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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)

BUSINESS UPDATE

STRATEGIC FRAMEWORK AGREEMENT IN RELATION TO THE RESEARCH AND DEVELOPMENT CO-OPERATION WITH THE INSTITUTE OF METAL RESEARCH, CHINESE ACADEMY OF SCIENCES

This is a voluntary announcement made by the board (the “**Board**”) of directors (the “**Directors**”) of Xiwang Special Steel Company Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) in relation to the update of business development of the Group.

ENTERING INTO OF THE STRATEGIC FRAMEWORK AGREEMENT IN RELATION TO THE RESEARCH AND DEVELOPMENT CO-OPERATION WITH THE INSTITUTE OF METAL RESEARCH, CHINESE ACADEMY OF SCIENCES

The Board is pleased to announce that on 14 November 2014, 山東西王特鋼有限公司 (Shandong Xiwang Special Steel Company Limited*) (“**Shandong Xiwang**”), a wholly-owned subsidiary of the Company, has entered into a strategic framework agreement (the “**Framework Agreement**”) with the Institute of Metal Research, Chinese Academy of Sciences (中國科學院金屬研究所) (“**IMR**”) in relation to the long-term research and development co-operation with IMR to establish a “Demonstrative Production Line with

Intelligent Cleansing System for the Manufacturing of High-end Steel For Use in Equipment” (高端裝備用鋼清潔智能製備示範線) (the “**Demonstrative Production Line**”) and to develop the technology for manufacturing high-end steel for use in equipment (“**High-end Steel**”). The Demonstrative Production Line is for manufacturing High-end Steel, using an intelligent system for injecting molten steel and cleansing steel moulds, such that the production process is cleaner and more environmental-friendly than the existing production process of steel in our Group. The High-end Steel produced are widely used in different industries, further details can be found in the major terms in the Framework Agreement as set out in this announcement. A summary of the key terms of the Framework Agreement is as follows:

Purpose

With an aim to establish a platform for production, research and development, Shangdong Xiwang and IMR agreed under the Framework Agreement to cooperate and develop the technology for producing High-end Steel, and in particular, establish the Demonstrative Production Line, and to develop the production technique for higher quality special steel.

Major terms in the Framework Agreement

The parties have agreed as follows:

1. Achieve stable mass production of High-end Steel and the deep-processing of related products by applying the technology for manufacturing High-end Steel which is self-developed by IMR, and by researching and developing the key equipment for injecting molten steel and cleansing of steel moulds.
2. Products to be produced shall be High-end Steel, such as mid-to-high-end tool and die steel, bearing steel, marine steel, wheel axle steel and military steel, with a view to developing a series of high-end products for various industries, such as transportation, energy and electricity, marine engineering, and aeronautics and weaponry. Both parties shall continue to expand the scope of co-operation and develop high-end products and achieve their commercialization with reference to the demand of key industries.
3. Both parties shall jointly construct a Demonstrative Production Line in Shandong Xiwang, so as to build a platform for the development for high-end technology.

4. During the planning stage of the Demonstrative Production Line, Shandong Xiwang shall engage IMR to be responsible for the research and development of technology and equipment on project bases. Upon the commencement of operation of the Demonstrative Production Line, Shandong Xiwang shall finance the expense of scientific research of IMR by profit sharing of the products produced by the Demonstrative Production Line.
5. Both parties shall report to national and provincial authorities for their relevant projects by leveraging each other's resources.
6. Both parties shall commence thorough co-operation in respect of fostering human resources, technological training, qualification verification, market expansion and related equipment and resources.

Further details of the research and development co-operation arrangement will be agreed between the parties under separate agreement.

REASONS FOR AND BENEFITS OF ENTERING INTO THE FRAMEWORK AGREEMENT

For the purpose of improving our product quality, enhancing our product mix and refining our production process, the parties agree to combine both parties' advantages in metallurgy and steel industry by establishing a research and development platform and formulate the technology for the manufacturing of High-end Steel, in particular, the Demonstrative Production Line, which could give rise to a cleaner and more environmental-friendly steel production as well as create a High-end Steel production line.

By making use of IMR's research and development capability in materials science, we aim to transform the Group's electric arc furnace I to a production line with intelligent cleansing system for the manufacturing of high quality high-end special steel for equipment, and to research and develop high quality special ingot and its relevant products.

It is expected that the construction of the Demonstrative Production Line will be completed by the end of 2014, and commence production in 2015. After the completion of the Demonstrative Production Line, we expect the production capacity for special steel and the related deep-processing products will increase to 300,000 tonnes per year.

INFORMATION ON IMR

IMR was founded in 1953 in China. It positions itself as a base for materials science and engineering research in China. Research at IMR focuses mainly on high performance metallic materials, new types of inorganic nonmetallic materials, and advanced composite materials. IMR's research is directed towards the understanding and characterisation of materials properties, structure and performance, as well as materials synthesis and fabrication, processing, and application, with emphasis on the transformation and commercialization of products of scientific research and development. IMR has established the Shenyang National Laboratory for Materials Science (瀋陽材料科學國家(聯合)實驗室), the State Key Laboratory for Corrosion and Protection (金屬腐蝕與防護國家重點實驗室), the Shenyang R&D Center for Advanced Materials (瀋陽先進材料研究發展中心), the Environmental Corrosion Center (材料環境腐蝕研究中心), the National Engineering Research Center for Corrosion Control of Metals (國家金屬腐蝕控制工程技術研究中心) and the National Engineering Research Center for High Performance Homogenized Alloys (高性能均質合金國家工程研究中心) in furtherance of its research area.

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

Hong Kong, 14 November 2014

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

Executive Directors

Mr. WANG Hui
Mr. JIANG Chang Lin
Mr. HE Qing Wen

Independent non-executive Directors

Mr. LEUNG Shu Sun Sunny
Mr. ZHANG Gongxue
Mr. YU Kou

Non-executive Directors

Mr. WANG Yong
Mr. WANG Di
Mr. SUN Xihu

* *For identification purpose only*