
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Xiwang Special Steel Company Limited, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



XIWANG SPECIAL STEEL COMPANY LIMITED

西王特鋼有限公司

(incorporated in Hong Kong with limited liability)

(Stock code: 1266)

**MAJOR TRANSACTION
AND
RENEWAL OF CONTINUING CONNECTED TRANSACTION
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



**Lego Corporate
Finance Limited**

力高企業融資有限公司

Lego Corporate Finance Limited

A letter from the Board is set out on pages 4 to 12 of this circular. A letter from the Independent Board Committee is set out on pages 13 to 14 of this circular. A letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 15 to 28 of this circular.

A notice convening the EGM to be held at 3:00 p.m. on Tuesday, 9 January 2018 at Boardroom 3-4, Mezzanine Floor, Renaissance Hong Kong Harbour View Hotel, No.1 Harbour Road, Wanchai, Hong Kong is set out on pages 40 to 41 of this circular.

If you are eligible and intend to attend the EGM, please complete and return the revised proxy form in accordance with the instructions printed thereon and return it to the Company's share registrar, Boardroom Share Registrars (HK) Limited, 2103B, 21/F, 148 Electric Road, North Point, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the revised proxy form will not preclude you from attending the EGM and voting in person if you so wish.

19 December 2017

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	4
Letter from the Independent Board Committee	13
Letter from the Independent Financial Adviser	15
Appendix I – Financial Information of the Group	29
Appendix II – General Information	31
Notice of Extraordinary General Meeting	40

DEFINITIONS

In this circular, the following expressions have the meaning set out below, unless otherwise indicated in the context:

“Announcement”	the announcement dated 10 November 2017 issued by the Company in relation to the New Guarantee Agreement entered into between the Group and Xiwang Group Company
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“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 Chapter 14A of 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 New Guarantee Agreement
“Group”	the Company and its subsidiaries
“Guarantee Agreement”	the guarantee agreement dated 4 January 2016 entered into between the Group and Xiwang Group Company in relation to the provision of guarantee services by the Group to Xiwang Group Company and the Relevant Subsidiaries
“Guarantee Amount”	the guarantee amount to be provided by the Group to Xiwang Group Company and the Relevant Subsidiaries under the New Guarantee Agreement
“Guarantee Annual Caps”	the proposed annual caps in respect of the maximum Guarantee Amount under the New Guarantee Agreement for the period commencing on the date when the shareholder’s approval at the EGM is obtained and ending on 31 December 2020

DEFINITIONS

“Independent Board Committee”	the committee of Directors consisting of Mr. Leung Shu Sun Sunny, Mr. Yu Kou and Mr. Li Bangguang, being all the independent non-executive Directors, formed to advise the Independent Shareholders in respect of the terms of the New Guarantee Agreement
“Independent Financial Adviser”	Lego Corporate Finance Limited, a licensed corporation to conduct type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the New Guarantee Agreement
“Independent Shareholders”	Shareholders who are not involved in or interested in the relevant resolution(s) to be approved at the EGM of the Company to be convened and held to approve the New Guarantee Agreement
“Latest Practicable Date”	12 December 2017, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information referred to in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Guarantee Agreement”	the new guarantee agreement dated 10 November 2017 entered into between the Group and Xiwang Group Company in relation to provision of guarantee services by the Group to Xiwang Group Company and the Relevant Subsidiaries
“Outstanding Amount”	being the aggregate amount due from the Group to Xiwang Group Company and the Relevant Subsidiaries (including but not limited to the borrowings provided by Xiwang Group Company to the Group) and the aggregate amount of the Group’s borrowing which is guaranteed and/or secured by Xiwang Group Company and the Relevant Subsidiaries, less the aggregate amount due from Xiwang Group Company and the Relevant Subsidiaries to the Group (including but not limited to the deposits placed by the Group with Xiwang Finance Company)
“PRC”	the People’s Republic of China

DEFINITIONS

“Relevant Subsidiaries”	all of the subsidiaries of Xiwang Group Company except for the Group
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	shareholder(s) of the Company
“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 by, <i>inter alia</i> , Xiwang Group Company on 15 December 2015
“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, the controlling shareholder of the Company and a wholly-owned subsidiary of Xiwang Holdings
“%”	percentage

* For identification purpose only

LETTER FROM THE BOARD



XIWANG SPECIAL STEEL COMPANY LIMITED
西王特鋼有限公司

(incorporated in Hong Kong with limited liability)

(Stock code: 1266)

Executive Directors:

Mr. ZHANG Jian

(Chief Executive Officer)

Mr. SUN Xihu

Ms. LI Hai Xia

Non-executive Directors:

Mr. WANG Di *(Chairman)*

Mr. WANG Yong

Independent Non-executive Directors:

Mr. LEUNG Shu Sun Sunny

Mr. LI Bangguang

Mr. YU Kou

Registered office:

Unit 2110, 21/F Harbour Centre

25 Harbour Road

Wanchai, Hong Kong

*Head office and principal place of
business in the PRC:*

Xiwang Industrial Area

Zouping County

Shandong Province

China

256209

19 December 2017

To the Shareholders

Dear Sir or Madam,

**MAJOR TRANSACTION
AND
RENEWAL OF CONTINUING CONNECTED TRANSACTION
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the Announcement.

The Board announces that on 10 November 2017, the Group has entered into the New Guarantee Agreement with Xiwang Group Company.

The following are the principal terms of the New Guarantee Agreement.

LETTER FROM THE BOARD

NEW GUARANTEE AGREEMENT

Date

10 November 2017

Parties

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

Term

The New Guarantee Agreement is valid for a term of three years commencing from 1 January 2018 to 31 December 2020. However, no guarantee will be provided by the Group to Xiwang Group Company and the Relevant Subsidiaries under the New Guarantee Agreement, and the Group continues to provide guarantee services to Xiwang Group Company under the Guarantee Agreement, before the approval from the Independent Shareholders at the EGM has been obtained.

Major terms

1. The Group shall provide Xiwang Group Company and the Relevant Subsidiaries with guarantee services subject to the terms and conditions provided therein.
2. The Group shall undertake to guarantee and bear any obligations and liabilities of Xiwang Group Company and the Relevant Subsidiaries provided under the loan agreement to be entered between the lenders and Xiwang Group Company and/or the Relevant Subsidiaries subject to the terms of the specific guarantee agreements to be entered between the lenders and the Group.
3. The Guarantee Amount shall not exceed the Outstanding Amount during the period from 1 January 2018 to 31 December 2020 and shall be subject to the maximum cap of RMB5.0 billion.
4. No guarantee fees shall be paid by Xiwang Group Company to the Group for the provision of guarantee services.
5. Any loans to be repaid by the Group for and on behalf of Xiwang Group Company (and the Relevant Subsidiaries) pursuant to the New Guarantee Agreement shall be offset by the loans payable by the Group to Xiwang Group Company, or as other amounts payable by the Group to Xiwang Group Company or the Relevant Subsidiaries.

LETTER FROM THE BOARD

Guarantee annual caps

The proposed caps in respect of the maximum Guarantee Amount are as follows:

Period	Maximum guarantee amounts <i>(RMB Billion)</i>
From 1 January 2018 to 31 December 2018	5.0
From 1 January 2019 to 31 December 2019	5.0
From 1 January 2020 to 31 December 2020	5.0

As mentioned below, the utilisation rate in relation to the guarantee amount has been increased to approximately 63.5% for the ten months ended 31 October 2017. The increase of the annual caps from RMB4.0 billion to RMB5.0 billion (i.e. the above proposed caps) was determined after taking into account of the following:

1. the anticipated loans of Xiwang Group Company and Relevant Subsidiaries for the operational needs of certain subsidiaries of Xiwang Group Company which may request specific guarantee service from the Company by the respective lenders;
2. the Outstanding Amount of approximately RMB4.60 billion granted by Xiwang Group Company to the Group as at 31 October 2017; and
3. the historical guarantee amounts and historical annual caps of the Guarantee Agreement.

The Directors (excluding the independent non-executive Directors, whose view are contained in the letter from the Independent Board Committee as set out in this circular after considering the advice from the Independent Financial Advisor) consider that the above proposed caps in respect of the guarantee services are fair and reasonable.

LETTER FROM THE BOARD

Historical Guarantee Amount

The historical guarantee amounts recognised by the Company and historical annual caps in relation to the Guarantee Agreement are as follows:

Period	Historical guarantee amounts (RMB Billion)	Historical annual caps (RMB Billion)
From 4 January 2016 to 31 December 2016	Approximately 2.01	4.0
From 1 January 2017 to 31 October 2017	Approximately 2.54	4.0

Internal control measures

The Company has established a series of internal control measures in order to ensure that the terms of the transactions are fair and reasonable and conducted on normal commercial terms so as to ensure that they serve the interest of the Company and the shareholders as a whole. Such internal control measures mainly include:

1. the Group will ensure that each individual guarantee will have a duration of no longer than two years. Moreover, the Group will, no less frequent than on a quarterly basis, evaluate the financial performance and position of Xiwang Group Company and the Relevant Subsidiaries. If the Group is aware of any material adverse change in the financial conditions of Xiwang Group Company or the Relevant Subsidiaries, the Group will adopt measures immediately, such as not to provide additional guarantee to such entities;
2. Each time when there will be more than 10% adjustment to the Guarantee Amount or the Outstanding Amount or at least at a monthly interval, the Group shall review and ensure the Guarantee Amount shall be less than the Outstanding Amount (being (i) the aggregate amount due from the Group to Xiwang Group Company and the Relevant Subsidiaries (including but not limited to the borrowings provided by Xiwang Group Company to the Group); and (ii) the aggregate amount of the Group's borrowing which is guaranteed and/or secured by Xiwang Group Company and the Relevant Subsidiaries), less the aggregate amount due from Xiwang Group Company and the Relevant Subsidiaries to the Group (including but not limited to the deposits placed by the Group with Xiwang Finance Company); and

LETTER FROM THE BOARD

3. in accordance with the Listing Rules, (i) the independent auditors of the Company will report annually on the guarantee services to confirm, among other matters, whether the guarantee services were entered into in accordance with the New Guarantee Agreement; and (ii) the independent non-executive Directors will continue to report annually on whether the guarantee services are, among other things, on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Reasons for and benefits of entering into the New Guarantee Agreement

1. The Group has obtained a large amount of loans from Xiwang Group Company and the Relevant Subsidiaries for the business operation of the Group in the past. The amount of loans from Xiwang Group Company and the Relevant Subsidiaries to the Group as at 31 December 2016 and 31 October 2017 were RMB4,419,547,000 and RMB2,278,592,000, respectively. The Company is of the view that the provision of guarantee services to Xiwang Group Company will enhance the financing capacity of Xiwang Group Company which in turn will promote Xiwang Group Company to provide more financial supports to the Group in the form of loans or financing guarantee.
2. Given that the Outstanding Amount as at 31 October 2017 was approximately RMB4.6 billion, the proposed caps in respect of the maximum Guarantee Amount under the New Guarantee Agreement have been increased to RMB5.0 billion. The Company is of the view that the risks arising from such transaction can be controlled, as the Guarantee Amount should not exceed the Outstanding Amount according to the New Guarantee Agreement.
3. Despite the Guarantee Agreement will be expired on 31 December 2018, the Group and Xiwang Group Company agreed to enter into the New Guarantee Agreement on 10 November 2017 for the reason that the loan agreements to be entered between the lenders and Xiwang Group Company and/or the Relevant Subsidiaries generally provide for a repayment term of at least one year. As such, the loan agreements to be entered between the lenders and Xiwang Group Company and/or the Relevant Subsidiaries after 31 December 2017 may not be able to be guaranteed for the entire loan term pursuant to the Guarantee Agreement which will hinder Xiwang Group Company from obtaining financing from its lenders.

LETTER FROM THE BOARD

In view of the above, the Directors (excluding the independent non-executive Directors whose views are contained in the letter from the Independent Board Committee as set out in this circular after considering the advice from the Independent Financial Adviser) are of the view that whilst it is not in the ordinary and usual course of business of the Company, the terms of the New Guarantee Agreement are fair and reasonable and the New Guarantee 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, and in the interests of the Company and the Shareholders as a whole.

INFORMATION OF 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 Group Company is a company incorporated in the PRC with limited liability on 24 April 2001 and the ultimate holding company of the Company.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Xiwang Group Company is the ultimate holding company of the Company. Therefore, Xiwang Group Company is a connected persons (as defined in Chapter 14A of the Listing Rules) of the Company, and the transactions contemplated under the New Guarantee Agreement constitute continuing connected transactions 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 guarantee services under the New Guarantee Agreement exceeds 25%, the provision of guarantee services under the New Guarantee 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 Company will hold an EGM to consider and approve the New Guarantee Agreement. Xiwang Investment shall abstain from voting at the EGM for the approval of the resolution relating to the New Guarantee Agreement.

LETTER FROM THE BOARD

APPROVAL BY THE BOARD

The Board has approved the New Guarantee Agreement and the Guarantee Annual Caps. As each of Mr. Wang Yong, Mr. Wang Di and Mr. Sun Xinhui being a Director is also a director and shareholder of Xiwang Group Company, such Directors had abstained from voting on the board resolution of the transactions contemplated under the New Guarantee Agreement. Save as disclosed above, none of the Directors have a material interest in the transactions under the New Guarantee Agreement.

INDEPENDENT BOARD COMMITTEE

The Company has established an Independent Board Committee comprising all independent non-executive Directors for providing advice to the Independent Shareholders on whether the terms of the New Guarantee Agreement and the transactions contemplated thereunder and the Guarantee Annual Caps are fair and reasonable, and whether they are in the interest of the Company and the shareholders as a whole. A letter from the Independent Board Committee to the Independent Shareholders is set out on pages 13 to 14 of this circular. The letter from the Independent Board Committee to the Independent Shareholders contains its recommendation on the New Guarantee Agreement and the transactions contemplated thereunder and the Guarantee Annual Caps. Having considered the appropriate internal control procedures in place with respect to the New Guarantee Agreement, the methods and procedures established by the Company to ensure that the transactions contemplated under the New Guarantee Agreement will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders, the independent non-executive Directors are of the view that the New Guarantee Agreement and the continuing connected transactions thereunder are fair and reasonable to the Independent Shareholders and in the interests of the Company and the Shareholders as a whole.

INDEPENDENT FINANCIAL ADVISER

The Company has appointed Lego Corporate Finance Limited as the Independent Financial Adviser to the Company for providing advice to the Independent Board Committee and the Independent Shareholders on whether the terms of the New Guarantee Agreement and the transactions contemplated thereunder and the Guarantee Annual Caps are fair and reasonable, and whether they are in the interest of the Company and the Shareholders as a whole. A letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 15 to 28 of this circular. The letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders indicates that the Independent Financial Adviser considers the New Guarantee Agreement and the transactions contemplated thereunder and the Guarantee Annual Caps are fair and reasonable to the Shareholders, and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

CONNECTED PERSONS WHO ARE REQUIRED TO ABSTAIN FROM VOTING ON THE RESOLUTION

As at the Latest Practicable Date and to the best knowledge, information and belief of the Directors, save for Xiwang Investment which are interested in the transactions to be approved at the EGM, none of the Shareholders of Company must abstain from voting on the relevant resolution.

THE EGM AND PROXY ARRANGEMENT

A notice convening the EGM is set out on pages 40 to 41 of this circular.

Pursuant to the Listing Rules and the Articles, any vote of Shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates to purely a procedural or administrative matter to be voted on by a show of hands in accordance with the note to Rule 13.39(4) of the Listing Rules. Announcement on the poll results will be published by the Company after the EGM in the manner prescribed under Rule 13.39(5) of the Listing Rules.

A form of proxy for use at the EGM is enclosed with this circular and such form of proxy is also published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.xiwangsteel.com). To be valid, the accompanying form of proxy must be completed and signed in accordance with the instructions printed thereon and deposited, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority, at the Company share registrar, Boardroom Share Registrars (HK) Limited, 2103B, 21/F, 148 Electric Road, North Point, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and delivery of the form of proxy will not preclude you from attending and voting at the EGM if you so wish.

RECOMMENDATION

The Board (including independent non-executive Directors) considers that the ordinary resolution to be proposed at the EGM is in the interests of the Company and the Shareholders as a whole, and accordingly, recommends the Shareholders to vote in favour of the resolution to be proposed at the EGM.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders, the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, and additional information set out in Appendices I and II to this circular.

Yours faithfully,

For and on behalf of the Board

WANG Di

Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



XIWANG SPECIAL STEEL COMPANY LIMITED
西王特鋼有限公司

(incorporated in Hong Kong with limited liability)

(Stock code: 1266)

19 December 2017

To the Independent Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION
AND
RENEWAL OF CONTINUING CONNECTED TRANSACTION

We refer to the circular issued by the Company to the Shareholders of the company dated 19 December 2017 (the “**Circular**”) of which this letter forms part. Terms defined in this Circular shall have the same meanings in this letter unless the context otherwise requires.

Under the Listing Rules, the entering into the New Guarantee Agreement constitutes connected and major transaction of the Company, and the transactions contemplated thereunder constitute continuing connected transactions 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 provision of the guarantee services under the New Guarantee Agreement exceeds 25%, the provision of the guarantee services under the New Guarantee 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.

We have been appointed by the Board to consider the terms of the New Guarantee Agreement to advise the Independent Shareholders as to whether, in our opinion, its terms are fair and reasonable so far as the Independent Shareholders are concerned. Lego Corporate Finance Limited has been appointed as the Independent Financial Adviser to advise us in this respect.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We wish to draw your attention to the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders of the Circular issued on 19 December 2017, which contains its advice to the Independent Board Committee and the Independent Shareholders on the New Guarantee Agreement and the Guarantee Annual Caps for the continuing connected transactions contemplated thereunder (the text of the letter of advice is set out on pages 15 to 28 of the Circular). Having considered the advice of the Independent Financial Adviser, we are of the view that although entering into the New Guarantee Agreement is not in the ordinary and usual course of business of the Company, the terms of the New Guarantee Agreement are fair and reasonable and the New Guarantee Agreement is entered into on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole, and the relevant Guarantee Annual Caps for the continuing connected transactions contemplated thereunder are fair and reasonable. Our view related to fairness and reasonableness is necessarily based on information, facts and circumstances currently prevailing.

We also consider that the terms of the New Guarantee Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to approve the New Guarantee Agreement and the transactions contemplated thereunder and the Guarantee Annual Caps for the continuing connected transaction contemplated thereunder.

Yours faithfully,

For and on behalf of the Independent Board Committee

Xiwang Special Steel Company Limited

Mr. LEUNG Shu Sun Sunny, Mr. LI Bangguang and Mr. YU Kou

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice from Lego Corporate Finance Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, which have been prepared for the purpose of inclusion in this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the terms of the New Guarantee Agreement and the transactions contemplated thereunder (including the Guarantee Annual Caps).



19 December 2017

To the Independent Board Committee and the Independent Shareholders

Dear Sirs or Madams,

MAJOR TRANSACTION AND RENEWAL OF CONTINUING CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the New Guarantee Agreement and the transactions contemplated thereunder (including the Guarantee Annual Caps), details of which are set out in the “Letter from the Board” (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 19 December 2017 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

Reference is made to the announcement of the Company dated 4 January 2016 and the circular of the Company dated 19 February 2016 in relation to, among other things, the provision of the guarantee services by the Group to Xiwang Group Company and the Relevant Subsidiaries under the Guarantee Agreement. As the Guarantee Agreement will be expired on 31 December 2018, the Group and Xiwang Group Company agreed to renew the transaction terms, and entered into the New Guarantee Agreement on 10 November 2017, pursuant to which, the Group will provide Xiwang Group Company and the Relevant Subsidiaries with guarantee services subject to the terms and conditions provided therein for the period from 1 January 2018 to 31 December 2020. No guarantee will be provided by the Group to Xiwang Group Company and the Relevant Subsidiaries under the New Guarantee Agreement, and the Group continues to provide guarantee services to Xiwang Group Company under the Guarantee Agreement, before the approval from the Independent Shareholders at the EGM has been obtained.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, Xiwang Group Company indirectly through Xiwang Investment Company Limited owned a total of 1,500,000,000 Shares, representing approximately 71.1% of the issued Shares of the Company. Accordingly, Xiwang Group Company is the ultimate holding company and a controlling Shareholder of the Company. Therefore, Xiwang Group Company is a connected person of the Company under Chapter 14A of the Listing Rules and the transactions contemplated under the New Guarantee Agreement constitute continuing connected transactions 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 guarantee services under the New Guarantee Agreement exceeds 25%, that 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 Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. Leung Shu Sun Sunny, Mr. Li Bangguang and Mr. Yu Kou, has been established to advise the Independent Shareholders as to whether the terms of the New Guarantee Agreement were entered into on normal commercial terms, whether the terms of the New Guarantee Agreement and the transactions contemplated thereunder (including the Guarantee Annual Caps) are fair and reasonable so far as the Independent Shareholder are concerned and whether such terms are in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders as to whether to vote in favour of the relevant resolution to be proposed at the EGM to approve the New Guarantee Agreement and the transactions contemplated thereunder (including the Guarantee Annual Caps). As the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regard.

As at the Latest Practicable Date, Lego Corporate Finance Limited did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to the independence of Lego Corporate Finance Limited. In the last two years, there was no engagement between the Group and Lego Corporate Finance Limited. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exists whereby we had received or will receive any fees or benefits from the Company or any other party to the transactions. Accordingly, we consider that we are eligible to give independent advice on the New Guarantee Agreement and the transactions contemplated thereunder.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the date of the Circular and all such statements of belief, opinions and intention of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and/or the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the EGM.

We consider that we have reviewed the relevant information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company, Xiwang Group Company or any of their respective subsidiaries or associates.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation, we have taken into consideration the following principal factors and reasons.

1. Background of and reasons for and benefits of entering into the New Guarantee Agreement

a) Background of the Group

The Group is a leading high-end special steel manufacturer located in Shandong Province of the PRC. The Group's 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. The following table sets out a summary of the recent financial performance of the Group based on the annual report of the Company for the year ended 31 December 2016 and the interim report of the Company for the six months ended 30 June 2017 (the "2017 Interim Report").

	For the year ended 31 December		For the six months ended 30 June	
	2015	2016	2016	2017
	<i>RMB Million</i>	<i>RMB Million</i>	<i>RMB Million</i>	<i>RMB Million</i>
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	6,752	7,567	3,334	5,592
Gross profit	576	1,068	474	750
Operating profit	283	763	353	567
Profit before tax	192	427	186	415
Profit for the year/period	169	333	162	309

The financial performance of the Group generally improved for the year ended 31 December 2016, where revenue and profit before tax recorded annual growths of approximately 12.1% and 122.4%, respectively. The financial performance of the Group also improved for the six months ended 30 June 2017, where revenue and profit before tax increased by approximately 67.7% and 123.1% as compared to the six months ended 30 June 2016, respectively. As disclosed in the 2017 Interim Report, the improvement of financial performance of the Group for the six months ended 30 June 2017 was attributable to, among other factors, increase in sales volume and the increase in average selling price of steel.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following table sets out a summary of the recent financial position of the Group as extracted from the 2017 Interim Report.

	As at 31 December 2016	As at 30 June 2017
	<i>RMB Million</i> (audited)	<i>RMB Million</i> (unaudited)
Non-current assets	10,117	10,279
Current assets	1,813	1,909
Total assets	11,930	12,188
Current liabilities	6,343	5,372
Non-current liabilities	1,565	2,477
Total liabilities	7,908	7,849
Net assets attributable to owners of the parent	4,022	4,339

Property, plant and equipment were the principal assets and borrowing from Xiwang Group Company were the principal liabilities of the Group as at 30 June 2017, where the Group had (i) non-current assets of approximately RMB10,279 million, which mainly comprised property, plant and equipment of approximately RMB10,073 million; (ii) current assets of approximately RMB1,909 million, which mainly comprised inventories of approximately RMB915 million and pledged deposits of approximately RMB543 million; (iii) current liabilities of approximately RMB5,372 million, which mainly comprised interest-bearing bank and other borrowings of approximately RMB2,931 million (including short term interest-bearing borrowings from Xiwang Finance Company of approximately RMB2,403 million), trade and bills payables of approximately RMB1,560 million and borrowing from Xiwang Group Company of approximately RMB22 million; and (iv) non-current liabilities of approximately RMB2,477 million, which mainly comprised borrowing from Xiwang Group Company of approximately RMB1,346 million and interest-bearing bank and other borrowings of approximately RMB964 million.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

b) Background of Xiwang Group Company

Xiwang Group Company is a company incorporated in the PRC with limited liability on 24 April 2001 and the ultimate holding company of the Company. Subsidiaries of Xiwang Group Company include but not limited to (i) the Company; (ii) Xiwang Property Holdings Company Limited (西王置業控股有限公司)(listed on the Stock Exchange (stock code: 2088)); and (iii) Xiwang Food Company Limited (西王食品有限公司)(listed on the Shenzhen Stock Exchange (stock code: 000639)).

c) Reasons for and benefits of entering into the New Guarantee Agreement

As stated in the Letter from the Board, the guarantee services involve the provision of guarantee services by the Company to Xiwang Group Company and the Relevant Subsidiaries under the New Guarantee Agreement. We were advised by the management of the Group that the Company has been providing guarantee services to Xiwang Group Company and the Relevant Subsidiaries since early 2016 after entering into the Guarantee Agreement.

We understand that Xiwang Group Company and the Relevant Subsidiaries have been providing financial support to the Group. As disclosed in the 2017 Interim Report, as at 30 June 2017:

- the Group had interest-bearing borrowings from Xiwang Group Company and the Relevant Subsidiaries of approximately RMB3,771 million;
- the Group had interest-bearing finance lease payables to Xiwang Finance Leasing Company Limited (one of the Relevant Subsidiaries) of approximately RMB411 million;
- the Group had an amount due to Xiwang Group Company and the Relevant Subsidiaries of approximately RMB115 million, which was non-interest-bearing and repayable on demand;
- Xiwang Group Company, together with Mr. Wang Yong and Mr. Wang Di, both of them are the non-executive Directors, jointly and severally guaranteed certain bills payable of the Group of approximately RMB177 million; and
- the Relevant Subsidiaries guaranteed certain interest-bearing borrowings of the Group of approximately RMB720 million.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We understand that the Group has also been providing financial support to Xiwang Group Company and the Relevant Subsidiaries. As disclosed in the 2017 Interim Report, as at 30 June 2017:

- the Group had certain deposits placed with Xiwang Finance Company of approximately RMB70 million;
- the Group had an amount due from the Relevant Subsidiaries included in trade receivables of approximately RMB8 million; and
- the banking facilities guaranteed by the Group to Xiwang Group and Relevant Subsidiaries were utilised to the extent of approximately RMB340 million and RMB2,200 million, respectively.

In respect of the financial position of Xiwang Group Company, we have reviewed the annual report of Xiwang Group Company for the year ended 31 December 2016 and the unaudited consolidated financial statement for the six months ended 30 June 2017 and noted that:

- Xiwang Group Company had net assets attributable to shareholders of approximately RMB11,143 million as at 30 June 2017;
- Xiwang Group Company had consolidated cash and cash equivalents of approximately RMB1,876 million as at 30 June 2017; and
- Xiwang Group Company had generated net profit attributable to its shareholders of approximately RMB173 million and consolidated net operating cash inflow of approximately RMB1,029 million for the year ended 31 December 2016.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In respect of the credit rating of Xiwang Group Company, we have reviewed the credit rating report of Xiwang Group Company dated 8 November 2017 issued by Dagong Global Credit Rating Co., Ltd (“**Dagong**”) and the website of Dagong, where we noted that:

- Xiwang Group Company had a credit rating of “AA+”, which is defined as very high credit quality, meaning Xiwang Group Company has very low default risk with very strong capacity for payment of financial commitments;
- according to the classification of Dagong, credit rating scales from best to worst are “AAA”, “AA”, “A”, “BBB”, “BB”, “B”, “CCC”, “CC” and “C”; and
- Dagong was founded in 1994 and holds all the qualifications for credit rating recognised by the PRC government. Dagong is a credit rating agency recognised by, among other entities, the National Development and Reform Commission (國家發展和改革委員會) of the PRC and the People’s Bank of China (中國人民銀行).

We were advised by the management of the Group that (i) the lenders of Xiwang Group Company might specifically request guarantee services from the Company, which is a listed subsidiary of Xiwang Group Company, to Xiwang Group Company as a pre-requisite requested by the lenders in order to grant the loan facilities to Xiwang Group Company. As advised by the management of the Group, similar guarantee and indemnity have been provided by the Relevant Subsidiaries to Xiwang Group Company and thus we concur with the view of the Directors that such terms are normal commercial terms; and (ii) the provision of guarantee services by the Company under the New Guarantee Agreement allows the Company to better maintain the mutual support relationship between Xiwang Group Company and the Company.

Despite the provision of the guarantee services is not in the ordinary and usual course of business of the Group, taking into account, in particular, (i) the financial position, the financial performance and the high credit rating of Xiwang Group Company; (ii) the financial support provided by Xiwang Group Company and the Relevant Subsidiaries to the Group; (iii) the maintenance of the mutual support relationship between Xiwang Group Company and the Company; and (iv) the terms of the guarantee services under the New Guarantee Agreement are fair and reasonable as discussed below, we are of the view that the provision of the guarantee services under the New Guarantee Agreement is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Principal terms of the New Guarantee Agreement

The New Guarantee Agreement was entered into on 10 November 2017 between the Group and Xiwang Group Company, pursuant to which, the Group will provide Xiwang Group Company and the Relevant Subsidiaries with guarantee services subject to the terms and conditions provided therein for the period from 1 January 2018 to 31 December 2020. No guarantee will be provided by the Group to Xiwang Group Company and the Relevant Subsidiaries under the New Guarantee Agreement, and the Group continues to provide guarantee services to Xiwang Group Company under the Guarantee Agreement, before the approval from the Independent Shareholders at the EGM has been obtained.

A summary of the principal terms of the New Guarantee Agreement is set out below:

1. The Group shall provide Xiwang Group Company and the Relevant Subsidiaries with guarantee services subject to the terms and conditions provided therein.
2. The Group shall undertake to guarantee and bear any obligations and liabilities of Xiwang Group Company and the Relevant Subsidiaries provided under the loan agreement to be entered between the lenders and Xiwang Group Company and/or the Relevant Subsidiaries subject to the terms of the specific guarantee agreements to be entered between the lenders and the Group.
3. The Guarantee Amount shall not exceed the Outstanding Amount during the period from 1 January 2018 to 31 December 2020 and shall be subject to the maximum cap of RMB5.0 billion.
4. No guarantee fees shall be paid by Xiwang Group Company to the Group for the provision of guarantee services.
5. Any loans to be repaid by the Group for and on behalf of Xiwang Group Company (and the Relevant Subsidiaries) pursuant to the New Guarantee Agreement shall be offset by the loans payable by the Group to Xiwang Group Company, or as other amounts payable by the Group to Xiwang Group Company or the Relevant Subsidiaries (the “**Offset Mechanism**”).

We were advised by the management of the Group that (i) Xiwang Group Company had obtained guarantees from independent third parties for free given, among other things, Xiwang Group Company and such independent third parties mutually provided guarantees to each other and the high credit rating of the Xiwang Group Company; and (ii) the provision of the guarantee services under the New Guarantee Agreement shall be free of charge. We have been provided by the management of the Group with sample agreement regarding the provision of such free guarantees by independent third parties to Xiwang Group Company and/or the Relevant Subsidiaries, where we were not aware of guarantee fee involved for such guarantees provided by independent third parties based on such sample agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In respect of the internal control measures for the guarantee services, we were advised by the management of the Group that:

- the Group will ensure that each individual guarantee will have a duration of no longer than two years. Moreover, the Group will, no less frequent than on a quarterly basis, evaluate the financial performance and position of Xiwang Group Company and the Relevant Subsidiaries. If the Group is aware of any material adverse change in the financial conditions of Xiwang Group Company or the Relevant Subsidiaries, the Group will adopt measures immediately, such as not to provide additional guarantee to such entities;
- each time when there will be more than 10% adjustment to the Guarantee Amount or the Outstanding Amount or at least at a monthly interval, the Group shall review and ensure the Guarantee Amount shall be less than the Outstanding Amount (being (i) the aggregate amount due from the Group to Xiwang Group Company and the Relevant Subsidiaries (including but not limited to the borrowings provided by Xiwang Group Company to the Group); and (ii) the aggregate amount of the Group's borrowing which is guaranteed and/or secured by Xiwang Group Company and the Relevant Subsidiaries), less the aggregate amount due from Xiwang Group Company and the Relevant Subsidiaries to the Group (including but not limited to the deposits placed by the Group with Xiwang Finance Company) (the "**Assessment Mechanism**"); and
- in accordance with the Listing Rules, (i) the independent auditors of the Company will report annually on the guarantee services to confirm, among other matters, whether the guarantee services were entered into in accordance with the New Guarantee Agreement; and (ii) the independent non-executive Directors will continue to report annually on whether the guarantee services are, among other things, on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

We were advised by the management of the Group that the Assessment Mechanism and the Offset Mechanism, in essence, means that, in case of default of the guaranteed loans by Xiwang Group Company or the Relevant Subsidiaries, such guaranteed loans repaid by the Company should and could be deemed as the repayment of borrowings from or other payables to Xiwang Group Company or the Relevant Subsidiaries.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Taking into account, in particular, (i) the financial position, the financial performance and the high credit rating of Xiwang Group Company; (ii) the financial support provided by Xiwang Group Company and the Relevant Subsidiaries to the Group; (iii) the maintenance of the mutual support relationship with Xiwang Group Company; and (iv) the internal control measures of the Group, particularly the Assessment Mechanism and the Offset Mechanism to limit the liability exposure of the Group as set out above, we are of the view that the internal control measures for the guarantee services are appropriate and the terms of the guarantee services are fair and reasonable so far as the Independent Shareholders are concerned.

3. Guarantee Annual Caps

(a) *Historical guarantee amount and the existing annual caps under the Guarantee Agreement*

The existing annual caps under the Guarantee Agreement for each of the year ended 31 December 2016 and the years ending 31 December 2017 and 2018 amounted to RMB4.0 billion (the “**Existing Annual Caps**”).

The table below sets out (i) the Existing Annual Caps; and (ii) the historical maximum guarantee amount for the financial years ended 31 December 2016 and the ten months ended 31 October 2017.

	For the year ended 31 December 2016 RMB Billion	For the ten months ended 31 October 2017 RMB Billion
Existing Annual Caps	4.0	4.0
Historical maximum guarantee amount during the year/period	2.01	2.54
Utilisation rate	50.0%	63.5%

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

With reference to the utilisation rates as tabulated above, we noted that the Group has utilised the Existing Annual Caps for the year ended 31 December 2016 and the ten months ended 31 October 2017 with the utilisation rates reaching approximately 50.0% and 63.5%, respectively. We have discussed with the management of the Group and noted that the historical maximum guarantee amount and utilisation rate increased from approximately RMB2.01 billion to RMB2.54 billion and from approximately 50.0% to 63.5% from the year ended 31 December 2016 to the ten months ended 31 October 2017, respectively, which was in line with the increase in financial support (in the form of borrowing and guarantee) from Xiwang Group Company and the Relevant Subsidiaries from approximately RMB0.89 billion as at 31 December 2016 to approximately RMB2.30 billion as at 31 October 2017.

(b) Basis and assessment of the Guarantee Annual Caps

The following table sets out the Guarantee Annual Caps for each of the years ending 31 December 2017, 2018 and 2019.

	Guarantee Annual Caps		
	for the year ending 31 December		
	2017	2018	2019
	<i>RMB Billion</i>	<i>RMB Billion</i>	<i>RMB Billion</i>
Maximum guarantee amount	5.0	5.0	5.0

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

- (i) the anticipated loans of Xiwang Group Company and the Relevant Subsidiaries for the operational needs of certain subsidiaries of Xiwang Group Company;
- (ii) the Outstanding Amount of approximately RMB4.6 billion granted by Xiwang Group Company to the Group as at 31 October 2017; and
- (iii) the historical maximum guarantee amounts and the Existing Annual Caps.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Guarantee Annual Caps are based on the Outstanding Amount as at 31 October 2017 plus a general buffer of 10% as advised by the management of the Group, where the Outstanding Amount represents the maximum possible Guarantee Amount from time to time in accordance with the Assessment Mechanism, and the general buffer of 10% is adopted after taking into account (i) the Group recorded an increase in revenue by approximately 12.1% for the year ended 31 December 2016 as compared to that of 2015 and by approximately 67.7% for the six months ended 30 June 2017 as compared to that of 2016; and (ii) the uncertainty in the growth of the business operation of the Group in view of the robust demand for steel due to the demand from infrastructure in countries along the “Belt and Road Initiative” and Xiongan New Area. The possible increase in revenue and/or new business opportunities that may be arisen from the “Belt and Road Initiative” and Xiongan New Area may in turn drive the Company to obtain additional financial support from Xiwang Group Company and the Relevant Subsidiaries. As discussed in section (1) above, the lenders of Xiwang Group Company and the Relevant Subsidiaries may request specific guarantee service from the Company in order to grant the loan facilities to Xiwang Group Company, which can then have financial resources to provide additional financial support to the Company.

Given that (i) the Outstanding Amount represents the financial support provided by Xiwang Group Company and the Relevant Subsidiaries to the Company from time to time; (ii) the lenders of Xiwang Group Company and the Relevant Subsidiaries may request specific guarantee service from the Company in order to grant the loan facilities to Xiwang Group Company; (iii) the Company may provide guarantee service to Xiwang Group Company and the Relevant Subsidiaries up to the Outstanding Amount; and (iv) the possible increase in demand of financial support by the Company from Xiwang Group Company and the Relevant Subsidiaries due to the possible increase in revenue and/or new business opportunities that may be arisen from the “Belt and Road Initiative” and Xiongan New Area, we consider the Guarantee Annual Caps to be fair and reasonable so far as the Independent Shareholders are concerned in this regard.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATIONS

Having considered the principal factors and reasons as discussed above, we are of the view that the New Guarantee Agreement have been entered into within the ordinary and usual course of the Group's business based on normal commercial terms, and the terms thereof together with the Guarantee Annual Caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to approve the New Guarantee Agreement, the transactions contemplated thereunder (including the Guarantee Annual Caps) at the EGM.

Yours faithfully,
For and on behalf of
Lego Corporate Finance Limited
Stanley Ng
Managing Director

Mr. Stanley Ng is a licensed person registered with the Securities and Futures Commission and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong). He has over 12 years of experience in the investment banking and auditing.

1. SUMMARY OF FINANCIAL INFORMATION

Financial information of the Group for each of the three financial years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017 are disclosed in the following documents which have been published on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (www.xiwangsteel.com):

- annual report of the Company for the year ended 31 December 2014 published on 24 April 2015 (pages 53 to 119);
- annual report of the Company for the year ended 31 December 2015 published on 28 April 2016 (pages 56 to 127);
- annual report of the Company for the year ended 31 December 2016 published on 27 April 2017 (pages 67 to 141); and
- interim report of the Company for the six months ended 30 June 2017 published on 28 September 2017 (pages 22 to 48).

2. STATEMENT OF INDEBTEDNESS

At the close of business on 31 October 2017 for the purpose of ascertaining information contained in this statement of indebtedness prior to the printing of this circular, the details of the Group's indebtedness are as follows:

- unsecured interest-bearing payable to Xiwang Group Company of approximately RMB95,853,000;
- unsecured interest-bearing loan from Xiwang Finance of approximately RMB1,902,739,000;
- secured finance lease payables to Xiwang Finance Leasing Company Limited of approximately RMB280,000,000;
- unsecured interest-bearing bank loans of approximately RMB410,144,000;
- secured interest-bearing bank loans and other borrowings of approximately RMB1,950,471,000;
- convertible bonds of approximately RMB199,191,000; and
- guarantees of approximately RMB2,270,000,000 for bank loans granted to related parties.

Save as aforesaid and apart from intra-group liabilities, the Group did not have any mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptances credits, or any guarantees, or any other contingent liabilities outstanding at the close of business on 31 October 2017.

3. WORKING CAPITAL SUFFICIENCY

The Directors, after due and careful enquiry, are of the opinion that, taking into consideration the financial resources and banking facilities available to the Group, the Group will have sufficient working capital to satisfy its present requirements for the next twelve months from the date of this circular in the absence of unforeseen circumstances.

4. EFFECT ON THE EARNINGS AND ASSETS AND LIABILITIES OF THE GROUP

The Company is of the view that the provision of guarantee services under the New Guarantee Agreement to Xiwang Group Company will enhance the financing capacity of Xiwang Group Company which in turn will promote Xiwang Group Company to provide more financial supports in the form of loans to the Group to meet its capital needs and reduce its the finance cost. In the future, Xiwang Group Company may also provide guarantee for the Group's external financing which will enhance the Group's financing capability and broadening its financing channels so as to meet the capital needs in its daily operation and long-term strategic development. As a consequence, such arrangement would improve the Group's profitability and quality of assets and maintain its asset-liability ratio at a healthy level.

5. FINANCIAL AND TRADING PROSPECT OF THE GROUP

In long-term, the Group will strive to achieve the strategic development goal by developing high-tech special steel products for a more stable market, with the aim of strengthening its competitiveness and profitability. To optimise the existing product mix and significantly increase the proportion of special steel business, it will spare no efforts to push forward the rail steel projects and introduce rail steel products with a high level of strength, tenacity and durability to the market. The production line, which has a rail steel capacity of 700,000 tonnes, a railway billet capacity of 150,000 tonnes and a figured steel capacity of 150,000 tonnes per annum, will be developed in two phases that are expected to be completed in 2018 and 2020 respectively. Upon the completion of phase I, the designed annual capacity of the new production line is estimated to reach 300,000 tonnes of rail steel and 150,000 tonnes of railway billet per annum. As the construction of the production line is progressing well, the Group is confident that it will deliver new production capacity on schedule.

Apart from the rail steel project, the Group will continue to cooperate with Institute of Metal Research of Chinese Academy of Sciences in the PRC to enhance its production technology as well as research and development capability. Riding on the successful development of over 90 new products, it will target the demands of the country and advance the industrialisation of quality special steel products for the use in military, nuclear power and high-speed rail, so as to further expand the existing product portfolio. Internal control and production efficiency are the focus of the Group as well. The Group will consider introducing a series of ancillary equipment for production, for the purposes of actively strengthening production process while enhancing operational flexibility and production efficiency. Through reducing daily operating expenses, it will lay a solid foundation for higher profitability.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the following Directors and chief executive of the Company had interests and short positions in the Shares, underlying Shares and/or debentures (as the case may be) of the Company or any its associated corporations (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such Director or chief executive is taken or deemed to have under such provisions of the SFO) or which were required to be entered into the register required to be kept by the Company under section 352 of the SFO or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules:

Name of Director	Name of company/ associated corporation	Capacity	Number and class of securities held/ interested (Note 1)	Approximate percentage shareholding in the same class of securities in the relevant corporation as at the Latest Practicable Date (%)
WANG Yong	Company	Interest of controlled corporations (Note 2)	1,500,000,000 (L) ordinary shares (Note 4)	71.10%
	Xiwang Investment	Interest of controlled corporations (Notes 2, 3)	3 shares (L)	100%
	Xiwang Holdings	Beneficial owner (Note 2)	6,738 shares (L)	3.37%
		Interest of controlled corporations (Note 2)	190,000 shares (L)	95%

Name of Director	Name of company/ associated corporation	Capacity	Number and class of securities held/ interested (Note 1)	Approximate percentage shareholding in the same class of securities in the relevant corporation as at the Latest Practicable Date (%)
	Xiwang Hong Kong	Interest of controlled corporations (Note 2)	694,132,000 shares (L)	100%
	Xiwang Group	Beneficial owner (Note 2)	RMB1,383,000,000 (L)	69.15%
	Xiwang Property	Interest of controlled corporations (Note 3)	982,999,588 (L) ordinary shares (Note 3)	69.78%
			506,244,669 (L) convertible preference shares (Note 3)	99.75%
WANG Di	Company	Beneficial owner	6,000,000 shares (L)	0.28%
		Beneficial owner	5,000,000 share option (L)	0.24%
	Xiwang Holdings	Beneficial owner	177 shares (L)	0.09%
	Xiwang Group	Beneficial owner	RMB35,460,000 (L)	1.77%
	Xiwang Property	Beneficial owner	3,000,000 shares (L)	0.21%
	SUN Xinqu	Company	Beneficial owner	1,000,000 shares (L)
Beneficial owner			1,500,000 share option (L)	0.07%
Xiwang Holdings		Beneficial owner	89 shares (L)	0.04%
Xiwang Group		Beneficial owner	RMB35,460,000 (L)	1.77%
Xiwang Property		Beneficial owner	3,000,000 shares (L)	0.21%

Notes:

1. The letter “L” represents the Director’s long position in the shares of the relevant corporation.
2. As at the Latest Practicable Date, Xiwang Group is the ultimate holding company of the Company. Xiwang Group is owned as to 69.15% by Mr. WANG Yong and remaining 30.85% by 20 individuals. Further, these 20 individuals are accustomed to act in accordance with the directions of Mr. WANG Yong in respect of the exercise by such 20 individuals of their voting powers as a shareholder of Xiwang Group. Accordingly, Mr. WANG Yong is deemed to be interested in all the shares of the Company in which Xiwang Group is interested. Xiwang Hong Kong is a wholly-owned subsidiary of Xiwang Group. Xiwang Hong Kong directly holds 95% and Mr. WANG Yong and 22 individuals directly hold 5% of the issued share capital of Xiwang Holdings, respectively. Xiwang Investment is a wholly-owned subsidiary of Xiwang Holdings. Therefore, Xiwang Holdings, Xiwang Hong Kong and Xiwang Group are deemed to be interested in the number of shares of the Company held by Xiwang Investment.
3. As at the Latest Practicable Date, Xiwang Investment, where the entire issued shares are deemed to be interested by Mr. WANG Yong, held 69.78% of ordinary shares of Xiwang Property Holdings Company Limited (“**Xiwang Property**”) and 99.75% of convertible preference shares of Xiwang Property.
4. These shares are registered in the name of Xiwang Investment. Mr. WANG Yong is deemed to have interest in all shares of the Company held by Xiwang Investment.

As at the Latest Practicable Date, none of the Directors or supervisors of the Company had any interest, direct or indirect, in any asset which have been since 30 June 2017, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, save for the New Guarantee Agreement, none of the Directors or supervisors of the Company was materially interested in any contract or arrangement entered into by any member of the Group since 30 June 2017, being the date to which the latest published audited financial statements of the Company were made up, and which was significant in relation to the business of the Group.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, as far as known to the Directors and chief executive of the Company, the following persons (other than the Directors and chief executive of the Company) had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or who are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote at a general meeting of the Company under all circumstances:

Name of Shareholder	Capacity	Number and class of securities held/ interested <i>(Note 1)</i>	Approximate percentage shareholding in the same class of securities in the relevant corporation as at the Latest Practicable Date <i>(%)</i>
Xiwang Investment	Beneficial owner	1,500,000,000 (L) ordinary shares	71.10%
Xiwang Holdings	Interest of a controlled corporation <i>(Note 2)</i>	1,500,000,000 (L) ordinary shares	71.10%
Xiwang Hong Kong	Interest of controlled corporations <i>(Notes 2, 3)</i>	1,500,000,000 (L) ordinary shares	71.10%
Xiwang Group	Interest of controlled corporations <i>(Notes 2, 3)</i>	1,500,000,000 (L) ordinary shares	71.10%
ZHANG Shufang	Interest of spouse <i>(Note 4)</i>	1,500,000,000 (L) ordinary shares	71.10%

Notes:

1. The letter “L” represents the entity’s long position in the shares of the Company.
2. Xiwang Holdings directly holds 100% of the issued share capital of Xiwang Investment and therefore is deemed to be interested in the number of shares of the Company held by Xiwang Investment.
3. Xiwang Hong Kong directly holds 95% and Mr. WANG Yong and 22 individuals directly hold 5% of the issued share capital of Xiwang Holdings, respectively. Xiwang Hong Kong is in turn wholly-owned by Xiwang Group. Therefore, Xiwang Hong Kong and Xiwang Group are deemed to be interested in the number of shares of the Company held by Xiwang Investment.
4. Ms. ZHANG Shufang, being the spouse of Mr. WANG Yong, is deemed to be interested in all the shares of the Company in which Mr. WANG Yong is deemed to be interested.

4. DIRECTORS’ AND SUPERVISORS’ SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

As at the latest Practicable Date, none of the Directors, nor supervisors had any existing or is proposed to have a service contract with the Company or any of its associated corporations which will not expire or is not determinable by the Company within one year without payment of compensation other than statutory compensation.

5. MATERIAL ADVERSE CHANGES

The Directors confirm that there was no material adverse change in the financial or trading position of the Company since 30 June 2017, being the date to which the latest published audited financial statements of the Company were made up.

6. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors or their respective associates had any competing interest (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them was a controlling shareholder of the Company for the purpose of the Listing Rules).

7. EXPERTS

- (a) The following sets out the qualifications of the expert which has given its opinion or advice as contained in this circular:

Name	Qualifications
Lego Corporate Finance Limited	a licensed corporation under the SFO to carry on Type 6 (advising on corporate finance) regulated activity as defined in the SFO

- (b) Lego Corporate Finance Limited does not have any shareholding, direct or indirect, in the Company or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company.
- (c) Lego Corporate Finance Limited does not have any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to the Company, or which are proposed to be acquired or disposed of by or leased to the Company since 31 December 2016, the date to which the latest published audited financial statements of the Company were made up.
- (d) Lego Corporate Finance Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they are included.
- (e) The letter, recommendation and opinion given by Lego Corporate Finance Limited is given as of the date of this circular for incorporation herein.

8. PENDING LITIGATION OR CLAIMS

As at the Latest Practicable Date, to the best knowledge of the Directors, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

9. MATERIAL CONTRACTS

The following contracts (not being contract entered into in the ordinary course of business) have been entered into by the members of the Group within two years immediately preceding the issue of this circular and are material:

- (a) the capital contribution agreement dated 20 November 2015 entered into between Shandong Xiwang Special Steel Co., Ltd. and Xiwang Group Company, Shandong Xiwang Sugar Company Limited, Shandong Xiwang Food Company Limited and China Cinda Asset Management Co., Ltd., pursuant to which, Xiwang Group Company, Shandong Xiwang Special Steel Co., Ltd., Shandong Xiwang Sugar Company Limited, Shandong Xiwang Food Company Limited and China Cinda Asset Management Co., Ltd. agreed to contribute RMB650 million, RMB100 million, RMB100 million, RMB100 million and RMB50 million, respectively, representing 65%, 10%, 10%, 10% and 5% of the registered capital of Xiwang Finance Company, respectively;
- (b) the investment agreement dated 23 December 2015 entered into among Shandong Xiwang Special Steel Co., Ltd., China Development Fund Co. Ltd.* (國開發基金有限公司) (“**CD Fund**”), Shandong Xiwang Steel Company Limited* (山東西王鋼鐵有限公司) (“**Shandong Xiwang Steel**”) and Zouping Finance Bureau* (鄒平縣財政局), pursuant to which CD Fund agreed to invest RMB161 million in Shandong Xiwang Steel;
- (c) sale and leaseback agreement dated 20 October 2016 entered into between Xiwang Metal Science & Technology Company Limited and Xiwang Finance Leasing Company Limited, pursuant to which: (i) Xiwang Finance Leasing Company Limited agreed to provide finance leasing services, for a term commencing from the date when the respective finance amount is paid by Xiwang Finance Leasing Company Limited to Xiwang Metal Science & Technology Company Limited and ending on 30 November 2021, to the Company in relation to certain machinery equipment in accordance with the terms and conditions set out in the sale and leaseback agreement; (ii) for the purpose of obtaining finance by adopting the sale and leaseback model, Xiwang Metal Science & Technology Company Limited shall sell to Xiwang Finance Leasing Company Limited its machinery equipment which shall be leased back for use by Xiwang Metal Science & Technology Company Limited. Upon expiry of the lease term, Xiwang Metal Science & Technology Company Limited shall repurchase the leased assets in accordance with the terms of the sale and leaseback agreement;

* For identification purpose only

- (d) the placing and subscription agreement dated 14 September 2017 entered into between the Company, Xiwang Investment and Guotai Junan Securities (Hong Kong) Limited, pursuant to which Xiwang Investment agreed to place, through Guotai Junan Securities (Hong Kong) Limited, 100,000,000 placing shares to certain placees, and Xiwang Investment agreed to subscribe for 100,000,000 top-up subscription shares at the agreed top-up subscription price; and
- (e) the convertible bond subscription agreement dated 22 September 2017 entered into among Haitong Global Investment SPC III acting on behalf of and for the account of Haitong Dynamic Multi-Tranche Investment Fund II S.P and Blooming Global Fund (the “**Subscribers**”) pursuant to which the Subscribers conditionally agreed to subscribe, and the Company conditionally agreed to issue the convertible bond in an aggregate principal amount of US\$30,000,000.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the registered office in Hong Kong of the Company at Unit 2110, 21/F Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong during normal business hours on any business day from the date of this circular up to and including the date of the EGM:

- (a) the memorandum and articles of association of the Company;
- (b) the annual report of the Company for the three financial years ended 31 December 2014, 2015 and 2016;
- (c) the interim report of the Company for the six months ended 30 June 2017;
- (d) the letter from the Board, the text of which is set out on pages 4 to 12 of this circular;
- (e) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 13 to 14 of this circular;
- (f) the letter of advice from Lego Corporate Finance Limited to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 15 to 28 of this circular;
- (g) the material contracts as referred to in the section headed “Material Contracts” in this appendix;
- (h) the New Guarantee Agreement; and
- (i) this circular.

11. MISCELLANEOUS

- (a) The registered office of the Company is at Unit 2110, 21/F Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong.
- (b) The Hong Kong branch share registrar and transfer office of the Company is Boardroom Share Registrars (HK) Limited, 2103B, 21/F, 148 Electric Road, North Point, Hong Kong.
- (c) The company secretary of the Company is Mr. Wong Kai Hing, who is a member of the Hong Kong Institute of Certified Public Accountants.
- (d) The English text of this circular shall prevail over the Chinese text in the case of inconsistency.

NOTICE OF EXTRAORDINARY GENERAL MEETING

Hong Kong Exchanges and Clearing Limited and the Stock Exchange of Hong Kong Limited take no responsibility for the contents of this notice, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this notice.



XIWANG SPECIAL STEEL COMPANY LIMITED

西王特鋼有限公司

(incorporated in Hong Kong with limited liability)

(Stock code: 1266)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the an extraordinary general meeting (the “EGM”) of Xiwang Special Steel Company Limited (the “Company”) will be held at Boardroom, 3-4, Mezzanine Floor, Renaissance Hong Kong Harbour View Hotel, No.1 Harbour Road, Wanchai, Hong Kong, at 3:00 p.m. on Tuesday, 9 January 2018 (or any adjournment thereof) for the purposes of considering and, if thought fit, passing the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

1. “**THAT**

the New Guarantee Agreement and the transactions contemplated thereunder and the related annual caps be and hereby approved, confirmed and ratified; and the Directors be and are hereby authorised to do all such acts and things as they consider necessary, desirable or expedient for the implementation of and giving effect to the New Guarantee Agreement and the transactions contemplated thereunder and the related annual caps and all such acts and things the Directors have done are hereby approved, confirmed and ratified.”

By the order of the Board

WANG Di

Chairman

Hong Kong, 19 December 2017

NOTICE OF EXTRAORDINARY GENERAL MEETING

Registered office:

Unit 2110, 21/F
Harbour Centre
25 Harbour Road
Wanchai, Hong Kong

*Head office and principal place of
business in the PRC:*

Xiwang Industrial Area
Zouping County
Shandong Province
China
256209

Notes:

1. Any member of the Company entitled to attend and vote at the Meeting is entitled to appoint a proxy (or more than one proxy if he is the holder of two or more shares) to attend and vote instead of him. A proxy need not be a member of the Company. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. Where there are joint registered holders of any Share, any one such persons may vote at the meeting, either personally or by proxy, in respect of such Share as if he were solely entitled thereto; but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such Shares shall alone be entitled to vote in respect thereof.
3. In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be delivered to the office of the share registrar of the Company in Hong Kong, Boardroom Share Registrars (HK) Limited, 2103B, 21/F, 148 Electric Road, North Point, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

As at the date of this Notice, the executive directors of the Company are Mr. ZHANG Jian, Mr. SUN Xinhua and Ms. LI Hai Xia, the non-executive directors of the Company are Mr. WANG Di and Mr. WANG Yong, and the independent non-executive directors of the Company are Mr. LEUNG Shu Sun Sunny, Mr. LI Bangguang and Mr. YU Kou.