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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)**

# **MAJOR AND CONTINUING CONNECTED TRANSACTION AND REVISION OF TERMS AND ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTION UNDER THE FINANCIAL SERVICES AGREEMENT**

## **A. SALE AND LEASEBACK AGREEMENT**

On 20 October 2016, Xiwang Metal, a wholly owned subsidiary of the Company, entered into the Sale and Leaseback Agreement with Xiwang Leasing, pursuant to which Xiwang Leasing agreed to provide finance leasing services, for a term commencing from the date when the respective finance amount is paid by Xiwang Leasing to Xiwang Metal and ending on 30 November 2021, to the Company in relation to certain machinery equipment in accordance with the terms and conditions of the Sale and Leaseback Agreement.

As at the date of this announcement, Xiwang Group Company is the ultimate holding company of the Company. Xiwang Leasing is a subsidiary of Xiwang Group Company. Therefore, Xiwang Leasing is a connected person of the Company under Chapter 14A of the Listing Rules and the Finance Leasing Transaction constitutes a continuing connected transaction of the Company.

As the highest ratio of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Finance Leasing Transaction exceeds 25%, the Finance Leasing Transaction also constitutes a major transaction of the Company under Chapter 14 of the Listing Rules. The Finance Leasing Transaction is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14 and 14A of the Listing Rules.

As the term of the Sale and Leaseback Agreement for some of the Finance Leasing Transaction exceed 3 years, pursuant to Rule 14A.52 of the Listing Rules, the Company has appointed the Independent Financial Adviser to explain why the term of the Sale and Leaseback Agreement for some of the Finance Leasing Transaction requires a longer period and to confirm that it is normal business practice for agreements of this type to be of such duration.

A circular containing details of the Sale and Leaseback Agreement, a letter from the Independent Board Committee and a letter from the Independent Financial Adviser, both advising on the terms of the Finance Leasing Transaction under the Sale and Leaseback Agreement, are expected to be dispatched to the Shareholders on or before 10 November 2016.

## **B. REVISION OF TERMS AND ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTION UNDER THE FINANCIAL SERVICES AGREEMENT**

References are made to the Announcement and the Circular regarding, among other matters, the Continuing Connected Transaction under the Financial Services Agreement.

With the continuing development of the Company, the Company has the needs to increase the utilisation of the bill discounting services and to obtain bill acceptance services and guarantee services, so that the Company can take advantage of the capital leverage mechanism provided by Xiwang Finance to improve the cash flow and capital liquidity of the Company. Accordingly, the Existing Annual Caps in respect of the bill discounting services shall be revised and bill acceptance services and guarantee services shall be included under the Supplemental Agreement in order to sustain the continuing development of the Company, future expansion of business by the Company and to meet the anticipated demand and operating requirements of the Company.

On 20 October 2016, the Company and Xiwang Finance entered into the Supplemental Agreement to revise the Existing Annual Caps to the Revised Annual Caps and to revise the extent of the existing financial services to include bill acceptance services and guarantee services and other terms provided therein.

As at the date of this announcement, Xiwang Group Company is the ultimate holding company of the Company. Xiwang Finance is a subsidiary of Xiwang Group Company and is owned as to 10% by the Company. Therefore, Xiwang Finance is a connected person of the Company and the transaction under the Financial Services Agreement (as supplemented by the Supplemental Agreement) constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

As the highest ratio of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Revised Annual Caps and the provision of bill acceptance services on an annual basis exceeds 25%, the transaction contemplated under the Financial Services Agreement (as supplemented by the Supplemental Agreement) constitutes a major transaction and non-exempt continuing connected transactions of the Company. They are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

The guarantee services to be provided by Xiwang Finance to the Company under the Financial Services Agreement (as supplemented by the Supplemental Agreement) will constitute financial assistance to be provided by a connected person of the Company 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 guarantee services, the guarantee services are exempted under Rule 14A.90 of the Listing Rules from all reporting, announcement and Independent Shareholders' approval requirements.

The Company has established an Independent Board Committee (comprising all three independent non-executive Directors) to advise the Independent Shareholders on (among other things) the transaction (including the Revised Annual Caps and provision of bill acceptance services and guarantee services) contemplated under the Supplemental Agreement proposed to be conducted between the Company and Xiwang Finance. The Company has appointed the Independent Financial Adviser to provide an opinion on the relevant transaction (including the Revised Annual Caps and provision of bill acceptance services and guarantee services) contemplated under the Supplemental Agreement to the Independent Board Committee and the Independent Shareholders.

A circular containing details of the Supplemental Agreement and the Revised Annual Caps, a letter from the Independent Board Committee and a letter from the Independent Financial Adviser, both advising on the terms of the Supplemental Agreement and the Revised Annual Caps, are expected to be dispatched to the Shareholders on or before 10 November 2016.

## **A. SALE AND LEASEBACK AGREEMENT**

### **Background**

On 20 October 2016, Xiwang Metal, a wholly owned subsidiary of the Company, entered into the Sale and Leaseback Agreement with Xiwang Leasing, pursuant to which Xiwang Leasing agreed to provide finance leasing services, for a term commencing from the date when the respective finance amount is paid by Xiwang Leasing to Xiwang Metal and ending on 30 November 2021, to the Company in relation to certain machinery equipment in accordance with the terms and conditions of the Sale and Leaseback Agreement.

Pursuant to the terms and conditions of the Sale and Leaseback Agreement and for purpose of obtaining finance by adopting the sale and leaseback model, Xiwang Metal shall sell to Xiwang Leasing its machinery equipment which shall be leased back for use by Xiwang Metal. Upon expiry of the lease term, Xiwang Metal shall repurchase the leased assets in accordance with the terms of the Sale and Leaseback Agreement.

### **Major Terms Of The Sale And Leaseback Agreement**

The major terms of the Sale and Leaseback Agreement are set out as follows:

#### **(1) *The leased assets***

Machinery equipment, including but not limited to steelmaking equipment, sintering machine, electronic equipment, furnace, casting machine, gas cabinets, dust remover and other equipment, the particulars of which are set out in the Sale and Leaseback Agreement.

#### **(2) *Form of lease***

Finance leasing.

#### **(3) *Term of lease***

For a term commencing from the date when the respective finance amount is paid by Xiwang Leasing to Xiwang Metal and ending on 30 November 2021. Given that the term for some of the Finance Leasing Transaction exceed 3 years, the Company has appointed the Independent Financial Adviser to explain why the term of the Sale and Leaseback Agreement for some of the Finance Leasing Transaction requires a longer period and to confirm that it is normal business practice for agreements of this type to be of such duration. For details of the explanation, please refer to the section headed “View of Independent Financial Adviser” in this announcement.

**(4) Finance amount**

All or part of the leased assets will be sold by Xiwang Metal to Xiwang Leasing for the finance amount not exceeding the annual cap as set out in “Proposed Caps of Finance Leasing Services” in this announcement. The principal amount of the finance amount will not exceed RMB3 billion at any time during the term of the Sale and Leaseback Agreement.

**(5) Interest rate**

The interest rate is fixed at 5.9% per annum. The interest rate is determined in accordance with the normal commercial terms on an arm’s length basis and with reference to the market practice of transactions with similar nature.

**(6) Leasing amount and payment method**

Under the Finance Leasing Transaction, the applicable interest rate is 5.9% per annum.

The leasing fee is the sum of the quarterly repayment of the principal amount and the interest accrued under the respective Finance Leasing Transaction.

The leasing fee is payable by instalments in equal sum calculated in accordance with the finance amount in each of the respective Finance Leasing Transaction on 31 March, 30 June, 30 September and 31 December of each year (with the last leasing fee payment being made no later than 30 November 2021), commencing on the respective lease commencement date.

**(7) Amount on repurchase**

Upon the expiry of the lease term for each respective finance amount, Xiwang Metal is entitled to repurchase the leased assets from Xiwang Leasing at a nominal repurchase price of RMB1.

**(8) Terms and time for agreement to become effective**

On the date when the Independent Shareholders have passed resolution to approve the Finance Leasing Transaction at the extraordinary general meeting of the Company.

*Determination of the leased assets value*

The leased assets value is determined in accordance with net book value of fixed assets of the Company as reflected in the Group’s fixed asset register at 31 August 2016.

### *Historical transaction amounts*

Xiwang Leasing was established on 27 April 2016. The Company did not conduct any transaction in relation to the Finance Leasing Transaction with Xiwang Leasing in the past. Therefore, there is no historical transaction amount to be provided.

### **Internal Control Measures**

The internal control measures with respect to the Finance Leasing Transaction are put in place as follows:

- (i) before procuring finance leasing services from Xiwang Leasing, the terms offered by at least two independent financial institutions providing comparable finance leasing services are obtained and reviewed by the Group and the Group will ensure the terms of the Finance Leasing Transaction are not less favourable than those offered by such independent financial institutions;
- (ii) before procuring finance leasing services from Xiwang Leasing, the Group will monitor the relevant balance to ensure the annual caps of the Finance Leasing Transaction are not exceeded;
- (iii) the Finance Leasing Transaction will be reported annually by the independent auditors of the Company to confirm, among other matters, whether the Finance Leasing Transaction were entered into in accordance with the Sale and Leaseback Agreement; and
- (iv) the Finance Leasing Transaction will be reported annually by the independent non-executive Directors on whether the Finance Leasing Transaction are, among other things, on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

*Proposed caps of finance leasing services*

The proposed caps in respect of the maximum finance amount to Xiwang Leasing are as follows:

| <b>Period</b>  | <b>Transaction<br/>amounts<br/>annual caps<br/>(Billion RMB)</b> |
|--|--|
| From date of commencement of the lease term<br>to 31 December 2016 | 0.51   |
| From 1 January 2017 to 31 December 2017                            | 1.6  |
| From 1 January 2018 to 31 December 2018                            | 2.7  |
| From 1 January 2019 to 31 December 2019                            | 3.2  |
| From 1 January 2020 to 31 December 2020                            | 3.2  |
| From 1 January 2021 to 30 November 2021                            | 1.6  |

The annual maximum finance amount set out in the table above refers to the sum of the finance amount (less any principal amount and accrued interest repaid in the preceding years). That is, the annual maximum finance amount refers to the outstanding principal amount together with the interest accrued under the respective Finance Leasing Transactions.

The annual caps in respect of the maximum finance amount were determined after taking into account of the following:

- (i) the Group's repayment plan for the Company's borrowings from Xiwang Group Company and its demand for the finance leasing services provided by Xiwang Leasing arising from such aforesaid repayment plan;
- (ii) the expected accumulated principal amount and interest of each respective Finance Leasing Transaction;
- (iii) the nature, value and expected useful life of the leased assets; and
- (iv) certain buffer due to numerical rounding.

### *Registration of leased assets*

Xiwang Leasing is entitled to register the leased assets at the Finance Lease Registration System of the Credit Reference Center of PBOC after the Sale and Leaseback Agreement is entered into, and Xiwang Metal shall provide necessary assistance upon Xiwang Leasing's requests.

### **Information About The Parties**

The Company and its subsidiaries (including Xiwang Metal) mainly manufacture special and ordinary steel in Shandong Province of the PRC. The 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 Leasing principally provides services of equity finance leasing, finance leasing, purchase of finance leasing assets in the PRC and abroad, and salvage treatment and maintenance of finance leasing assets, advisory and guarantee services on finance leasing transaction.

As at the date of this announcement, Xiwang Group Company is the ultimate holding company of the Company. Xiwang Metal is a wholly owned subsidiary of the Company whereas Xiwang Leasing is a subsidiary of Xiwang Group Company. Therefore, Xiwang Leasing is a connected person of the Company and the transaction under the Sale and Leaseback Agreement constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

### **View Of Independent Financial Adviser**

Pursuant to Rule 14A.52 of the Listing Rules, given that the term for some of the Finance Leasing Transaction exceed 3 years, the Company has appointed the Independent Financial Adviser to explain why the term of the Sale and Leaseback Agreement for some of the Finance Leasing Transaction requires a longer period and to confirm that it is normal business practice for agreements of this type to be of such duration.

In order to assess the reasons for the duration of the Sale and Leaseback Agreement for some of the Finance Leasing Transaction to be longer than three years, the Independent Financial Adviser has considered that (i) the repayment of the borrowings from Xiwang Group Company are expected to be longer than three years; and (ii) the term of the Sale and Leaseback Agreement is within the remaining useful life of the relevant machinery and equipment scheduled to be sales and leaseback for use by Xiwang Metal, which are, as estimated by the Directors, ranging from thirteen to twenty years.



In assessing whether it is normal business practice for agreements of similar nature with the Sale and Leaseback Agreement to have a term of such duration, the Independent Financial Adviser has compared the terms of the Sale and Leaseback Agreement with recent precedents of other companies listed on the Stock Exchange. The Independent Financial Adviser has, based on the public information available on the website of the Stock Exchange, identified comparable transactions from companies listed on the Stock Exchange, which are principally engaged in manufacture and sale of steel or steel related products and have conducted similar finance leasing activities (i.e. underlying assets are fixed assets).

Taking into account of the above, the Independent Financial Adviser confirms that the duration of the Sale and Leaseback Agreement for some of the Finance Leasing Transaction, which is longer than three years is required and it is normal business practice for the Sale and Leaseback Agreement to be of such duration.

### **Reason for and Benefits of Entering into the Sale and Leaseback Agreement**

By entering into the Sale and Leaseback Agreement, the Company will be able to source funds from the sale of certain machinery equipment to Xiwang Leasing and to use the sale proceeds to repay by instalments the loans granted by Xiwang Group Company to the Group. By doing so, the Company will be able to: (i) broaden and stabilise the financing channels, as the Company may not be unable to obtain refinance from other financial institution for the reason that the leased assets may not be easily regarded as acceptable security; and (ii) lower the finance cost, as the annual interest rate for the respective Finance Leasing Transaction (which is 5.9% per annum) is relatively lower than the interest rate with respect to the loans granted by Xiwang Group Company (which is 6.60% per annum). Also, the Company will be able to vitalise the inventory of fixed assets, and improve the asset utilization efficiency ratio of the Company. Not only can it satisfy the Company's normal operational production needs for use of assets, it also serves to alleviate the demands for capital by the Company. It does not exist circumstances with respect to the Finance Leasing Transaction that will prejudice the interests of the Company and its Shareholders.

In view of the above, the Directors (excluding the independent non-executive Directors, whose view will be contained in the circular after considering the advice from the Independent Financial Adviser) are of the view that the terms and conditions of the Sale and Leaseback Agreement are fair and reasonable and 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.

## **Approval By The Board**

On 20 October 2016, the Board approved the proposal in respect of the entry into the Sale and Leaseback Agreement. As (i) each of Mr. WANG Yong, Mr. WANG Di and Mr. SUN Xinhui, being a Director was also a director and shareholder of Xiwang Group Company; and (ii) Mr. WANG Di being a Director was also a director of Xiwang Leasing, such Directors had abstained from voting on the board resolution to approve the entry into the Sale and Leaseback Agreement by the Company. Save as disclosed above, none of the Directors have a material interest in the transaction under the Sale and Leaseback Agreement.

## **Listing Rules Implication**

As at the date of this announcement, Xiwang Group Company is the ultimate holding company of the Company. Xiwang Leasing is a subsidiary of Xiwang Group Company. Therefore, Xiwang Leasing is a connected person of the Company under Chapter 14A of the Listing Rules and the Finance Leasing Transaction constitutes a continuing connected transaction of the Company.

As the highest ratio of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Finance Leasing Transaction exceeds 25%, the Finance Leasing Transaction also constitutes a major transaction of the Company under Chapter 14 of the Listing Rules. The Finance Leasing Transaction is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14 and 14A of the Listing Rules.

The Company will hold an extraordinary general meeting to consider and approve, among others, the Finance Leasing Transaction under the Sale and Leaseback Agreement. Xiwang Group Company shall abstain from voting on the resolution relating to the Finance Leasing Transaction under the Sale and Leaseback Agreement

## **Independent Board Committee And Independent Financial Adviser**

An independent board committee comprising all the independent Directors (who have no material interest in the Sale and Leaseback Agreement) will be formed to advise the Independent Shareholders on, among others, the Finance Leasing Transaction under the Sale and Leaseback Agreement.

The Company has appointed the Independent Financial Adviser to advise the Independent Board Committee of the Company and the Independent Shareholders on, among others, the Finance Leasing Transaction under the Sale and Leaseback Agreement.

## **Despatch Of Circular**

A circular containing details of the Sale and Leaseback Agreement, a letter from the Independent Board Committee and a letter from the Independent Financial Adviser of the Company, both advising on the terms of the Finance Leasing Transaction under the Sale and Leaseback Agreement, are expected to be dispatched to the Shareholders on or before 10 November 2016.

## **B. REVISION OF ANNUAL CAP FOR CONTINUING CONNECTED TRANSACTION UNDER THE FINANCIAL SERVICES AGREEMENT**

References are made to the Announcement and the Circular regarding, among other matters, the Continuing Connected Transaction under the Financial Services Agreement.

### **Supplemental Agreement**

On 20 October 2016, the Company and Xiwang Finance entered into the Supplemental Agreement to revise the Existing Annual Caps to the Revised Annual Caps and to revise the extent of the existing financial services to include bill acceptance services and guarantee services and other terms provided therein.

The principal terms of the Supplemental Agreement are as follows:

**(1) Date**

20 October 2016

**(2) Parties**

The Company and Xiwang Finance

**(3) Subject Matter**

The Company and Xiwang Finance have agreed to revise the Existing Annual Caps to the Revised Annual Caps under the Financial Services Agreement and to revise the extent of the existing financial services to include bill acceptance services and guarantee services and other terms provided therein. Save as amended by the Supplemental Agreement, all other terms of the Financial Services Agreement shall remain unchanged.

### ***Existing and Revised Annual Caps***

With the continuing development of the Company, the Company has the needs to increase the utilisation of the bill discounting services. Accordingly, the Existing Annual Caps in respect of the bill discounting services provided pursuant to the Financial Services Agreement shall be revised.

The Revised Annual Caps are determined with reference to the following factors:

- (i) the historical amount of relevant transactions with Xiwang Finance from 1 January 2016 to 31 August 2016; and
- (ii) the increase demand for bill discounting services as more intra-group procurements will be settled by way of bills during the term of the Supplemental Agreement.

### ***Bill Discounting Services***

With the Company entering into the Supplemental Agreement, the Board proposes to revise the Existing Annual Caps in respect of amount of bill discounting (including interest) as follows:

| <b>Period</b>                           | <b>Transaction<br/>amounts of<br/>Existing<br/>Annual Caps<br/>(Billion RMB)</b> | <b>Transaction<br/>amounts of<br/>Revised<br/>Annual Caps<br/>(Billion RMB)</b> |
|---|--|---|
| From 1 January 2016 to 31 December 2016 | 0.5  | 3.0   |
| From 1 January 2017 to 31 December 2017 | 0.8  | 7.0   |
| From 1 January 2018 to 31 December 2018 | 1.0  | 8.0   |

As the highest ratio of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of Revised Annual Caps on an annual basis exceeds 25%, it constitutes a major transaction and non-exempt continuing connected transactions of the Company.

### ***Bill Acceptance Services***

With the Company entering into the Supplemental Agreement, the Board proposes to revise the extent of the existing financial services to include bill acceptance services with the following annual cap in respect of amount of bill acceptance as follows:

| <b>Period</b>                           | <b>Transaction<br/>amounts<br/>annual caps<br/>(Billion RMB)</b> |
|---|--|
| From 1 January 2016 to 31 December 2016 | 3.0  |
| From 1 January 2017 to 31 December 2017 | 7.0  |
| From 1 January 2018 to 31 December 2018 | 8.0  |

The above proposed caps for provision of bill acceptance services were determined after taking into account of the following:

- (i) the aggregated amount of bills payables of the Group expected to be generated from intra-group transaction and external transaction during the term of the Supplemental Agreement, as the Group will utilise the bill acceptance service directly related to its bill payable amount which will be mainly arisen from the Group's cost of sales (excluding labour costs); and
- (ii) the historical amount of bills payables and cost of sales (excluding labour costs) of the Group from 1 January 2014 to 31 August 2016.

As the highest ratio of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the provision of the bill acceptance services on an annual basis exceeds 25%, it constitutes a major transaction and non-exempt continuing connected transactions of the Company.

### ***Other Amendments***

#### *Loan Services*

The loan services provided by Xiwang Finance to the Company continue to be 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, save that the maximum loan amounts (including any accrued interest) are changed to RMB5 billion, RMB5.5 billion and RMB6 billion for the year ended 31 December 2016, 31 December 2017 and 31 December 2018 respectively.

Therefore, the loan services shall remain to be exempted under Rule 14A.90 of the Listing Rules from all reporting, announcement and Independent Shareholders' approval requirements.

#### *Guarantee Services*

Xiwang Finance will revise the scope of other finance services to include the guarantee services, in which the guarantee limit shall not exceed RMB1 billion. The guarantee services provided by Xiwang Finance to the Company would be 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 guarantee services. In the event that the Company is required to provide counter-guarantee services, the counter-guarantee services should be provided in accordance with the guarantee agreement dated 4 January 2016 entered into between the Company and Xiwang Group Company.

Therefore, the guarantee services are exempted under Rule 14A.90 of the Listing Rules from all reporting, announcement and Independent Shareholders' approval requirements.

#### *Other Financial Services*

Xiwang Finance will provide other financial services to the Company within its business scope which has been approved by CBRC, including but not limited to the provision of other banking related services to the Company with respect to the amount of the security deposit.

The Company expects that the relevant applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) of the fees payable by the Company to Xiwang Finance for the provision of other financial services under the Financial Services Agreement (as supplemented by the Supplemental 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 for the provision of other financial services under the Financial Services Agreement (as supplemented by the Supplemental Agreement) exceed the relevant de minimis threshold.

#### *Internal Control on Pricing*

References are made to the Announcement and the Circular regarding, among other matters, the Continuing Connected Transaction under the Financial Services Agreement. Save as amended by the Supplemental Agreement, all other terms of the Financial Services Agreement shall remain unchanged. Accordingly, the terms setting out the internal control on pricing remain in place and shall extend to the bill acceptance services and guarantee services.

#### **Reasons for and Benefit of Entering into the Supplemental Agreement**

With the continuing development of the Company, the Company has the needs to increase the utilisation of the bill discounting services and to obtain bill acceptance services and guarantee services, so that the Company can take advantage of the capital leverage mechanism provided by Xiwang Finance to improve the cash flow and capital liquidity of the Company. In particular, the subsidiaries of the Group from time to time enter into transactions, among themselves or with third party suppliers, on normal commercial terms to procure raw materials, end products or by-products for their production or trading. The subsidiaries of the Group propose to utilise the bill acceptance services to settle the intra-group procurements, and the bill acceptance services provide the subsidiaries of the Group with a new purchase channel and enhance

the cash reserve and capital liquidity of the Group. On the other hand, the subsidiaries of the Group who receive the bills propose to use the bill discounting services to increase their cash flow and capital liquidity, so that they would be able to utilise such cash capital in a more efficient manner. Accordingly, the Existing Annual Caps in respect of the bill discounting services shall be revised and bill acceptance services and guarantee services shall be included under the Supplemental Agreement in order to sustain the continuing development of the Company, future expansion of business by the Company and to meet the anticipated demand and operating requirements of the Company.

The Board (excluding the independent non-executive Directors, whose view will be contained in the circular after considering the advice from the Independent Financial Adviser) considers that the Supplemental Agreement and the transaction (including the Revised Annual Caps and provision of the bill acceptance services and guarantee services) contemplated thereunder are entered into in the ordinary and usual course of business of the Company, on normal commercial terms, and are fair and reasonable and in the interests of the Company and Shareholders as a whole.

### **Approval By The Board**

On 20 October 2016, the Board approved the board resolution to enter into the Supplemental Agreement to revise the Existing Annual Caps to the Revised Annual Caps and to revise the extent of the existing financial services to include bill acceptance services and guarantee services and other terms provided therein. As (i) each of Mr. WANG Yong, Mr. WANG Di and Mr. SUN Xinqu being a Director was also a director and shareholder of Xiwang Group Company; and (ii) each of Mr. WANG Di and Mr. ZHANG Jian being a Director was also a director of Xiwang Finance, such Directors had abstained from voting on the board resolution to approve the revision of the Existing Annual Caps to the Revised Annual Caps and other terms provided and the entry into the Supplemental Agreement. Save as disclosed above, none of the Directors have a material interest in the transaction under the Supplemental Agreement.

### **Listing rules implications**

As at the date of this announcement, Xiwang Group Company is the ultimate holding company of the Company. Xiwang Finance is a subsidiary of Xiwang Group Company and is owned as to 10% by the Company. Therefore, Xiwang Finance is a connected person of the Company and the transaction under the Financial Services Agreement (as supplemented by the Supplemental Agreement) constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

As the highest ratio of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Revised Annual Caps and the provision of the bill acceptance services on an annual basis exceeds 25%, the transaction contemplated under the Financial Services Agreement (as supplemented by the Supplemental Agreement) constitutes a major transaction and non-exempt continuing connected transactions of the Company. They are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

The guarantee services to be provided by Xiwang Finance to the Company under the Financial Services Agreement (as supplemented by the Supplemental Agreement) will constitute financial assistance to be provided by a connected person of the Company 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 guarantee services, the guarantee services are exempted under Rule 14A.90 of the Listing Rules from all reporting, announcement and Independent Shareholders' approval requirements.

The Company will hold an extraordinary general meeting to consider and approve, among others, the Supplemental Agreement and the Revised Annual Caps.

#### **Independent board committee and independent financial adviser**

An independent board committee comprising all the independent Directors (who have no material interest in the Supplemental Agreement) will be formed to advise the Independent Shareholders on, among others, the Supplemental Agreement and the Revised Annual Caps.

The Company has appointed the Independent Financial Adviser to advise the Independent Board Committee of the Company and the Independent Shareholders on, among others, the Supplemental Agreement and the Revised Annual Cap.

#### **Despatch of circular**

A circular containing details of the Supplemental Agreement and the Revised Annual Caps, a letter from the Independent Board Committee and a letter from the Independent Financial Adviser of the Company, both advising on the terms of the Supplemental Agreement and the Revised Annual Caps, are expected to be dispatched to the Shareholders on or before 10 November 2016.



## DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

|                                    |   |
|------------------------------------|---|
| “Announcement”                     | the announcement of the Company dated 29 December 2015 and made in respect of the Financial Services Agreement  |
| “associate(s)”                     | has the meaning ascribed to it in the Listing Rules   |
| “Board”                            | the board of Directors of the Company   |
| “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 and the shares of which are listed on the main board of the Stock Exchange and an independent third party |
| “Circular”                         | the circular of the Company dated 19 February 2016 and dispatched in respect of the Financial Services Agreement  |
| “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 and the shares of which are listed on the main board of the Stock Exchange                           |
| “connected person(s)”              | has the meaning ascribed to it in the Listing Rules   |
| “Continuing Connected Transaction” | the continuing connected transactions entered into between the Company and Xiwang Finance pursuant to the Financial Services Agreement  |
| “Directors”                        | the directors of the Company  |
| “Existing Annual Caps”             | the annual caps of the bill discounting services under the Financial Services Agreement   |
| “Finance Leasing Transaction”      | the continuing finance leasing transactions to be conducted by Xiwang Leasing and Xiwang Metal pursuant to the terms and conditions of the Sale and Leaseback Agreement   |

|                                 |  |
|---------------------------------|--|
| “Financial Services Agreement”  | the financial services agreement entered into between the Company and Xiwang Finance in relation to provision of financial services by Xiwang Finance to the Company and the Qualified Subsidiaries  |
| “Group”                         | the Company and its subsidiaries   |
| “Independent Board Committee”   | the independent committee of the Board, the members of which consist of the independent non-executive Directors, formed to advise the Independent Shareholders with respect to the Finance Leasing Transaction and the transaction contemplated under the Supplemental Agreement   |
| “Independent Financial Adviser” | Halcyon Capital Limited, a licensed corporation to carry on Type 6 (advising on corporate finance) regulated activity as defined under the Securities and Futures Ordinance (Cap.571 of the laws of Hong Kong), an independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on (among other things) the Finance Leasing Transaction and the bill discounting services and bill acceptance services contemplated under the Supplemental Agreement |
| “Independent Shareholders”      | shareholders (other than Xiwang Group Company and its associates) of the Company   |
| “Listing Rules”                 | the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange  |
| “PBOC”                          | The People’s Bank of China   |
| “PRC” or “China”                | 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   |
| “Revised Annual Caps”           | the revised annual caps of the bill discounting services under the Financial Services Agreement (as supplemented by the Supplemental Agreement)  |
| “RMB”                           | Renminbi, the lawful currency of the PRC   |

|                                |  |
|--------------------------------|--|
| “Sale and Leaseback Agreement” | the sale and leaseback agreement entered into between Xiwang Metal and Xiwang Leasing on 20 October 2016, pursuant to which Xiwang Leasing agreed to provide finance leasing services to Xiwang Metal in accordance with the terms and conditions provided therein |
| “Shareholders”                 | the shareholders of the Company  |
| “Stock Exchange”               | The Stock Exchange of Hong Kong Limited  |
| “subsidiary(ies)”              | has the meaning ascribed to it in the Listing Rules  |
| “Supplemental Agreement”       | the supplemental agreement entered into between the Company and Xiwang Finance to revise the Existing Annual Caps to the Revised Annual Caps and other terms under the Financial Services Agreement  |
| “Xiwang Finance”               | Xiwang Group Finance Company Limited (西王集團財務有限公司), a company established by Xiwang Group Company, Xiwang Metal, Xiwang Sugar, Xiwang Food and Cinda Asset Management   |
| “Xiwang Food”                  | Xiwang Food Company Limited (西王食品有限公司), a company incorporated in the PRC with limited liability and as to 60.43% owned directly and indirectly by Xiwang Group Company  |
| “Xiwang Group Company”         | Xiwang Group Company Limited (西王集團有限公司), a company incorporated in the PRC with limited liability and the ultimate holding company of the Company  |
| “Xiwang Leasing”               | Xiwang Finance Leasing Company Limited* (西王融資租賃有限公司), a company incorporated in the PRC with limited liability and a subsidiary of Xiwang Group Company  |
| “Xiwang Metal”                 | Xiwang Metal Science & Technology Company Limited* (西王金屬科技有限公司) (formerly known as Shangdong Xiwang Special Steel Company Limited (山東西王特鋼有限公司)), a company incorporated in the PRC with limited liability 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 and as to 51.13% owned by Xiwang Group Company and as to 48.87% by Xiwang Holdings Limited which is owned as to 95.0% by Xiwang Group Company

%

per cent.

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

Hong Kong, 20 October 2016

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*