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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

CONTINUING CONNECTED TRANSACTIONS

The Board announces that on 4 October 2017, Xiwang Metal entered into:

- (a) the Heat Energy Supply Agreement with Xiwang Power, pursuant to which, the Company shall supply heat energy to Xiwang Power for a period commencing from 4 October 2017 and ending on 3 October 2020 (both dates inclusive); and
- (b) the Cooling Energy Supply Agreement with Xiwang Power, pursuant to which, the Company shall supply cooling energy to Xiwang Power for a period commencing from 1 January 2018 and ending on 31 December 2020 (both dates inclusive).

LISTING RULES IMPLICATIONS

As at the date of this announcement, Xiwang Group is the ultimate holding company of the Company, Xiwang Metal is a wholly-owned subsidiary of the Company, and Xiwang Power is a wholly-owned subsidiary of Xiwang Group. As such, Xiwang Power is a connected person (as defined in Chapter 14A of the Listing Rules) of the Company and the transactions contemplated under each of the Heat Energy Supply Agreement and the Cooling Energy Supply Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since the Heat Energy Supply Agreement and the Cooling Energy Supply Agreement are similar in nature, and they were entered into between the Company and Xiwang Power, the transactions contemplated under the Heat Energy Supply Agreement and the Cooling Energy Supply Agreement will be aggregated for the classification of connected transactions in accordance with Rule 14A.81 and Rule 14A.82 of the Listing Rules. Given that one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the annual caps for transactions contemplated under the Heat Energy Supply Agreement and the Cooling Energy Supply Agreement exceeds 0.1% and all the applicable percentage ratios are less than 5%, the transactions contemplated under the Heat Energy Supply Agreement and the Cooling Energy 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.

HEAT ENERGY SUPPLY AGREEMENT

Date

4 October 2017

Parties

Seller: Xiwang Metal

Purchaser: Xiwang Power

Supply of heat energy

Xiwang Metal agrees to supply heat energy to Xiwang Power. Heat energy meters will be installed to measure the volume of heat energy supplied and will be maintained by Xiwang Power.

Term

The term of the Heat Energy Supply Agreement is for a period commencing from 4 October 2017 and ending on 3 October 2020 (both dates inclusive).

Consideration and payment

- 1) Consideration for the heat energy supply is calculated based on the volume of heat energy supplied by Xiwang Metal to Xiwang Power at a rate of RMB20 (tax inclusive) per GJ to be payable on a monthly basis in arrears by the tenth calendar day of the next month. The price for the heat energy supply is determined by reference to two sets of terms offered by independent third parties which engage in the supply of heat energy.
- 2) Transactions contemplated under the Heat Energy Supply Agreement will be conducted:
 - (a) in the ordinary and usual course of business of the Group and Xiwang Power;
 - (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 prescribed annual caps), applicable laws and the terms of the Heat Energy Supply Agreement.

Internal control

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

- 1) before supplying the heat energy to Xiwang Power, the Group will monitor the relevant balance to ensure the annual caps for the heat energy supply are not exceeded;
- 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.

Annual caps

As the transactions under the Heat Energy Supply Agreement are new transactions, no historical transaction amount is available. It is expected that the maximum aggregate annual transaction amounts under the Heat Energy Supply Agreement are as follows:

| | |
|-----------------------------------|---------------|
| 4 October 2017 – 31 December 2017 | RMB3,604,000 |
| 1 January 2018 – 31 December 2018 | RMB10,571,000 |
| 1 January 2019 – 31 December 2019 | RMB11,628,000 |
| 1 January 2020 – 3 October 2020 | RMB7,994,000 |

The abovementioned annual caps were calculated after primarily taking into account (i) the estimated volume of heat energy to be supplied by Xiwang Metal; (ii) the estimated volume of consumption of heat energy to be required by Xiwang Power; (iii) the anticipated volume of heat energy to be purchased from external parties by Xiwang Power; (iv) the estimated sales of heat energy by Xiwang Metal to independent third parties; and (v) the heat energy price under the Heat Energy Supply Agreement.

Reasons for and benefits of entering into the Heat Energy Supply Agreement

Heat energy is a by-product generated during the Group's production of special steel. Given the stable and huge demand on heat energy from Xiwang Power, the Group can generate additional income from the sale of heat energy unused.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the Heat Energy Supply Agreement are fair and reasonable, are on normal commercial terms or better and in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

COOLING ENERGY SUPPLY AGREEMENT

Date

4 October 2017

Parties

Seller: Xiwang Metal

Purchaser: Xiwang Power

Supply of cooling energy

Xiwang Metal agrees to supply cooling energy to Xiwang Power. Cooling energy meter will be installed to calculate the volume of cooling energy supplied and will be maintained by Xiwang Power.

Term

The term of the Cooling Energy Supply Agreement is for a period commencing from 1 January 2018 and ending on 31 December 2020 (both dates inclusive).

Consideration and payment

- 1) Consideration for the cooling energy supply is calculated based on the volume of cooling energy supplied by Xiwang Metal to Xiwang Power at a rate of RMB55 (tax inclusive) per GJ to be payable on a monthly basis in arrears by the tenth calendar day of the next month. The price for the cooling energy supply is determined by reference to two sets of terms offered by independent third parties which engage in the supply of cooling energy.
- 2) Transactions contemplated under the Cooling Energy Supply Agreement will be conducted:
 - (a) in the ordinary and usual course of business of the Group and Xiwang Power;
 - (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 prescribed annual caps), applicable laws and the terms of the Cooling Energy Supply Agreement.

Internal control

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

- 1) before supplying the cooling energy to Xiwang Power, the Group will monitor the relevant balance to ensure the annual caps for the cooling energy supply are not exceeded;
- 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.

Annual caps

As the transactions under the Cooling Energy Supply Agreement are new transactions, no historical transaction amount is available. It is expected that the maximum aggregate annual transaction amounts under the Cooling Energy Supply Agreement are as follows:

| | |
|-----------------------------------|---------------|
| 1 January 2018 – 31 December 2018 | RMB7,432,000 |
| 1 January 2019 – 31 December 2019 | RMB8,993,000 |
| 1 January 2020 – 31 December 2020 | RMB10,881,000 |

The abovementioned annual caps were calculated after primarily taking into account (i) the estimated volume of cooling energy to be supplied by Xiwang Metal; (ii) the estimated volume of consumption of cooling energy to be required by Xiwang Power; (iii) the anticipated volume of cooling energy to be purchased from external parties by Xiwang Power; (iv) the estimated sales of cooling energy by Xiwang Metal to independent third parties; and (v) the cooling energy price under the Cooling Energy Supply Agreement.

Reasons for and benefits of entering into the Cooling Energy Supply Agreement

Cooling energy is a by-product generated during the Group's production of special steel. Given the stable and huge demand on cooling energy from Xiwang Power, the Group can generate additional income from the sale of cooling energy unused.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the Cooling Energy Supply Agreement are fair and reasonable, are on normal commercial terms or better and in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

GENERAL

Xiwang Power is a company incorporated in the PRC and it is principally engaged in energy, gas and electricity supply business in the PRC.

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.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Xiwang Group is the ultimate holding company of the Company, Xiwang Metal is a wholly-owned subsidiary of the Company, and Xiwang Power is a wholly-owned subsidiary of Xiwang Group. As such, Xiwang Power is a connected person (as defined in Chapter 14A of the Listing Rules) of the Company and the transactions contemplated under each of the Heat Energy Supply Agreement and Cooling Energy Supply Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since the Heat Energy Supply Agreement and the Cooling Energy Supply Agreement are similar in nature, and they were entered into between the Company and Xiwang Power, the transactions contemplated under the Heat Energy Supply Agreement and the Cooling Energy Supply Agreement will be aggregated for the classification of connected transactions in accordance with Rule 14A.81 and Rule 14A.82 of the Listing Rules. Given that one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the annual caps for transactions contemplated under the Heat Energy Supply Agreement and the Cooling Energy Supply Agreement exceeds 0.1% and all the applicable percentage ratios are less than 5%, the transactions contemplated under the Heat Energy Supply Agreement and the Cooling Energy 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 Heat Energy Supply Agreement, the Cooling Energy Supply Agreement and the prescribed annual caps for the respective agreements. Each of Mr. Wang Yong, Mr. Wang Di and Mr. Sun Xihu is a Director as well as a director of Xiwang Group and they have abstained from voting on the board resolutions of the Company approving the transactions contemplated under the Heat Energy Supply Agreement and the Cooling Energy Supply Agreement. Saved as disclosed, none of the Directors has any material interest in the Heat Energy Supply Agreement and the Cooling Energy 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, the following expressions have the meanings set out below unless the context otherwise requires:

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|-----------------------------------|--|
| “Board” | the board of Directors |
| “Company” | Xiwang Special Steel Company Limited (西王特鋼有限公司), a company incorporated in Hong Kong with limited liability, whose Shares are listed on the main board of the Stock Exchange |
| “connected person(s)” | has the meaning ascribed to it under Chapter 14A of the Listing Rules |
| “Cooling Energy Supply Agreement” | the cooling energy supply agreement dated 4 October 2017 entered into between Xiwang Metal and Xiwang Power |
| “Director(s)” | the director(s) of the Company |
| “GJ” | the gigajoule, an energy measurement unit |
| “Group” | the Company and its subsidiaries |
| “Heat Energy Supply Agreement” | the heat energy supply agreement dated 4 October 2017 entered into between Xiwang Metal and Xiwang Power |
| “Hong Kong” | the Hong Kong Special Administrative Region |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |

| | |
|------------------|---|
| “PRC” | the People’s Republic of China |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “Share(s)” | ordinary share(s) of the Company |
| “Shareholders” | the shareholders of the Company |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Xiwang Group” | Xiwang Group Company Limited* (西王集團有限公司), a company incorporated in the PRC and the ultimate holding company 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 incorporated in the PRC and a wholly-owned subsidiary of the Company |
| “Xiwang Power” | Zouping Xiwang Power Company Limited* (鄒平縣西王動力有限公司), a company established in the PRC and a wholly-owned subsidiary of Xiwang Group |
| “%” | per cent. |

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

Hong Kong, 4 October 2017

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. YU Kou
Mr. LI Bangguang

Non-executive Directors

Mr. WANG Di
Mr. WANG Yong

* for identification purpose only