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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

NEW STEAM SUPPLY AGREEMENT

Reference is made to the announcement of the Company dated 11 November 2014 in respect of the Existing Steam Supply Agreement. The Existing Steam Supply Agreement will expire on 31 December 2016. On 14 December 2016, the Company entered into the New Steam Supply Agreement to renew the terms of the Existing Steam Supply Agreement for a period of three years commencing on 1 January 2017 and ending on 31 December 2019.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Xiwang Investment is the controlling shareholder of the Company and indirectly holds 48.87% of the equity interest in Shandong Xiwang Sugar. Therefore, Shandong Xiwang Sugar is 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 New Steam Supply Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As all of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Annual Caps for the transactions contemplated under the New Steam Supply Agreement exceeds 0.1% but are less than 5%, the transactions contemplated under the New Steam Supply Agreement are subject to the reporting, annual review and announcement requirements but are exempted from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

BACKGROUND

Reference is made to the announcement of the Company dated 11 November 2014 in respect of the Existing Steam Supply Agreement. The Existing Steam Supply Agreement will expire on 31 December 2016. On 14 December 2016, the Company entered into the New Steam Supply Agreement to renew the terms of the Existing Steam Supply Agreement for a period of three years commencing on 1 January 2017 and ending on 31 December 2019.

NEW STEAM SUPPLY AGREEMENT

Date

14 December 2016

Parties

Seller: Xiwang Metal

Purchaser: Shandong Xiwang Sugar

Supply of steam

Xiwang Metal will be responsible for lining or modifying the steam pipeline network and installing the steam gauge and supplying steam to the Shandong Xiwang Sugar Group. Xiwang Metal will record the volume of steam at the end of each month and is responsible for ensuring the accuracy of the steam gauge, while Shandong Xiwang Sugar Group shall perform checks from time to time.

Term

The term of the New Steam Supply Agreement is for a period commencing on 1 January 2017 and ending on 31 December 2019 (both dates inclusive).

Consideration and payment

- 1) In consideration of relevant government policy and the changes in coal prices and other costs, the parties shall make assessment and adjustments on the prices for the supply of steam from time to time during the term of the agreement. It is agreed that if the coal price in the Zouping County (鄒平縣) market reaches RMB0.15 per kcal (tax-inclusive), the corresponding price for steam will be RMB125 per tonne (tax-inclusive). With the aforesaid standard as the basis, the price for steam will be adjusted upward or downward by RMB5 per tonne (tax-inclusive) accordingly for the corresponding increase or decrease of each RMB0.01 per kcal (tax-inclusive) of the coal price.

- 2) Xiwang Metal will calculate the price of steam (tax-inclusive) supplied to the Shandong Xiwang Sugar Group according to the price in that month and issue a value-added tax receipt settled at the end of the month and payable in the following month. The fee payable under the New Steam Supply Agreement is to be made principally by cash with a credit period of not more than six months.
- 3) Transactions contemplated under the New Steam Supply Agreement will be conducted:
 - a. in the ordinary and usual course of business of the Group and the Shandong Xiwang Sugar Group;
 - 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 Annual Caps), applicable laws and the terms of the New Steam Supply Agreement.

Annual Caps

The transactions under the New Steam Supply Agreement are a continuation of the transactions under the Existing Steam Supply Agreement, according to the Existing Steam Supply Agreement, and the transaction amounts under the New Steam Supply Agreement for the two years ended 31 December 2014, 31 December 2015 and the eleven months ended 30 November 2016 were RMB22,351,000, RMB28,267,000 and RMB30,406,213, respectively.

It is expected that the maximum aggregate annual transaction amounts under the New Steam Supply Agreement for each of the three years ending 31 December 2019 will be RMB60,000,000 per annum.

The Annual Caps were calculated after primarily taking into account (i) the estimated volume of steam generated by the Group; (ii) the estimated volume of consumption of steam by the Group; (iii) the anticipated volume of steam to be purchased by Shandong Xiwang Sugar Group; (iv) the estimated sales of steam to independent third parties; (v) the steam price under the New Steam Supply Agreement; and (vi) the anticipated coal price movements in the Zouping County.

REASONS FOR AND BENEFITS OF ENTERING INTO THE NEW STEAM SUPPLY AGREEMENT

Steam is a by-product generated during the Group's production of special steel, while the Group only make use of a small amount of steam in its production process. Given the stable and huge demand on steam of Shandong Xiwang Sugar Group, and the proximity of its plants to the Group's production base, the Group can generate additional income from the sale of steam unused while saving the cost in its construction of steam pipeline.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the New Steam Supply Agreement are on normal commercial terms and fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ABOUT THE PARTIES

Shandong Xiwang Sugar Group is a leading provider of starch sugars, principally engaged in corn processing business with a focus on the production of starch sugars and corn co-products in the PRC, and the distribution and the sale of such products within and outside the PRC. Its products mainly include crystalline glucose, crystalline fructose, crystalline fructose-glucose, fructose-glucose syrup, corn gluten meal, corn gluten feed, corn germ, corn starch, sodium gluconate and maltodextrin. Most of these are functional ingredients which are mainly applied to food and beverage, fermentation, pharmaceutical, chemical, animal feed and construction industries.

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.

LISTING RULES IMPLICATIONS

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As all of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Annual Caps for the transactions contemplated under the New Steam Supply Agreement exceeds 0.1% but are less than 5%, the transactions contemplated under the New Steam Supply Agreement are subject to the reporting, annual review and announcement requirements but are exempted from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

BOARD’S APPROVAL

The Board has approved the New Steam Supply Agreement and the Annual Caps. Each of Mr. Wang Yong, Mr. Wang Di and Mr. Sun Xihu are interested in the New Steam Supply Agreement and therefore they abstained from voting on the board resolutions of the Company approving such transactions. Saved as disclosed, none of the Directors has any material interest in the New Steam Supply Agreement and none of them was therefore required to abstain from voting on the board resolutions of the transactions contemplated thereunder.

DEFINITIONS

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

“Annual Caps”	the annual cap(s) for supply of steam by the Group to the Shandong Xiwang Sugar Group under the New Steam Supply Agreement for the period commencing on 1 January 2017 and ending on 31 December 2019
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors of the Company
“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
“Directors”	the directors of the Company
“Existing Steam Supply Agreement”	the agreement entered into between Shandong Xiwang Sugar and the Company dated 11 November 2014 in relation to the supply of steam for the three years ending 31 December 2016
“Group”	the Company and its subsidiaries
“Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“New Steam Supply Agreement”	the steam supply agreement dated 14 December 2016 entered into between Shandong Xiwang Sugar and Xiwang Metal

“PRC” or “China”	The People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shandong Xiwang Sugar”	Shandong Xiwang Sugar Industry Company Limited* (山東西王糖業有限公司), a company established in the PRC, which is indirectly owned as to 48.87% by Xiwang Investment
“Shandong Xiwang Sugar Group”	Shandong Xiwang Sugar and its subsidiaries
“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
“Xiwang Investment”	Xiwang Investment Company Limited, the controlling shareholder of the Company
“Xiwang Metal”	Xiwang Metal Science & Technology Company Limited* (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)), a company established in the PRC and a wholly-owned subsidiary of the Company
%	per cent.

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

Hong Kong, 14 December 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 purposes only*