group (whether by Xiwang Logistics or other parties) for the years ended 31 December 2016 and 2017, and the nine months ended 30 September 2018, which was approximately RMB74.6 million, RMB173.5 million and RMB106.7 million, respectively; and
- (ii) an estimated yearly growth of ore powder needed to be delivered by the Group resulting from the continuous growth in the scale of business in the next three years; and
- (iii) the expected amount of ore powder to be delivered by Xiwang Logistics in the next three year.

Reasons for and benefits of entering into the Ore Powder Delivery Service Agreement

Xiwang Logistics is located in Handianzhen, Zouping County, Shandong Province, which is less than 500 meters away from the Company. It is the closest logistics company to the Company, which has logistics capability, possesses adequate vehicles and can deliver the goods in a timely manner.

In light of the above, the Directors (excluding the independent non-executive Directors whose views will be contained in the circular to be despatched to the Shareholders after considering the views of the Independent Financial Adviser on the terms of the Ore Powder Delivery Service Agreement) consider that the terms of the Ore Powder Delivery Service Agreement and the Ore Powder Delivery Service Annual Caps are fair and reasonable and are entered into on normal commercial terms, and on terms no less favourable than those available to independent third parties under the prevailing local market conditions, in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE PARTIES

The Group is a leading high-end special steel manufacturer located in Shandong Province of the PRC. Our products consist of ordinary steel that is primarily used in buildings and infrastructures, as well as special steel that is used in automobile, shipbuilding, chemical and petrochemical, machinery and equipment sectors.

Xiwang Finance Company is a subsidiary of Xiwang Group Company and is owned as to 10% by the Company. Xiwang Finance Company is intended to provide the member companies of Xiwang Group, including but not limited to the members of the Group, with professional financial services, as well as to minimise financial risks and enhance the general competitiveness of Xiwang Group.

Xiwang Logistics is a company incorporated in the PRC and is principally engaged in transportation of general goods and provision of logistics services in the PRC.

APPROVAL BY THE BOARD

The proposal in respect of the entry into the Financial Services Agreement, Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement and the Annual Caps were approved at the Board meeting held by the Company on 18 October 2018.

As (i) each of Mr. WANG Yong, Mr. WANG Di and Mr. SUN Xihu being a Director is also a director and shareholder of Xiwang Group Company; and (ii) each of Mr. WANG Di and Mr. ZHANG Jian being a Director is also a director of Xiwang Finance Company, such Directors have abstained from voting on the board resolution to approve the entry into the Financial Services Agreement.

As each of Mr. WANG Yong, Mr. WANG Di and Mr. SUN Xihu being a Director and shareholder of the Company is also a director of Xiwang Logistics, and also a director and shareholder of Xiwang Group Company, such Directors have abstained from voting on the board resolution to approve the entry into the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement.

Save as disclosed above, none of the Directors have a material interest in the transactions under the Financial Services Agreement, Steel Delivery Service Agreement and Ore Powder Delivery Service Agreement.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Xiwang Investment is the controlling shareholder of the Company and is wholly owned by Xiwang Holdings. Xiwang Holdings is held as to 95% by Xiwang Hong Kong and Xiwang Hong Kong is in turn wholly-owned by Xiwang Group. Xiwang Finance Company is a subsidiary of Xiwang Group Company and is owned as to 5% by the Company. Xiwang Logistics is a wholly-owned subsidiary of Xiwang Group Company. Therefore, Xiwang Finance Company and Xiwang Logistics are each an associate of Xiwang Investment and also a connected person (as defined in Chapter 14A of the Listing Rules) of the Company and the transactions contemplated under the Financial Services Agreement, Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Financial Services Agreement

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of each of the provision of deposit services, bill discounting services and bill acceptance services under the Financial Services Agreement exceeds 25%, each of the provision of deposit services, bill discounting services and bill acceptance services under the Financial Services Agreement constitutes a major transaction and non-exempt continuing connected transactions of the Company, which is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14 and 14A of the Listing Rules.

The loan services to be provided by Xiwang Finance Company to the Company under the Financial Services Agreement will constitute financial assistance to be provided by a connected person for the benefit of the Company. As such services are on normal commercial terms which are similar to or even more favourable than those offered by other commercial banks for comparable services in the PRC, and no security over the assets of the Company will be granted in respect of the loan services, the loan services are exempt under Rule 14A.90 of the Listing Rules from all reporting, announcement and Independent Shareholders' approval requirements.

The Company expects that each of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) of the fees payable by the Company to Xiwang Finance Company in respect of the provision of other financial services under the Financial Services Agreement will fall within the de minimis threshold as stipulated under Chapter 14A of the Listing Rules.

The Company will comply with the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules if the fees payable by the Company to Xiwang Finance Company for the provision of other financial services under the Financial Services Agreement exceed the relevant de minimis threshold.

The Company will also disclose the relevant details of the Financial Services Agreement in its next published annual report and accounts in accordance with the relevant requirements as set out in Rule 14A.49 of the Listing Rules.

The provision of guarantee by Xiwang Group Company to the Group will constitute financial assistance to be received by the Group from a connected person. As the transactions under the Guarantee will be conducted on normal commercial terms or better and will not be secured over the assets of the Group, such guarantee is exempt from the independent shareholders' approval, annual review and all disclosure requirements under Rule 14A.90 of the Listing Rules.

Steel Delivery Service Agreement and Ore Powder Delivery Service Agreement

Since the transactions contemplated under the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement are similar in nature, and all of them were entered into between the Company and Xiwang Logistics, the transactions contemplated under the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement are aggregated for the classification of connected transactions in accordance with Rule 14A.81 and Rule 14A.82 of the Listing Rules. Given that one of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the annual caps for the provisions of the services under the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement is more than 5%, the transactions contemplated under the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement will constitute non-exempt continuing connected transactions of the Company, and are subject to reporting, annual review, announcement and Independent Shareholders' approval requirements as set out in Chapters 14 and 14A of the Listing Rules.

EGM

The Company will hold an EGM to consider and approve the provision of deposit services, bill discounting services and bill acceptance services under the Financial Services Agreement, and also the terms of the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement. Xiwang Investment shall abstain from voting at the EGM for the approval of the resolutions relating to the deposit services, bill discounting services and bill acceptance services under the Financial Services Agreement, and relating to the terms of the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An independent board committee comprising all the independent Directors (who have no material interest in the Financial Services Agreement, the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement) will be formed to advise the Independent Shareholders on the provision of deposit services, bill discounting services and bill acceptance services under the Financial Services Agreement, and the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement.

The Company will appoint an Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the provision of deposit services, bill discounting services and bill acceptance services under the Financial Services Agreement, the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement.

DESPATCH OF CIRCULAR

A circular containing (i) details of the provision of deposit services, bill discounting services and bill acceptance services under the Financial Services Agreement, (ii) details of the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement, (iii) a letter from the Independent Board Committee of the Company and (iv) a letter from the Independent Financial Adviser, both (iii) and (iv) advising on the provision of deposit services, bill discounting services and bill acceptance services under the Financial Services Agreement and the terms of the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement, and the notice of the EGM will be despatched to the Shareholders in accordance with the Listing Rules on or before 8 November 2018.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context otherwise requires:

“2015 Financial Services Agreement”	the agreement entered into between the Company and Xiwang Finance Company dated 29 December 2015 in relation to the provision of financial services
“2015 Logistics Agreements”	collectively refer to the 2015 Steel Delivery Services Agreement and the 2015 Ore Powder Delivery Services Agreement

“2015 Ore Powder Delivery Services Agreement”	the agreement entered into between Shandong Xiwang Special Steel (now known as Xiwang Metal) and Xiwang Logistics dated 29 December 2015 in relation to the delivery of ore powder
“2015 Steel Delivery Services Agreement”	the agreement entered into between Shandong Xiwang Special Steel (now known as Xiwang Metal) and Xiwang Logistics dated 29 December 2015 in relation to the delivery of steel
“2016 Financial Services Agreement”	the supplemental agreement entered into between the Company and Xiwang Finance Company to amend the 2015 Financial Services Agreement with the details disclosed by the 2016 Revision Announcement and the 2016 Revision Circular
“2016 Revision Announcement”	the announcement of the Company titled “Major And Continuing Connected Transaction And Revision Of Terms And Annual Caps For Continuing Connected Transaction Under the Financial Services Agreement” dated 20 October 2016
“2016 Revision Circular”	the circular issued by the Company titled “Major And Continuing Connected Transaction And Revision Of Terms And Annual Caps Under The Financial Services Agreement And Notice Of Extraordinary General Meeting” dated 24 November 2016
“2016 Services Circular”	the circular issued by the Company titled “Continuing Connected Transactions – Steel Delivery Service Agreement, Ore Powder Delivery Service Agreement and Vehicle Leasing Agreement, Major And Continuing Connected Transactions – Financial Services Agreement And Guarantee Agreement And Notice Of Extraordinary General Meeting” dated 19 February 2016
“Announcements”	collectively refer to the Company’s announcements titled (i) “Major Transactions and Continuing Connected Transactions” dated 29 December 2015; (ii) “Continuing Connected Transactions and Discloseable Transaction” dated 29 December 2015; and (iii) “Major And Continuing Connected Transaction And Revision Of Terms And Annual Caps For Continuing Connected Transaction Under the Financial Services Agreement” dated 20 October 2016

“Annual Caps”	the Financial Services Annual Caps, Steel Delivery Service Annual Caps and the Ore Powder Delivery Service Annual Caps
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“CBRC”	China Banking Regulatory Commission
“Cinda Asset Management”	China Cinda Asset Management Co., Ltd. (中國信達資產管理股份有限公司) (Stock Code: 1359), a joint stock company incorporated in the PRC on 19 April 1994 and the shares of which are listed on the main board of the Stock Exchange and an independent third party
“Circulars”	collectively refer to the 2016 Revision Circular and the 2016 Services Circular
“Company”	Xiwang Special Steel Company Limited* (西王特鋼有限公司) (Stock Code: 1266), a company incorporated in Hong Kong with limited liability on 6 August 2007 and the shares of which are listed on the main board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be convened and held to approve the provision of deposit services, bill discounting services and bill acceptance services under the Financial Services Agreement, and to approve the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement
“Financial Services Agreement”	the financial services agreement dated 18 October 2018 entered into between the Company and Xiwang Finance Company in relation to provision of financial services by Xiwang Finance Company to the Company and the Qualified Subsidiaries

“Group”	the Company and its subsidiaries
“Guarantee”	a guarantee dated 18 October 2018 executed by Xiwang Group Company in favour of the Company to secure the due performance of obligations of Xiwang Finance Company under the Financial Services Agreement
“Independent Board Committee”	the committee of Directors consisting of Mr. LEUNG Shu Sun Sunny, Mr. LI Bangguang and Mr. YU Kou, being all the independent non-executive Directors, formed to advise the Independent Shareholders in respect of the terms of the provision of deposit services, bill discounting services and bill acceptance services under the Financial Services Agreement, and in respect of the terms of the Steel Delivery Agreement and the Ore Powder Delivery Agreement
“Independent Financial Adviser”	First Shanghai Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the provision of deposit services, bill discounting services and bill acceptance services under the Financial Services Agreement, and in respect of the Steel Delivery Agreement and the Ore Powder Delivery Agreement
“Independent Shareholders”	shareholders other than Xiwang Investment and those who are not involved in or interested in the relevant resolution(s) to be approved at the EGM
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Ore Powder Delivery Service Agreement”	the ore powder delivery service agreement dated 18 October 2018 entered into between the Company and Xiwang Logistics in relation to the provision of delivery service for ore powder by Xiwang Logistics to the Company
“Ore Powder Delivery Service Annual Caps”	the annual caps for the provision of delivery service for ore powder by Xiwang Logistics to the Company under the Ore Powder Delivery Service Agreement for the period commencing on 1 January 2019 (or a date when the shareholders’ approval is obtained, if it is later than 1 January 2019) and ending on 31 December 2021

“PRC”	the People’s Republic of China
“Qualified Subsidiaries”	the companies which are owned as to (i) more than 51% by the Company, (ii) more than 20% by the Company and its subsidiaries, individually or collectively, or (iii) less than 20% by the Company and its subsidiaries, individually or collectively and as the largest shareholders
“Relevant Transactions”	the transactions contemplated under the 2015 Financial Services Agreement as supplemented by the 2016 Financial Services Agreement and the 2015 Logistics Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	shareholders of the Company
“Steel Delivery Service Agreement”	the steel delivery service agreement dated 18 October 2018 entered into between the Company and Xiwang Logistics in relation to the provision of delivery service for steel by Xiwang Logistics to the Company
“Steel Delivery Service Annual Caps”	the annual caps for the provision of delivery service for steel by Xiwang Logistics to the Company under the Steel Delivery Service Agreement for the period commencing on 1 January 2019 (or a date when the shareholders’ approval is obtained, if it is later than 1 January 2019) and ending on 31 December 2021
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Xiwang Finance Company”	Xiwang Group Finance Company Limited (西王集團財務有限公司), a company established in the PRC with limited liability by Xiwang Group Company, Shandong Xiwang Special Steel (now known as Xiwang Metal), Xiwang Sugar, Xiwang Food and Cinda Asset Management on 15 December 2015
“Xiwang Food”	Xiwang Food Company Limited (西王食品有限公司), a company incorporated in the PRC with limited liability on 12 April 2007 and as to 52.08% owned directly and indirectly by Xiwang Group Company

“Xiwang Group”	Xiwang Group Company and its subsidiaries
“Xiwang Group Company”	Xiwang Group Company Limited (西王集團有限公司), a company incorporated in the PRC with limited liability on 24 April 2001 and the ultimate holding company of the Company
“Xiwang Holdings”	Xiwang Holdings Limited, an intermediate holding company of the Company, which is held as to 95% by Xiwang Hong Kong and directly held as to 5% by Mr. WANG Yong and 22 individuals
“Xiwang Hong Kong”	Xiwang Hong Kong Company Limited, an intermediate holding company of the Company and a wholly-owned subsidiary of Xiwang Group Company
“Xiwang Investment”	Xiwang Investment Company Limited, a company established in the British Virgin Islands with limited liability on 27 January 2005, and the controlling shareholder of the Company
“Xiwang Logistics”	Shandong Xiwang Logistics Company Limited* (山東西王物流有限公司), a company incorporated in the PRC and a wholly-owned subsidiary of Xiwang Group Company
“Xiwang Metal”	Xiwang Metal Science & Technology Company Ltd. (西王金屬科技有限公司) (formerly known as Shandong Xiwang Special Steel Company Limited (山東西王特鋼有限公司) (“ Shandong Xiwang Special Steel ”)), a company incorporated in the PRC with limited liability on 29 December 2007 and a wholly-owned subsidiary of the Company

“Xiwang Sugar”

Xiwang Sugar Company Limited (西王糖業有限公司), a company incorporated in the PRC with limited liability on 14 December 2005 and as to 35.52% owned by Xiwang Group Company and as to 37.16% by Xiwang Holdings Limited which is owned as to 95.0% by Xiwang Group Company

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

Hong Kong, 18 October 2018

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

Executive Directors

Mr. ZHANG Jian

Mr. SUN Xihu

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

Mr. WANG Yong

* *For identification purpose only*