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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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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.

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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)**

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS  
AND NEW ANNUAL CAPS FOR 2019 TO 2021 –  
(I) MAJOR AND CONTINUING CONNECTED TRANSACTIONS –  
FINANCIAL SERVICES AGREEMENT  
(II) CONTINUING CONNECTED TRANSACTIONS –  
LOGISTICS AGREEMENTS  
(STEEL DELIVERY SERVICE AGREEMENT  
AND ORE POWDER DELIVERY SERVICE AGREEMENT)**

**AND**

**NOTICE OF EXTRAORDINARY GENERAL MEETING**

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



First Shanghai Capital Limited

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A letter from the Board is set out on pages 8 to 34 of this circular. A letter from the Independent Board Committee is set out on pages 35 to 37 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 38 to 62 of this circular.

A notice convening the EGM to be held at 11:00 a.m. on Monday, 31 December 2018 at Boardroom 3-4, Mezzanine Floor, Renaissance Hong Kong Harbour View Hotel, No. 1 Harbour Road, Wan Chai, Hong Kong is set out on pages 77 to 79 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, at 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.

10 December 2018

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## DEFINITIONS

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

“2015 Financial Services Agreement”	the agreement entered into between the Company and Xiwang Finance Company dated 29 December 2015 in relation to the provision of financial services
“2015 Logistics Agreements”	collectively refer to the 2015 Steel Delivery Services Agreement and the 2015 Ore Powder Delivery Services Agreement
“2015 Ore Powder Delivery Services Agreement”	the agreement entered into between Shandong Xiwang Special Steel (now known as Xiwang Metal) and Xiwang Logistics dated 29 December 2015 in relation to the delivery of ore powder
“2015 Steel Delivery Services Agreement”	the agreement entered into between Shandong Xiwang Special Steel (now known as Xiwang Metal) and Xiwang Logistics dated 29 December 2015 in relation to the delivery of steel
“2016 Financial Services Agreement”	the supplemental agreement entered into between the Company and Xiwang Finance Company to amend the 2015 Financial Services Agreement with the details disclosed by the 2016 Revision Announcement and the 2016 Revision Circular
“2016 Revision Announcement”	the announcement of the Company titled “Major And Continuing Connected Transaction And Revision Of Terms And Annual Caps For Continuing Connected Transaction Under the Financial Services Agreement” dated 20 October 2016
“2016 Revision Circular”	the circular issued by the Company titled “Major And Continuing Connected Transaction And Revision Of Terms And Annual Caps Under The Financial Services Agreement And Notice Of Extraordinary General Meeting” dated 24 November 2016

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## DEFINITIONS

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“2016 Services Circular”	the circular issued by the Company titled “Continuing Connected Transactions – Steel Delivery Service Agreement, Ore Powder Delivery Service Agreement and Vehicle Leasing Agreement, Major And Continuing Connected Transactions – Financial Services Agreement And Guarantee Agreement And Notice Of Extraordinary General Meeting” dated 19 February 2016
“Announcements”	collectively refer to the Company’s announcements titled (i) “Major Transactions and Continuing Connected Transactions” dated 29 December 2015; (ii) “Continuing Connected Transactions and Discloseable Transaction” dated 29 December 2015; and (iii) “Major And Continuing Connected Transaction And Revision Of Terms And Annual Caps For Continuing Connected Transaction Under the Financial Services Agreement” dated 20 October 2016
“Annual Caps”	the Financial Services Annual Caps, Steel Delivery Service Annual Caps and the Ore Powder Delivery Service Annual Caps
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“CBRC”	China Banking Regulatory Commission
“Cinda Asset Management”	China Cinda Asset Management Co., Ltd. (中國信達資產管理股份有限公司) (Stock Code: 1359), a joint stock company incorporated in the PRC on 19 April 1994 and the shares of which are listed on the main board of the Stock Exchange and an independent third party
“Circulars”	collectively refer to the 2016 Revision Circular and the 2016 Services Circular

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## DEFINITIONS

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“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 the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under 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 provision of deposit services, bill discounting services and bill acceptance services under the Financial Services Agreement, and to approve the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement
“Financial Services Agreement”	the financial services agreement dated 18 October 2018 entered into between the Company and Xiwang Finance Company in relation to the provision of financial services by Xiwang Finance Company to the Company and the Qualified Subsidiaries
“Group”	the Company and its subsidiaries
“Guarantee”	a guarantee dated 18 October 2018 executed by Xiwang Group Company in favour of the Company to secure the due performance of obligations of Xiwang Finance Company under the Financial Services Agreement

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## DEFINITIONS

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“Independent Board Committee”	the committee of Directors consisting of Mr. LEUNG Shu Sun Sunny, Mr. LI Bangguang and Mr. YU Kou, being all the independent non-executive Directors, formed to advise the Independent Shareholders in respect of the terms of the provision of deposit services, bill discounting services and bill acceptance services under the Financial Services Agreement, and in respect of the terms of the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement
“Independent Financial Adviser”	First Shanghai Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the provision of deposit services, bill discounting services and bill acceptance services under the Financial Services Agreement, and in respect of the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement
“Independent Shareholders”	shareholders other than Xiwang Investment and those who are not involved in or interested in the relevant resolution(s) to be approved at the EGM
“Latest Practicable Date”	5 December 2018, 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
“Ore Powder Delivery Service Agreement”	the ore powder delivery service agreement dated 18 October 2018 entered into between the Company and Xiwang Logistics in relation to the provision of delivery service for ore powder by Xiwang Logistics to the Company

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## DEFINITIONS

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“Ore Powder Delivery Service Annual Caps”	the annual caps for the provision of delivery service for ore powder by Xiwang Logistics to the Company under the Ore Powder Delivery Service Agreement for the period commencing on 1 January 2019 (or a date when Shareholders’ approval is obtained, if it is later than 1 January 2019) and ending on 31 December 2021
“PRC”	the People’s Republic of China
“Qualified Subsidiaries”	the companies which are owned as to (i) more than 51% by the Company, (ii) more than 20% by the Company and its subsidiaries, individually or collectively, or (iii) less than 29% by the Company and its subsidiaries, individually or collectively and as the largest shareholders
“Relevant Transactions”	the transactions contemplated under the 2015 Financial Services Agreement, as supplemented by the 2016 Financial Services Agreement, and the 2015 Logistics Agreements
“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
“Steel Delivery Service Agreement”	the steel delivery service agreement dated 18 October 2018 entered into between the Company and Xiwang Logistics in relation to the provision of delivery service for steel by Xiwang Logistics to the Company
“Steel Delivery Service Annual Caps”	the annual caps for the provision of delivery service for steel by Xiwang Logistics to the Company under the Steel Delivery Service Agreement for the period commencing on 1 January 2019 (or a date when the Shareholders’ approval is obtained, if it is later than 1 January 2019) and ending on 31 December 2021

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## DEFINITIONS

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“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 in the PRC with limited liability by Xiwang Group Company, Shandong Xiwang Special Steel (now known as Xiwang Metal), Xiwang Sugar, Xiwang Food and Cinda Asset Management on 15 December 2015
“Xiwang Food”	Xiwang Food Company Limited* (西王食品有限公司), a company incorporated in the PRC with limited liability on 12 April 2007 and as to 52.08% owned directly and indirectly by Xiwang Group Company
“Xiwang Group”	Xiwang Group Company and its subsidiaries
“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, a company established in the British Virgin Islands with limited liability on 27 January 2005, and the controlling shareholder of the Company



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## DEFINITIONS

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“Xiwang Logistics”	Shandong Xiwang Logistics Company Limited (山東西王物流有限公司), a company incorporated in the PRC and a non-wholly owned subsidiary of Xiwang Group Company
“Xiwang Metal”	Xiwang Metal Science & Technology Company Ltd. (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) (“ <b>Shandong Xiwang Special Steel</b> ”)), a company incorporated in the PRC with limited liability on 29 December 2007 and a wholly-owned subsidiary of the Company
“Xiwang Sugar”	Xiwang Sugar Company Limited (山東西王糖業有限公司), a company incorporated in the PRC with limited liability on 14 December 2005 and as to 37.16% owned by Xiwang Group Company and as to 35.52% by Xiwang Holdings Limited which is owned as to 95.0% by Xiwang Group Company

\* *For identification purpose only*

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## LETTER FROM THE BOARD

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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)**

*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

10 December 2018

*To the Shareholders*

Dear Sir or Madam,

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS  
AND NEW ANNUAL CAPS FOR 2019 TO 2021 –  
(I) MAJOR AND CONTINUING CONNECTED TRANSACTIONS –  
FINANCIAL SERVICES AGREEMENT  
(II) CONTINUING CONNECTED TRANSACTIONS –  
LOGISTICS AGREEMENTS  
(STEEL DELIVERY SERVICE AGREEMENT  
AND ORE POWDER DELIVERY SERVICE AGREEMENT)  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

### INTRODUCTION

Reference is made to the Announcements and Circulars in relation to, among other things, the 2015 Financial Services Agreement as supplemented by the 2016 Financial Services Agreement and the 2015 Logistics Agreements with the relevant connected persons of the Company.

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## LETTER FROM THE BOARD

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The Company intends to continue the Relevant Transactions and set new Annual Caps for a term of three years commencing from 1 January 2019 and expiring on 31 December 2021.

Accordingly, the Board announces that:

- (1) on 18 October 2018, the Company entered into the Financial Services Agreement with Xiwang Finance Company and Xiwang Group Company has executed a Guarantee in favour of the Company to secure the performance of obligations of Xiwang Finance Company under the Financial Services Agreement; and
- (2) on 18 October 2018, the Company entered into the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement with Xiwang Logistics.

The following are the principal terms of these three agreements.

### FINANCIAL SERVICES AGREEMENT

#### Date

18 October 2018

#### Parties

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

#### Term

The Financial Services Agreement is valid for a term of three years commencing from 1 January 2019 to 31 December 2021. However, no deposit services, bill discounting services and bill acceptance services will be provided until the Company has obtained the approval from the Independent Shareholders at the EGM.

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## LETTER FROM THE BOARD

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### Major terms

1. Xiwang Finance Company shall provide the Company and the Qualified Subsidiaries with deposit services, loan services, bill discounting services, bill acceptance services, and other financial services approved by the CBRC, subject to the terms and conditions provided therein.
2. Xiwang Finance Company has undertaken to adhere to the principles below in relation to the provision of the aforementioned financial services to the Company:
  - (i) the interest rate payable by Xiwang Finance Company to the Company for any deposits shall not be lower than the benchmark interest rate as announced by the PBOC and the interest rate paid by other independent commercial banks in the PRC for comparable deposits during the same period;
  - (ii) the rates to be charged by Xiwang Finance Company for the provision of loan services and financing services (including bill discounting and bill acceptance services) to the Company shall not be higher than the relevant rates to be charged by other independent commercial banks in the PRC for comparable loan services and financing services (including bill discounting and bill acceptance services) during the same period; and
  - (iii) no service fee will be charged by Xiwang Finance Company for the provision of settlement services, being one of other financial services, to the Company.

### Capital Risk Control Measures

1. Xiwang Finance Company shall ensure the secure operation of its funds management network and safety of funds, control the asset-debt risks and satisfy the payment requirements of the Company;
2. Xiwang Finance Company shall ensure that it is in strict compliance with the risk monitoring indicators applicable for Xiwang Finance Company issued by the CBRC and that its major regulatory indicators such as asset-liability ratio and liquidity ratio will also comply with the requirements of the CBRC and other relevant laws and regulations;

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## LETTER FROM THE BOARD

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3. Xiwang Finance Company shall, on the condition that there are any events that may threaten the safety of the deposits of the Company as specified in the Financial Services Agreement, provide two days prior notice in writing to the Company and adopt effective measures to control or avoid losses to be caused by such events;
4. when any of the aforesaid events occurs, the Company has the right to (i) require Xiwang Finance Company to explain the underlying reasons and offer the relevant measures to prevent, control and resolve the issues; (ii) in the event that Xiwang Finance Company defaults in its payment obligations, require Xiwang Group Company to adopt remedial measures and increase the capital fund of Xiwang Finance Company to settle such payment obligations; or (iii) suspend or terminate the Financial Services Agreement; and
5. for the deposit services, the Directors shall review the historical daily deposit balances (including any interest accrued therefrom) when a Board meeting is convened, which should be at least four times a year.

### **Historical transaction amounts**

Xiwang Finance Company was established on 15 December 2015 and entered into the 2015 Financial Services Agreement with the Company as supplemented by the 2016 Financial Services Agreement for the provision of deposit services, loan services, bill discounting and bill acceptance services and other financial services to the Company and the Qualified Subsidiaries between 1 January 2016 and 31 December 2018.

The actual transaction amounts with Xiwang Finance Company for the years ended 31 December 2016 and 2017, and the nine months ended 30 September 2018 were:

- (i) in respect of maximum daily deposit balance, were RMB0.600 billion, RMB1.061 billion and RMB1.153 billion, respectively;
- (ii) in respect of actual aggregate annual transaction amounts of bill discounting, were RMB0.495 billion, RMB0.432 billion and RMB0.624 billion, respectively;
- (iii) in respect of actual aggregate annual transaction amounts of bill acceptance, were RMB0.200 billion, RMB0.400 billion and RMB0.780 billion, respectively; and
- (iv) in respect of maximum loan amounts (including any accrued interest), were RMB2.200 billion, RMB2.408 billion and RMB1.221 billion, respectively.

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## LETTER FROM THE BOARD

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### Proposed Caps

#### *Deposit Services*

The proposed caps in respect of the maximum daily deposit balance (including any interest accrued therefrom) with Xiwang Finance Company is as follows:

<b>Period</b>	<b>Transaction amounts (Billion RMB)</b>
From 1 January 2019 to 31 December 2019	2.10
From 1 January 2020 to 31 December 2020	2.30
From 1 January 2021 to 31 December 2021	2.50

The above proposed caps in respect of deposit services were determined after taking into account of the following:

1. the deposits of the Group (including any interest accrued therefrom) (whether placed with Xiwang Finance Company or other financial institutions) reached the highest of RMB1.3 billion, RMB1.7 billion and RMB1.7 billion during the years ended 31 December 2016 and 2017 and during the nine months ended 30 September 2018, respectively;
2. the expected increase in the amount of deposit of the Group in the next three years due to the expected increase in the asset scale of the Group. The amount of maximum daily deposits balance of the Group (including any interest accrued therefrom) (whether placed with Xiwang Finance Company or other financial institutions) are expected to reach RMB3 billion, RMB3.2 billion and RMB3.5 billion during the three years ending 31 December 2021, respectively. The expected total maximum daily deposit balance of the Group were determined after taking into account the internal forecasts of the Group with reference to (i) the outstanding funding requirement for, among other things, the ongoing establishment of the new production line as mentioned in the announcement of the Company dated 10 April 2017 in the amount of approximately RMB2 billion as at the Latest Practicable Date; and (ii) the expected net cash flow from operating activities of the Group in the next three years.

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## LETTER FROM THE BOARD

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3. the expected increase in the amount of deposit of the Group to be placed with Xiwang Finance Company in the next three years given the established business relationships with Xiwang Finance Company and the efficient allocation of funds of the Group via the Xiwang Finance Company. As Xiwang Finance Company has established business cooperation relationships with the Group in respect of deposit, loan and other financial services over the years, Xiwang Finance Company is familiar with the operations of the Group and able to provide its deposit services in a more efficient manner than other financial institutions in the PRC, from which the Group is expected to benefit. In addition, given that the procurement of deposit services from Xiwang Finance Company is part and parcel of the variety of financial services available under the Financial Services Agreement, it is anticipated that the Group can accumulate idle funds within the Group quickly through the capital pool of Xiwang Finance Company and utilise Xiwang Finance Company as a medium to allocate the funds of the Group, which effectively saves the finance costs of the Company and reduces its dependence on external financing; and
4. a general growth rate of 10% per annum for the annual caps of deposit services after considering the following factors:
  - (i) the historical financial and operating performance of the Group for the year ended 31 December 2017, including its annual growth rates of revenue, profit before tax and the sales volume of steel which amount to approximately 63%, 158% and 10%, respectively;
  - (ii) the steel products manufactured by the Group are primarily supplied within the PRC for buildings, infrastructures, automobile, shipbuilding, chemical and petrochemical, machinery and equipment sectors;
  - (iii) the expected annual growth rate of real gross domestic product (excluding the effect of inflation) of the PRC of approximately 6% for each of the years ending 31 December 2019, 2020 and 2021 with reference to the October 2018 edition of the World Economic Outlook Database published by the International Monetary Fund; and

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## LETTER FROM THE BOARD

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- (iv) the increased demand for steel products in view of the market conditions which are favourable to the Group, including (a) the continued strength of infrastructure projects in Shandong Province and the demand from infrastructure projects in countries along the “Belt and Road Initiative” under the rigorous supply-side policy and the steady development of domestic real estate sector, as well as (b) that the Group may take advantage of the recent exit of illegal and excessive production capacity of steels in the PRC.

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) consider that the above proposed caps in respect of the deposit services are fair and reasonable.

### **Bill discounting services**

The proposed caps in respect of the amount of bill discounting provided by Xiwang Finance Company are as follows:

<b>Period</b>	<b>Transaction amounts (Billion RMB)</b>
From 1 January 2019 to 31 December 2019	5.50
From 1 January 2020 to 31 December 2020	6.00
From 1 January 2021 to 31 December 2021	6.60

The above proposed caps in respect of bill discounting were determined after taking into account of the following:

1. the historical amount of bill discounting of the Group (whether made with Xiwang Finance Company or other financial institutions), which was approximately RMB1.0 billion, RMB2.1 billion and RMB3.5 billion for the years ended 31 December 2016 and 2017, and for the nine months ended 30 September 2018, respectively;
2. the expected increase in the amount of bill discounting of the Company in the next three years in light of the expected increase in business scale of the Group;
3. the expected increase in the amount of bill discounting of the Group to be made with Xiwang Finance Company in the next three years given the established business relationships with Xiwang Finance Company; and



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## LETTER FROM THE BOARD

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4. a general growth rate for the annual caps of bill discounting services of 10% per annum taking into consideration the factors as stated in paragraph numbered (4) in the sub-section headed “Deposit Services” under the section headed “Proposed Caps” of this circular.

The Directors (excluding the independent non-executive Directors, whose views will be contained in the circular after considering the advice from the Independent Financial Adviser) consider that the above proposed caps in respect of the bill discounting services are fair and reasonable.

### **Bill acceptance services**

The proposed caps in respect of the amount of bill acceptance provided by Xiwang Finance Company are as follows:

<b>Period</b>	<b>Transaction amounts</b> <i>(Billion RMB)</i>
From 1 January 2019 to 31 December 2019	5.50
From 1 January 2020 to 31 December 2020	6.00
From 1 January 2021 to 31 December 2021	6.60

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

1. the historical amount of bill acceptance of the Group (whether made with Xiwang Finance Company or other financial institutions), which was approximately RMB3.3 billion, RMB3.4 billion and RMB3.8 billion for the years ended 31 December 2016 and 2017, and for the nine months ended 30 September 2018, respectively;
2. the expected increase in the amount of bill acceptance of the Company in the next three years in light of the expected increase in business scale of the Group;
3. the expected increase in the amount of bill acceptance of the Group to be made with Xiwang Finance Company in the next three years given the established business relationships with Xiwang Finance Company; and

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## LETTER FROM THE BOARD

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4. a general growth rate for the annual caps of bill acceptance services of 10% per annum taking into consideration the factors as stated in paragraph numbered (4) in the sub-section headed “Deposit Services” under the section headed “Proposed Caps” of this circular.

The Directors (excluding the independent non-executive Directors, whose views will be contained in the circular after considering the advice from the Independent Financial Adviser) consider that the above proposed caps in respect of the bill acceptance services are fair and reasonable.

### **Loan Services**

Since the loan services to be provided by Xiwang Finance Company to the Company are on normal commercial terms which are similar to or even more favourable than those offered by other major commercial banks in the PRC, and that no security over the assets of the Company will be granted in respect of the loan services, the loan services are exempt under Rule 14A.90 of the Listing Rules from all reporting, announcement and Independent Shareholders’ approval requirements.

The Directors (including the independent non-executive Directors) consider that the loan services to be provided under the Financial Services Agreement are fair and reasonable and in the interests of the Shareholders as a whole.

### **Other Services**

Apart from the deposit services, bill discounting and bill acceptance services and the loan services, Xiwang Finance Company may also provide the Company with other financial services approved by the CBRC.

Other financial services to be provided under the Financial Services Agreement will be on normal commercial terms and on terms similar to or even more favourable than those offered by other independent commercial banks in the PRC. The Directors (including the independent non-executive Directors) consider that other financial services to be provided under the Financial Services Agreement are fair and reasonable and in the interests of the Shareholders as a whole.

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## LETTER FROM THE BOARD

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The Company expects that each of the applicable percentage ratios (as defined in Chapter 14 of the Listing Rules) of the fees payable by the Company to Xiwang Finance Company for the provision of other financial services under the Financial Services Agreement will fall within the de minimis threshold as stipulated under Chapter 14A of the Listing Rules. The Company will comply with the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules if the fees payable by the Company to Xiwang Finance Company for the provision of other financial services under the Financial Services Agreement exceed the relevant de minimis threshold.

### **Internal Control on Pricing**

The interest rates for deposit, loan, bill discounting, the fee for bill acceptance and the service fees for other financial services are arrived at after considering the interest rates and service fees charged by/offered by other independent commercial banks and/or financial institutions in the PRC for provision of similar level of services.

There are stringent internal control policies with regard to financial service transactions. The finance department of the Company would compare the interest rates for deposit, loan, bill discounting, the fee for bill acceptance, and the service fees for other financial services quoted from the Xiwang Finance Company with the terms from other independent third parties (including at least 2 financial institutions and/or commercial banks in the PRC) to ensure that the most favourable terms are obtained from Xiwang Finance Company. For each of the deposit, bill discounting and bill acceptance services, the finance department of the Company reviews the market interest rates on a monthly basis. Moreover, its finance department also reviews the market interest rates for loan services and the service fee quotations for other financial services on a monthly basis.

In addition, the financial service transactions under the Financial Services Agreement will be reported to and approved by the head of the finance department of the Company. The internal control policies will also be applied to the financial service transactions with Xiwang Finance Company to ensure the interest rates for deposit, loan and bill discounting services, the fee for bill acceptance services, and the service fees for other financial services charged by/offered by Xiwang Finance Company shall not be less favourable than the interest rates and services fees charged by/offered by other independent commercial banks for comparable services.

By adopting the policy set out above, the Company can ensure that (i) the interest rate payable for the Company's deposits shall not be lower than the interest rate offered by other independent commercial banks for comparable deposits in the PRC; and (ii) the interest rates for loans and bill discounting, the fee for bill acceptance, and service fees for other financial services to be charged by Xiwang Finance Company shall not be higher than those charged by other independent commercial banks for providing comparable services in the PRC.

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## LETTER FROM THE BOARD

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Furthermore, the external auditors of the Company will conduct an annual review on the pricing and the annual caps of the financial services transactions under the Financial Services Agreement. The independent non-executive Directors will conduct an annual review of the implementation and enforcement of the financial services transactions under the Financial Services Agreement. In respect of the depositary services under the Financial Services Agreement, the Company will monitor the amount of deposits placed with the connected persons, such as Xiwang Finance Company, relative to the total amount of deposits placed with the connected persons and other independent third parties. The management will mitigate concentration risks by ensuring that the deposits of the Group are not entirely placed with Xiwang Finance Company or other connected persons. In addition, to lower the concentration risk, the Company has internal controls in place to ensure that, during the term of the Financial Services Agreement, the maximum month-end deposit balance of the Group with Xiwang Finance Company out of the total maximum month-end deposit balance of the Group for the same periods (whether by Xiwang Finance Company or other financial institutions) will not exceed 50%. The management will also further assess the risk of excess reliance on the connected persons. The Board, including the independent non-executive Directors, will review and evaluate the continuation of the procurement of the deposit services with the Xiwang Finance Company, in particular whether the Group should transfer all or part of its deposits placed with the Xiwang Finance Company to other financial institutions taking into account, among others, the risks and benefits of the amount of deposits placed with Xiwang Finance Company.

### **Provision of Guarantee by Xiwang Group Company**

On 18 October 2018, Xiwang Group Company executed a Guarantee in favour of the Company to secure the performance of obligations of Xiwang Finance Company under the Financial Services Agreement. The Guarantee will be effective from the date on which the Financial Services Agreement becomes effective. No fees will be charged by Xiwang Group Company for the provision of such guarantee.

Pursuant to the terms of the Guarantee, Xiwang Group Company has undertaken that if Xiwang Finance Company experiences or foresees to experience any liquidity problems, Xiwang Group Company will inject capital to Xiwang Finance Company based on Xiwang Finance Company's needs in order to maintain the normal operations of Xiwang Finance Company. Xiwang Group Company has also undertaken to compensate the Company and/or the Qualified Subsidiaries jointly and severally with Xiwang Finance Company for all the substantial risks or losses (including but not limited to the deposits, interests and related expenses incurred) caused by or potentially caused by Xiwang Finance Company's breaches or potential breaches of PRC laws and regulations, or by any major operational problems or difficulties with liquidity on the part of Xiwang Finance Company, or by Xiwang Finance Company's non-performance of any terms or default of the Financial Services Agreement.

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## LETTER FROM THE BOARD

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Based on the information provided by Xiwang Group Company, Xiwang Group Company had a credit rating of “AA+” in August 2018, which is a very high credit rating that implies Xiwang Group Company has a very low default risk with a very strong capacity to realise its financial commitments. Furthermore, Xiwang Group Company had (i) recorded consolidated total assets of approximately RMB46,418 million and net assets attributable to shareholders of approximately RMB12,105 million as at 30 June 2018; and (ii) generated net profit attributable to shareholders of approximately RMB307 million for the year ended 31 December 2017; (iii) recorded consolidated cash and cash equivalents of approximately RMB613 million and RMB1,931 million respectively as at 31 December 2017 and 30 June 2018; and (iv) generated consolidated net cash flow from operating activities of approximately RMB4,807 million and RMB4,965 million respectively for the year ended 31 December 2017 and for the six months ended 30 June 2018. Based on the high credit rating and strong financial performance of Xiwang Group Company, 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) consider that the above proposed caps in respect of the financial services are fair and reasonable. Please refer to the section headed “Proposed Caps” of this circular for further details.

### **Reasons for and Benefits of Entering into the Financial Services Agreement**

1. The interest rates on deposits, loans and discount of bills, the fee for bill acceptance and the service fees for other financial services to be offered by Xiwang Finance Company to the Company will be equal to or more favourable than those offered by other independent commercial banks in the PRC in respect of comparable services.
2. Xiwang Finance Company is established as a non-banking financial institution regulated by the PBOC and the CBRC, and provides its services in accordance with the rules and operational requirements of these regulatory authorities. In addition, capital risks are reduced through the introduction of the risk control measures stipulated in the Financial Services Agreement.
3. The Company is expected to benefit from Xiwang Finance Company’s better understanding of the operations of the Company which will allow more expedient and efficient services than those rendered by other PRC commercial banks. For example, in the event that the Company considers that it is necessary to obtain loan and guarantee from Xiwang Finance Company in view of its business and financial needs, it is expected that the time required for the examination and approval of the loans and guarantee to be provided by Xiwang Finance Company will be shorter than that required by other commercial banks.

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## LETTER FROM THE BOARD

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4. By entering into the Financial Services Agreement with Xiwang Finance Company, the Company will be able to centralise its control and management over the financial resources of the Company, therefore improve the utilisation and efficiency of fund usage and mitigate its operating risks. It can also accelerate the turnover of funds and reduce transaction costs and expenses, thereby further enhancing the amount and efficiency of funds utilisation. Meanwhile, the financial services to be provided under the Financial Services Agreement are diversified and can meet the business needs of the Company.

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 the capital risk control measures under the Financial Services Agreement and the Guarantee are adequate to cover the risks involved in depositing funds of the Company with Xiwang Finance Company, the terms of the Financial Services Agreement and the Guarantee are fair and reasonable and the Financial Services 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, in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole.

### **STEEL DELIVERY SERVICE AGREEMENT**

#### **Date**

18 October 2018

#### **Parties**

- (1) Xiwang Logistics
- (2) the Company

#### **Major terms of the Steel Delivery Service Agreement**

The major terms of the Steel Delivery Service Agreement are as follows:

- (1) Subject matter: Pursuant to the Steel Delivery Service Agreement, Xiwang Logistics agree to provide delivery service to the Company for the delivery of the Group's steel to Shandong Province and other provinces in the PRC, during the term of the agreement.

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## LETTER FROM THE BOARD

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- (2) Consideration: The cost of delivery service shall be determined according to the weight of steel for each delivery with reference to prevailing market prices.
- (3) Settlement and payment: Settlement shall be made by the Company after the receipt of the value-added tax invoice from Xiwang Logistics.
- (4) Term: three years commencing on 1 January 2019 (or a date when the Shareholders' approval is obtained, if it is later than 1 January 2019) and ending on 31 December 2021 (both dates inclusive).
- (5) Transactions contemplated under the Steel Delivery Service Agreement will be conducted:
  - (a) in the ordinary and usual course of business of the Company and Xiwang Logistics;
  - (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 Steel Delivery Service Annual Caps), applicable laws and the terms of the Steel Delivery Service Agreement.

### **Internal control and pricing policy**

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

- (1) the price for the steel delivery service will be negotiated on arm's length basis and at a price with reference to the prevailing market prices of similar logistics companies, which will be determined through reviewing two sets of terms offered by independent third parties by the staff of the sales department of the Group. The sales department of the Company reviews market price quotations for steel delivery service on a monthly basis;

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## LETTER FROM THE BOARD

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- (2) the Company's external auditors will conduct an annual review on the pricing and the annual caps of the continuing connected transactions;
- (3) the independent non-executive Directors will conduct an annual review of the implementation and enforcement of the continuing connected transactions; and
- (4) The Steel Delivery Service Agreement will be reviewed by sales officer and approved by sales managers.

### Steel Delivery Service Historical Figures and Annual Caps

Shandong Xiwang Special Steel (now known as Xiwang Metal), a wholly-owned subsidiary of the Company, and Xiwang logistics had entered into the 2015 Steel Delivery Services Agreement on similar terms as the Steel Delivery Service Agreement for the period from 1 January 2016 to 30 September 2018. The actual transaction amounts were as follows:

<b>For the year ended 31 December 2016 RMB million</b>	<b>For the year ended 31 December 2017 RMB million</b>	<b>For the nine months ended 30 September 2018 RMB million</b>
8.22	59.53	36.42
<i>(Note)</i>		

*Note:* The Group commenced procurement of the steel delivery service from Xiwang Logistics in May 2016.

It is expected that the maximum aggregate annual transaction amounts under the Steel Delivery Service Agreement for each of the next three years are as follows:

<b>For the year ending 31 December 2019 RMB million</b>	<b>For the year ending 31 December 2020 RMB million</b>	<b>For the year ending 31 December 2021 RMB million</b>
124	143	165

If the actual transaction amount exceeds the Steel Delivery Service Annual Caps, the Company shall re-comply with the reporting, announcement and Shareholders' approval requirements (as the case may be).



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## LETTER FROM THE BOARD

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The Steel Delivery Service Annual Caps are estimated based on the following factors:

- (i) the actual amount of the steel delivered and the transportation cost incurred from the delivery of steel of the Group (whether by Xiwang Logistics or independent third parties) for the years ended 31 December 2016 and 2017, and the nine months ended 30 September 2018, which was approximately RMB11.0 million, RMB88.5 million and RMB57.6 million, respectively;
- (ii) the aggregate amount of steel delivery service procured by the Group (whether by Xiwang Logistics or independent third parties) for the year ending 31 December 2018 is assumed to be RMB77 million, which is calculated on a pro-rata basis with reference to the actual amount of steel delivery service procured by the Group, i.e. approximately RMB58 million for the nine months ended 30 September 2018. Such assumed amount is adopted as the basis for calculating the Steel Delivery Service Annual Caps for the three years ending 31 December 2021, given that all the steel delivery services required by the Group would be procured from Xiwang Logistics rather than from independent third parties if the terms offered by Xiwang Logistics are more favourable as compared with those offered by independent third parties;
- (iii) the expected amount of steel to be delivered by Xiwang Logistics in the next three years, with the percentage of delivery of steel products to be arranged by the Group rather than by customers is expected to increase from approximately 25% of the steel products sold by the Group for the nine months ended 30 September 2018 to approximately 35% of the steel products sold by the Group for the upcoming three years, due to the possibility of increased delivery requests from customers of the Group;
- (iv) a general growth rate for the Steel Delivery Annual Caps of 10% per annum taking into consideration the factors as stated in paragraph numbered (4) in the sub-section headed “Deposit Services” under the section headed “Proposed Caps” of this circular; and
- (v) an expected inflation rate of 5% per annum with reference to the October 2018 edition of the World Economic Outlook Database published by the International Monetary Fund for each of the years ending 31 December 2019, 2020 and 2021.

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## LETTER FROM THE BOARD

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### **Reasons for and benefits of entering into the Steel Delivery Service Agreement**

Xiwang Logistics is located in Handianzhen, Zouping County, Shandong Province, which is less than 500 meters away from the Company. It is the closest logistics company to the Company, which has logistics capability, possesses adequate vehicles and can deliver the goods in a timely manner.

In light 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 views of the Independent Financial Adviser on the terms of the Steel Delivery Service Agreement) consider that the terms of the Steel Delivery Service Agreement and the Steel Delivery Service Annual Caps are fair and reasonable and are entered into on normal commercial terms, and on terms no less favourable than those available to independent third parties under the prevailing local market conditions, in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole.

### **ORE POWDER DELIVERY SERVICE AGREEMENT**

#### **Date**

18 October 2018

#### **Parties**

- (1) Xiwang Logistics
- (2) the Company

#### **Major terms of the Ore Powder Delivery Service Agreement**

The major terms of the Ore Powder Delivery Service Agreement are as follows:

- (1) Subject matter: Pursuant to the Ore Powder Delivery Service Agreement, Xiwang Logistics agreed to provide delivery service to the Company for the delivery of ore powder from Shandong Province and other provinces in the PRC to the Company's location during the term of the agreement.
- (2) Consideration: The cost of delivery service shall be determined according to the weight of ore powder for each delivery with reference to prevailing market prices.

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## LETTER FROM THE BOARD

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- (3) Settlement and payment: Settlement shall be made by the Company after the receipt of the value-added tax invoice from Xiwang Logistics.
- (4) Term: three years commencing on 1 January 2019 (or a date when the Shareholders' approval is obtained, if it is later than 1 January 2019) and ending on 31 December 2021 (both dates inclusive).
- (5) Transactions contemplated under the Ore Powder Delivery Service Agreement will be conducted:
  - (a) in the ordinary and usual course of business of the Company and Xiwang Logistics;
  - (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 Ore Powder Delivery Service Annual Caps), applicable laws and the terms of the Ore Powder Delivery Service Agreement.

### **Internal Control and Pricing Policy**

In order to ensure that the terms of the Ore Powder Delivery Service Agreement are not less favourable than those available from independent third parties, the Group has adopted the following measures:

- (1) the price for the ore powder delivery service will be negotiated on arm's length basis and at a price with reference to the prevailing market prices of similar logistics companies, which will be determined through reviewing two sets of terms offered by independent third parties by the staff of the procurement department of the Group. The procurement department of the Company reviews market price quotations for ore powder delivery service on a monthly basis;
- (2) the Company's external auditors will conduct an annual review on the pricing and the annual caps of the continuing connected transactions;

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## LETTER FROM THE BOARD

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- (3) the independent non-executive Directors will conduct an annual review of the implementation and enforcement of the continuing connected transactions;
- (4) The Ore Powder Delivery Service Agreement will be reviewed by purchasing officer and approved by purchasing managers; and
- (5) The Company will monitor the market price quotations for ore powder delivery services as stated in the above, and it is able to directly and easily source alternative independent service providers at a relatively low switch cost for similar services in the market, if the terms offered by Xiwang Logistics become less favourable than those offered by the independent third parties.

### Ore Powder Delivery Service Historical Figures and Annual Caps

Shandong Xiwang Special Steel (now known as Xiwang Metal), a wholly-owned subsidiary of the Company, and Xiwang logistics had entered into the 2015 Ore Powder Delivery Services Agreement on similar terms as the Ore Powder Delivery Service Agreement for the period from 1 January 2016 to 30 September 2018. The actual transaction amounts with Xiwang Logistics were as follows:

<b>For the year ended 31 December 2016 RMB million</b>	<b>For the year ended 31 December 2017 RMB million</b>	<b>For the nine months ended 30 September 2018 RMB million</b>
74.57	173.50	106.72
<i>(Note)</i>		

*Note:* The Group commenced procurement of the ore powder delivery service from Xiwang Logistics in April 2016.

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## LETTER FROM THE BOARD

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It is expected that the maximum aggregate annual transaction amounts under the Ore Powder Delivery Service Agreement for each of the next three years are as follows:

<b>For the year ending 31 December 2019 RMB million</b>	<b>For the year ending 31 December 2020 RMB million</b>	<b>For the year ending 31 December 2021 RMB million</b>
236	273	315

If the actual transaction amount exceeds the Ore Powder Delivery Service Annual Caps, the Company shall re-comply with the reporting, announcement and Shareholders' approval requirements (as the case may be).

The Ore Powder Delivery Service Annual Caps are estimated based on the following factors:

- (i) the aggregate actual amount of the ore powder delivered and the transportation cost incurred from the delivery of ore powder of the Group, which was arranged by Xiwang Logistics, for the years ended 31 December 2016 and 2017, and the nine months ended 30 September 2018 was approximately RMB74.6 million, RMB173.5 million and RMB106.7 million, respectively, representing a substantial increase in the amount for the year ended 31 December 2017 compared with the amount for the year ended 31 December 2016, where the ore powder delivery service commenced in April 2016;
- (ii) given that the ore powder delivery services required by the Group for the years ended 31 December 2016 and 2017 and the nine months ended 30 September 2018 (as mentioned in paragraph (i) above) were all procured from Xiwang Logistics but not from independent third parties as the terms offered by Xiwang Logistics were more favourable, the historical amount of approximately RMB173 million achieved for the latest full financial year ended 31 December 2017 (which represents a buffer of 21% above the amount of approximately RMB143 million, which is determined on a pro rata basis with reference to the historical amount for the nine months ended 30 September 2018), is assumed to be the amount of ore powder delivery service for the upcoming year ending 31 December 2018 and is adopted as the basis for calculating the Ore Powder Delivery Service Annual Caps for the three years ending 31 December 2021, on the basis that all the ore powder delivery services required by the Group would be procured from Xiwang Logistics rather than from independent third parties if the terms offered by Xiwang Logistics are more favourable as compared with those offered by independent third parties;

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## LETTER FROM THE BOARD

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- (iii) the portion of delivery of ore powder to be arranged by the Group through Xiwang Logistics rather than by suppliers is expected to increase from approximately 85% of the ore powder procured by the Group for the nine months ended 30 September 2018 to 100% of the ore powder procured by the Group for the upcoming three years, due to the more favourable terms offered by Xiwang Logistics;
- (iv) a general growth rate for the Ore Powder Delivery Service Annual Caps of 10% per annum taking into consideration the factors as stated in paragraph numbered (4) in the sub-section headed “Deposit Services” under the section headed “Proposed Caps” of this circular; and
- (v) an expected inflation rate of 5% per annum with reference to the October 2018 edition of the World Economic Outlook Database published by the International Monetary Fund for each of the three years ending 31 December 2021.

### **Reasons for and benefits of entering into the Ore Powder Delivery Service Agreement**

Xiwang Logistics is located in Handianzhen, Zouping County, Shandong Province, which is less than 500 meters away from the Company. It is the closest logistics company to the Company, which has logistics capability, possesses adequate vehicles and can deliver the goods in a timely manner.

In light 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 views of the Independent Financial Adviser on the terms of the Ore Powder Delivery Service Agreement) consider that the terms of the Ore Powder Delivery Service Agreement and the Ore Powder Delivery Service Annual Caps are fair and reasonable and are entered into on normal commercial terms, and on terms no less favourable than those available to independent third parties under the prevailing local market conditions, in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole.

### **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 Finance Company is a subsidiary of Xiwang Group Company and is owned as to 5% by the Company. Xiwang Finance Company is intended to provide the member companies of Xiwang Group, including but not limited to the members of the Group, with professional financial services, as well as to minimise financial risks and enhance the general competitiveness of Xiwang Group.

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## LETTER FROM THE BOARD

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Xiwang Logistics is a company incorporated in the PRC and is principally engaged in transportation of general goods and provision of logistics services in the PRC.

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 Investment is the controlling shareholder of the Company and is wholly owned by Xiwang Holdings. Xiwang Holdings is held as to 95% by Xiwang Hong Kong and Xiwang Hong Kong is in turn wholly-owned by Xiwang Group Company. As at the Latest Practicable Date, Xiwang Group Company is the ultimate holding company of the Company. Xiwang Finance Company is a subsidiary of Xiwang Group Company and is owned as to 5% by the Company. Xiwang Logistics is a wholly-owned subsidiary of Xiwang Group Company.

Therefore, Xiwang Finance Company and Xiwang Logistics are each an associate of Xiwang Investment and also a connected person (as defined in Chapter 14A of the Listing Rules) of the Company, and the transactions contemplated under the Financial Services Agreement, the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

### **Financial Services Agreement**

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of each of the provision of deposit services, bill discounting services and bill acceptance services under the Financial Services Agreement exceeds 25%, each of the provision of deposit services, bill discounting services and bill acceptance services under the Financial Services 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 loan services to be provided by Xiwang Finance Company to the Company under the Financial Services Agreement will constitute financial assistance to be provided by a connected person for the benefit of the Company. As such services are on normal commercial terms which are similar to or even more favourable than those offered by other commercial banks for comparable services in the PRC, and no security over the assets of the Company will be granted in respect of the loan services, the loan services are exempt under Rule 14A.90 of the Listing Rules from all reporting, announcement and Independent Shareholders' approval requirements.

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## LETTER FROM THE BOARD

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The Company expects that each of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) of the fees payable by the Company to Xiwang Finance Company in respect of the provision of other financial services under the Financial Services Agreement will fall within the de minimis threshold as stipulated under Chapter 14A of the Listing Rules.

The Company will comply with the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules if the fees payable by the Company to Xiwang Finance Company for the provision of other financial services under the Financial Services Agreement exceed the relevant de minimis threshold.

The Company will also disclose the relevant details of the Financial Services Agreement and the Guarantee Agreement in its next published annual report and accounts in accordance with the relevant requirements as set out in Rule 14A.49 of the Listing Rules.

The provision of guarantee by Xiwang Group Company to the Group will constitute financial assistance to be received by the Group from a connected person. As the transactions under the Guarantee will be conducted on normal commercial terms or better and will not be secured over the assets of the Group, such guarantee is exempt from the Independent Shareholders' approval, annual review and all disclosure requirements under Rule 14A.90 of the Listing Rules.

### **Steel Delivery Service Agreement and Ore Powder Delivery Service Agreement**

Since the transactions contemplated under the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement are similar in nature, and all of them were entered into between the Company and Xiwang Logistics, the transactions contemplated under the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement are aggregated for the classification of connected transactions in accordance with Rule 14A.81 and Rule 14A.82 of the Listing Rules. Given that one of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the annual caps for the provisions of the services under the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement is more than 5%, the transactions contemplated under the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement will constitute non-exempt continuing connected transactions of the Company, and are subject to reporting, annual review, announcement and Independent Shareholders' approval requirements as set out in Chapters 14 and 14A of the Listing Rules.



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## **LETTER FROM THE BOARD**

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The Company will hold an EGM to consider and approve the provision of deposit services, bill discounting services and bill acceptance services under the Financial Services Agreement, and also the terms of the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement. Xiwang Investment shall abstain from voting at the EGM for the approval of the resolutions relating to the deposit services, bill discounting services and bill acceptance services under the Financial Services Agreement, and relating to the terms of the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement.

### **APPROVAL BY THE BOARD**

The proposal in respect of the entry into the Financial Services Agreement, Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement and the Annual Caps were approved at the Board meeting held by the Company on 18 October 2018.

As (i) each of Mr. WANG Yong, Mr. WANG Di and Mr. SUN Xinhu being a Director is also a director and shareholder of Xiwang Group Company; and (ii) each of Mr. WANG Di and Mr. ZHANG Jian being a Director is also a director of Xiwang Finance Company, such Directors have abstained from voting on the board resolution to approve the entry into the Financial Services Agreement.

As each of Mr. WANG Yong, Mr. WANG Di and Mr. SUN Xinhu being a Director and Shareholder of the Company is also a director of Xiwang Logistics, and also a director and shareholder of Xiwang Group Company, such Directors have abstained from voting on the board resolution to approve the entry into the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement.

Save as disclosed above, none of the Directors have a material interest in the transactions under the Financial Services Agreement, the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement.

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## LETTER FROM THE BOARD

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### 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 Financial Services Agreement with respect to deposit services, bill discounting services and bill acceptance services, the Steel Delivery Service Agreement, the Ore Powder Delivery Service Agreement and the transactions contemplated thereunder and the 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 35 to 37 of this circular. The letter from the Independent Board Committee to the Independent Shareholders contains its recommendation on the Financial Services Agreement with respect to deposit services, bill discounting services and bill acceptance services, the Steel Delivery Service Agreement, the Ore Powder Delivery Service Agreement and the transactions contemplated thereunder and the Annual Caps.

Having considered the appropriate internal control procedures in place and the pricing policies with respect to the Financial Services Agreement with respect to deposit services, bill discounting services and bill acceptance services, the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement, the methods and procedures established by the Company to ensure the strict compliance with the pricing policies and that the transactions contemplated under the Financial Services Agreement with respect to deposit services, bill discounting services and bill acceptance services, the Steel Delivery Service Agreement and the Ore Powder Delivery Service 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 Financial Services Agreement with respect to deposit services, bill discounting services and bill acceptance services, the Steel Delivery Service Agreement, the Ore Powder Delivery Service Agreement and the transactions contemplated thereunder are fair and reasonable to the Independent Shareholders and in the interests of the Company and the Shareholders as a whole.

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## **LETTER FROM THE BOARD**

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### **INDEPENDENT FINANCIAL ADVISER**

The Company has appointed First Shanghai Capital 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 Financial Services Agreement with respect to deposit services, bill discounting services and bill acceptance services, the Steel Delivery Service Agreement, the Ore Powder Delivery Service Agreement and the transactions contemplated thereunder and the 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 38 to 62 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 Financial Services Agreement with respect to the deposit services, bill discounting services and bill acceptance services, the Steel Delivery Service Agreement, the Ore Powder Delivery Service Agreement and the transactions contemplated thereunder and the Annual Caps are fair and reasonable to the Shareholders, and are in the interests of the Company and the Shareholders as a whole.

### **CONNECTED PERSONS WHO ARE REQUIRED TO ABSTAIN FROM VOTING ON THE RESOLUTIONS**

Pursuant to Rule 14A.36 of the Listing Rules, any shareholder with a material interest in the relevant connected transaction is required to abstain from voting on the relevant resolution at the EGM. As at the Latest Practicable Date and to the best knowledge, information and belief of the Directors, save for Xiwang Investment, Wang Di and Sun Xihu 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 resolutions.

### **THE EGM AND PROXY ARRANGEMENT**

A notice convening the EGM is set out on pages 77 to 79 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.

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## LETTER FROM THE BOARD

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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](http://www.hkex.com.hk)) and the Company ([www.xiwangsteel.com](http://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's share registrar, Boardroom Share Registrars (HK) Limited, at 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.

### 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*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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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)**

10 December 2018

*To the Independent Shareholders*

Dear Sir or Madam,

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS  
AND NEW ANNUAL CAPS FOR 2019 TO 2021 –  
(I) MAJOR AND CONTINUING CONNECTED TRANSACTIONS –  
FINANCIAL SERVICES AGREEMENT  
(II) CONTINUING CONNECTED TRANSACTIONS –  
LOGISTICS AGREEMENTS  
(STEEL DELIVERY SERVICE AGREEMENT  
AND ORE POWDER DELIVERY SERVICE AGREEMENT)**

We refer to the circular issued by the Company to the Shareholders of the company dated 10 December 2018 (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 Financial Services Agreement constitutes connected and major transaction of the company, and the entering into the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement constitutes connected transaction of the Company, and the transactions contemplated thereunder constitute continuing connected transactions of the Company.

Since the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement are similar in nature, and all of them were entered into between Xiwang Metal and Xiwang Logistics, the transactions contemplated under the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement are aggregated for the classification of connected transactions in accordance with Rule 14A.81 and Rule 14A.82 of the Listing Rules.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Given that one of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the annual caps for the provisions of the services under the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement is more than 5%, the transactions contemplated under the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement will constitute non-exempt continuing connected transactions of the Company, and are subject to reporting, annual review, announcement and Independent Shareholders' approval requirements as set out in Chapters 14 and 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of each of the provision of deposit services, bill discounting services and bill acceptance services under the Financial Services Agreement exceeds 25%, each of the provision of deposit services, bill discounting services and bill acceptance services under the Financial Services 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 Financial Services Agreement with respect to the deposit services, bill discounting services and bill acceptance services, and to consider the terms of the Steel Delivery Service Agreement and the Ore Powder Delivery Service 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. First Shanghai Capital Limited has been appointed as the Independent Financial Adviser to advise us in this respect.

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 10 December 2018, which contains its advice to the Independent Board Committee and the Independent Shareholders on the Financial Services Agreement with respect to the deposit services, bill discounting services and bill acceptance services, the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement, and the Annual Caps for the continuing connected transactions contemplated thereunder (the text of the letter of advice is set out on pages 38 to 62 of the Circular). Having considered the advice of the Independent Financial Adviser, we are of the view that the terms and conditions of the Financial Services Agreement with respect to the deposit services, bill discounting services and bill acceptance services, the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement, are on normal commercial terms, fair and reasonable, in the ordinary and usual course of business of the Group and in the interests of the Company and its Shareholders as a whole, and the relevant 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.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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We also consider that the terms of the Financial Services Agreement with respect to deposit services, bill discounting services and bill acceptance services, the Steel Delivery Service Agreement and the Ore Powder Delivery Service 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 resolutions to approve the Financial Services Agreement with respect to deposit services, bill discounting services and bill acceptance services, the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement and the transactions contemplated thereunder, and the 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*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the text of a letter received from the Independent Financial Adviser setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the deposit services, bill discounting services and bill acceptance services under the Financial Services Agreement, the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement, for inclusion in this circular.*



**First Shanghai Capital Limited**

19th Floor, Wing On House  
71 Des Voeux Road Central  
Hong Kong

10 December 2018

*To the Independent Board Committee and the Independent Shareholders*

Dear Sir or Madam,

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS  
AND NEW ANNUAL CAPS FOR 2019 TO 2021 –  
(I) MAJOR AND CONTINUING CONNECTED TRANSACTIONS –  
FINANCIAL SERVICES AGREEMENT  
(II) CONTINUING CONNECTED TRANSACTIONS –  
LOGISTICS AGREEMENTS  
(STEEL DELIVERY SERVICE AGREEMENT  
AND ORE POWDER DELIVERY SERVICE AGREEMENT)**

### INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the deposit services, bill discounting services and bill acceptance services under the Financial Services Agreement (the “**Financial Services**”) and the transactions contemplated under the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement (the “**Delivery Services**”) (collectively, the “**Services**”), the details of which are set out in the circular of the Company to the Shareholders dated 10 December 2018 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Circular.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The 2015 Financial Services Agreement (as supplemented by the 2016 Financial Services Agreement), the 2015 Steel Delivery Service Agreement and the 2015 Ore Powder Delivery Services Agreement will expire on 31 December 2018. The Company intends to continue the relevant transactions contemplated under the aforementioned agreements for a term of three years commencing on 1 January 2019 and ending on 31 December 2021, therefore the following agreements were entered into on 18 October 2018:–

- the Financial Services Agreement entered into between the Company and Xiwang Finance Company, pursuant to which Xiwang Finance Company will provide the Company and the Qualified Subsidiaries with deposit services, loan services, bill discounting services, bill acceptance services and other financial services;
- the Steel Delivery Service Agreement entered into between the Company and Xiwang Logistics, pursuant to which Xiwang Logistics will provide delivery service to the Group in respect of the steel of the Group; and
- the Ore Powder Delivery Service Agreement entered into between the Company and Xiwang Logistics, pursuant to which Xiwang Logistics will provide delivery service to the Group in respect of the ore powder of the Group.

Xiwang Group Company is the ultimate holding company of the Company. Xiwang Finance Company is a subsidiary of Xiwang Group Company. Xiwang Logistics is a subsidiary of Xiwang Group Company. Pursuant to the Listing Rules, Xiwang Group Company, Xiwang Finance Company and Xiwang Logistics are connected persons of the Company. Accordingly, the Services constitute continuing connected transactions of the Company under the Listing Rules. As stated in the letter from the Board in the Circular, the Services are subject to, among other requirements, approval by the Independent Shareholders at the EGM.

The Independent Board Committee, comprising all 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 in respect of the Services. We, First Shanghai Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We had (i) acted as the independent financial adviser for certain continuing connected transactions of the Company, including those under the 2015 Financial Services Agreement, the 2015 Steel Delivery Service Agreement and the 2015 Ore Powder Delivery Services Agreement, as disclosed in the circular of the Company dated 19 February 2016; and (ii) acted as the independent financial adviser for certain continuing connected transactions of Xiwang Property Holdings Company Limited (2088 HK) (a subsidiary of Xiwang Group Company) as stated in its circular dated 24 November 2016 (collectively, the “**Previous Engagements**”). Apart from the Previous Engagements, we did not have any business relationship with the Company within the past two years. Given (i) our independent role in the Previous Engagements; (ii) our fee for the Previous Engagements represented an insignificant percentage of the revenue of our parent group; and (iii) the Previous Engagements had been completed, we consider the Previous Engagements would not affect our independence to form our opinion in respect of the Services.

In putting forth our opinion and recommendation, we have relied on the accuracy of the information and representations included in the Circular and provided to us by the management of the Group. We have assumed that all such information and representations made or referred to in the Circular and provided to us by the management of the Group were true at the time they were made and continued to be true up to the Latest Practicable Date. We have also assumed that all statements of belief, opinion and intention made in the Circular were reasonably made after due enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the management of the Group and have been advised that no material facts have been withheld or omitted from the information provided and referred to in the Circular. We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the management of the Group nor have we conducted any form of investigation into the business, affairs or future prospects of the Group and the Xiwang Group (including but not limited to Xiwang Finance Company and Xiwang Logistics).

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion on the Services, we have taken into account the following principal factors and reasons:–

#### 1. Background of the parties

##### a) Background of the Group

The Group is a leading high-end special steel manufacturer located in Shandong Province of the PRC. For the year ended 31 December 2017 and the six months ended 30 June 2018, over 80% of the revenue and gross profit of the Group were generated from the production and sales of steel. 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 2017 and the interim report of the Company for the six months ended 30 June 2018 (the “**2018 Interim Report**”).

	For the year ended 31 December		For the six months ended 30 June	
	2016	2017	2017	2018
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	7,567	12,362	5,592	5,956
Gross profit	1,068	2,025	750	1,068
Profit before tax	427	1,103	415	667
Profit for the year/ period	333	898	309	569

The financial performance of the Group significantly improved for the year ended 31 December 2017, where revenue and profit before tax recorded annual growths of approximately 63% and 158%, respectively. The financial performance of the Group continued to improve for the six months ended 30 June 2018, where revenue and profit before tax recorded year on year growths of approximately 7% and 61%, respectively. We understand that the improvements in revenue were mainly driven by the increase in the average selling price of steel.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The following table sets out a summary of the recent financial position of the Group based on the 2018 Interim Report.

	<b>As at 30 June 2018</b> <i>RMB million</i> (unaudited)
Non-current assets	10,766
Current assets	<u>2,626</u>
Total assets	<u><u>13,392</u></u>
Current liabilities	6,920
Non-current liabilities	<u>861</u>
Total liabilities	<u><u>7,781</u></u>
Net assets attributable to owners of the parent	5,611
Non-controlling interests	<u>–</u>
Net assets	<u><u>5,611</u></u>

As at 30 June 2018, (i) property, plant and equipment were the principal assets of the Group, amounting to approximately RMB10,248 million, representing approximately 77% of total assets; (ii) the total assets of the Group amounted to approximately RMB13,392 million; and (iii) the net assets of the Group was approximately RMB5,611 million.

**b) Background information on the Xiwang Group**

Xiwang Group Company is 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) (Hong Kong listed, with stock code 2088 HK); and (iii) Xiwang Food Company Limited (西王食品股份有限公司) (Shenzhen listed, with stock code 000639 CH).

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Xiwang Finance Company is a subsidiary of Xiwang Group Company and is owned as to 5% by the Company as at the Latest Practicable Date. Xiwang Finance Company is a non-banking financial institution in the PRC and provides professional financial services to the member companies of Xiwang Group.

Xiwang Logistics is a subsidiary of Xiwang Group Company. Xiwang Logistics is a company incorporated in the PRC and is principally engaged in the transportation of general goods and provision of logistics services in the PRC.

### 2. The Financial Services

#### *a) Background to and benefits of the Financial Services*

We are advised by the management of the Group that the Group, from time to time, for the facilitation of its business operations, (i) requires deposit services for the depository of cash to earn interest; (ii) requires bill discounting services for the cashing of bills which have not yet matured in order to enhance the cashflow of the Group; and (iii) requires bill acceptance services for the settlement of payables by way of bills issued by financial institutions in order to enhance the cashflow of the Group. Nonetheless, the 2015 Financial Services Agreement (as supplemented by the 2016 Financial Services Agreement) will expire on 31 December 2018 and the Company intends to continue the relevant transactions. Therefore, on 18 October 2018, the Company and Xiwang Finance Company entered into the Financial Services Agreement, pursuant to which Xiwang Finance Company will provide the Company and the Qualified Subsidiaries with deposit services, loan services, bill discounting services, bill acceptance services and other financial services.

The Group would place deposit at Xiwang Finance Company, which is a subsidiary of Xiwang Group Company. Therefore, in respect of the credibility of Xiwang Finance Company and Xiwang Group Company, we have considered the following areas:

- we are advised by the management of the Group that Xiwang Finance Company (i) is regulated by the China Banking Regulatory Commission (中國銀行業監督管理委員會); and (ii) does not have any record of non-compliance with laws, rules or regulations since its establishment up to the Latest Practicable Date;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- Xiwang Group Company has undertaken to the China Banking Regulatory Commission (中國銀行業監督管理委員會) in respect of the injection of capital into Xiwang Finance Company by Xiwang Group Company in the event that Xiwang Finance Company experiences payment difficulties;
- on 18 October 2018, Xiwang Group Company further executed the Guarantee in favour of the Company to secure the performance of obligations of Xiwang Finance Company under the Financial Services Agreement. No fees will be charged by Xiwang Group Company for the provision of such guarantee. Pursuant to the terms of the Guarantee, Xiwang Group Company has undertaken that if Xiwang Finance Company experiences or foresees to experience any liquidity problems, Xiwang Group Company will inject capital to Xiwang Finance Company based on the needs of Xiwang Finance Company in order to maintain the normal operations of Xiwang Finance Company. Xiwang Group Company has also undertaken to compensate the Company and/or the Qualified Subsidiaries jointly and severally with Xiwang Finance Company for all the substantial risks or losses (including but not limited to the deposits, interests and related expenses incurred) caused by or potentially caused by Xiwang Finance Company's breaches or potential breaches of PRC laws and regulations, or by any major operational problems or difficulties with liquidity on the part of Xiwang Finance Company, or by Xiwang Finance Company's non-performance of any terms or default of the Financial Services Agreement;
- in respect of the financial position of Xiwang Group Company, we have reviewed the financial reports of Xiwang Group Company published on the website of the Shanghai Stock Exchange, where we noted that Xiwang Group Company had (i) recorded consolidated total assets of approximately RMB46,418 million and net assets attributable to shareholders of approximately RMB12,105 million as at 30 June 2018; and (ii) generated net profit attributable to shareholders of approximately RMB307 million for the year ended 31 December 2017; and

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- in respect of the credit rating of Xiwang Group Company, we have reviewed the credit rating report of Xiwang Group Company dated August 2018 issued by Dagong Global Credit Rating Co., Ltd (“**Dagong**”) and the website of Dagong, where we note that (i) 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; (ii) according to the classification of Dagong, credit rating scales from worst to best are “C”, “CC”, “CCC”, “B”, “BB”, “BBB”, “A”, “AA” and “AAA”; and (iii) 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) (the “**PBOC**”).

The Independent Shareholders should note that the Financial Services Agreement (i) provides the flexibility, and does not impose an obligation, to the Group to procure the Financial Services from Xiwang Finance Company; and (ii) does not prevent the Group from using services provided by independent third parties. The Group retains the discretion to select its financial service provider according to its business needs as well as the fee and quality of the relevant services.

Taking into account, in particular, (i) the Group requires deposit services, bill discounting services and bill acceptance services from time to time to facilitate its business operation; (ii) the Financial Services Agreement provides the flexibility, and does not impose an obligation, to the Group to procure the Financial Services from Xiwang Finance Company; (iii) the credibility of Xiwang Finance Company and Xiwang Group Company, particularly its financial position and credit rating, as mentioned above; (iv) the Company owns 5% of Xiwang Finance Company; (v) Xiwang Finance Company may provide better services given it may be more familiar with the business and management of the Group as compared with independent third parties; and (vi) the terms of the Financial Services shall be no less favourable than those offered by independent third parties as further discussed below, we are of the view that the procurement of the Financial Services is in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *b) Principal terms of the Financial Services*

The Financial Services Agreement shall be valid for a term of three years commencing from 1 January 2019 (or a date when the shareholders' approval is obtained, if it is later than 1 January 2019) to 31 December 2021. The major terms of the Financial Services, which are set out in the letter from the Board in the Circular, are summarised in the following table.

The procurement of depository services by the Group from Xiwang Finance Company	The interest rates shall be no less favourable than the benchmark interest rates announced by the PBOC and those offered by other independent commercial banks in the PRC for comparable deposits.
The procurement of bill discounting services and bill acceptance services by the Group from Xiwang Finance Company	The rates shall be no less favourable than those offered by other independent commercial banks in the PRC for comparable bill discounting services and bill acceptance services.

The pricing terms of the Financial Services shall be no less favourable than those offered by independent third parties for similar services. In respect of the internal control measures for the Financial Services, we are advised by the management of the Group that:–

- the Group will (i) review the terms offered by at least two independent third parties of comparable financial services, such as reviewing the depository rate of independent third parties on at least a monthly basis and the discount rate of independent third parties before procuring bill discounting services from Xiwang Finance Company; and (ii) ensure the terms of the Financial Services shall be no less favourable than those offered by independent third parties;
- the Group will, no less frequent than on a monthly basis, evaluate the financial performance and position of Xiwang Finance Company. If the Group is aware of any material adverse change in the financial conditions of Xiwang Finance Company, the Group will adopt measures immediately, such as early withdrawal of deposits, to minimise the potential adverse effects;



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- the Board, including the independent non-executive Directors, will, no less frequent than four times a year, review and evaluate the continuation of the procurement of depository service from the Xiwang Finance Company, including but not limited to whether the Group should transfer part or all of its deposits at the Xiwang Finance Company to other financial institutions; and
- in accordance with the Listing Rules, (i) the independent non-executive Directors will continue to report annually on whether the Financial Services are, among other things, conducted on normal commercial terms; and (ii) the independent auditors of the Company will also continue to report on the Financial Services.

For each category of the Financial Services (being depository services, bill discounting services and bill acceptance services), we have reviewed recent random transaction samples which the Group entered into with Xiwang Finance Company and the corresponding terms offered by independent third parties, where we noted that the principal terms entered into with Xiwang Finance Company were no less favourable than those offered by independent third parties. We have further reviewed the two most recent annual reports of the Company and noted that, for each of the years ended 31 December 2016 and 2017, (i) the independent non-executive Directors had reviewed the continuing connected transactions of the Company, including those for the Financial Services, and confirmed, among other things, such transactions were conducted on normal commercial terms; and (ii) the independent auditors of the Company had also reported on such transactions. Accordingly, we understand the Group has a positive track record in respect of compliance with the Listing Rules.

Taking into account, in particular, (i) the pricing terms of the Financial Services shall be no less favourable than those offered by independent third parties for comparable services; (ii) the credibility of Xiwang Finance Company and Xiwang Group Company, particularly its financial position and credit rating, as previously mentioned; and (iii) the internal control measures of the Group, particularly the review of the terms offered by at least two independent third parties, to ensure the terms of the Financial Services are no less favourable than those offered by independent third parties, we are of the view that the terms of the Financial Services are fair and reasonable so far as the Independent Shareholders are concerned.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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**c) Proposed caps of the Financial Services**

The following table sets out the historical actual amounts and proposed caps of the Financial Services.

	Historical actual amounts			Proposed caps		
	For the year ended 31 December 2016 <i>RMB million</i>	For the year ended 31 December 2017 <i>RMB million</i>	For the nine months ended 30 September 2018 <i>RMB million</i>	For the year ending 31 December 2019 <i>RMB million</i>	For the year ending 31 December 2020 <i>RMB million</i>	For the year ending 31 December 2021 <i>RMB million</i>
Maximum daily deposit balance (the "Deposit Balance")	600	1,061	1,153	2,100	2,300	2,500
Aggregate amount of bill discounting (the "Bill Discounting Amount")	495	432	624	5,500	6,000	6,600
Aggregate amount of bill acceptance (the "Bill Acceptance Amount")	200	400	780	5,500	6,000	6,600

*Notes:*

1. We are advised by the management of the Group that the Group commenced procurement of depository service, bill discounting service and bill acceptance service from Xiwang Finance Company in January 2016, March 2016 and September 2016, respectively.
2. The proposed caps shall not be construed as an assurance by the Group of its future revenue, profitability or cashflow.

We are advised by the management of the Group that the Group has considered a general growth rate of 10% per annum (the "General Growth Rate") for the purpose of determining the annual caps of the Services. In respect of the General Growth Rate, we have considered several factors:

- we have reviewed the financial and operating performance of the Group, where we noted that, for the year ended 31 December 2017, the revenue, profit before tax and the sales volume of steel recorded annual growths of approximately 63%, 158% and 10%, respectively;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- we understand (i) with reference to the announcement of the Company dated 5 March 2018, the steel products manufactured by the Group were primarily domestically supplied to within the PRC, whereas steel products exported to overseas countries contributed not more than 2% of the total revenue of the Group for the year ended 31 December 2017; and (ii) with reference to the letter from the Board in the Circular, the steel products of the Group are primarily used in buildings, infrastructures, automobile, shipbuilding, chemical and petrochemical, machinery and equipment sectors. Accordingly, in respect of the expected growth of the general economy of the PRC in the upcoming years, we have reviewed the October 2018 edition of the *World Economic Outlook Database* published by the International Monetary Fund and we note that the real gross domestic product (i.e. excluding the effect of inflation) of the PRC is expected to record an annual growth rate of approximately 6% for each of the years ending 31 December 2019, 2020 and 2021; and
- we have reviewed governmental policies and we understood that the PRC government has recently been cutting steel production capacities, including those for sub-standard steels. As stated in the 2018 Interim Report, (i) in the context of the exit of illegal and excessive production capacity, the advantageous production capacity of the Group will be offered plenty of room for development; and (ii) looking forward, benefited from the rigorous supply-side policy and the steady development of domestic real estate sector, the continued strength of infrastructure projects in Shandong Province, and the demand from infrastructure projects in countries along the “Belt and Road Initiative”, the steel market will be in the status of “low inventory, high profit, high demand”.

Based on the above, we consider the General Growth Rate of 10% per annum to be acceptable for the purpose of determining the annual caps of the Services.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Deposit Balance*

In respect of the proposed caps of the Deposit Balance, we have discussed with and are advised by the management of the Group that the proposed caps were determined based on the following:

- the annual cap for the year ending 31 December 2019 of RMB2,100 million was determined based on the historical actual amount of Deposit Balance placed by the Group at Xiwang Finance Company for the nine months ended 30 September 2018 of approximately RMB1,153 million plus a buffer of around RMB1,000 million, which has primarily taken into account (i) the possible fund raising and borrowing to be drawn from Xiwang Finance Company for, among other matters, the ongoing establishment of the new production line mentioned in the announcement of the Company dated 10 April 2017 with outstanding funding requirement of approximately RMB2,000 million as at the Latest Practicable Date; and (ii) the net cash flow from operating activities of the Group amounted to approximately RMB2,289 million for the year ended 31 December 2017; and
- the annual caps for each of the years ending 31 December 2020 and 2021 of RMB2,300 million and RMB2,500 million, respectively, were primarily determined based on the annual cap for the preceding year and the General Growth Rate of 10% per annum in view of the continuous development of the business of the Group.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Independent Shareholders should note that the overall deposits of the Group may be exposed to risks in the extreme scenario where (i) the placing of the deposits of the Group is highly concentrated in Xiwang Finance Company; (ii) Xiwang Finance Company becomes financially distressed; and (iii) the Group becomes unable to withdraw its deposits or transfer its deposits to other financial institutions. In this connection, regarding the proportion of the deposits of the Group to be placed at Xiwang Finance Company and at the independent third parties from time to time, we have discussed with and are advised by the management of the Group that the following key factors are to be taken into account:

- the review by the Group of the credibility of Xiwang Finance Company and Xiwang Group Company, including the monthly review of relevant financial statements as previously mentioned, to assess the risk of depositing at Xiwang Finance Company;
- the review by the Group of the deposit interest rates of Xiwang Finance Company and of the independent third parties, which will be performed on a monthly basis as previously mentioned, to assess the return of depositing at Xiwang Finance Company over that of depositing at the independent third parties;
- the Group ensures the maximum month-end deposit balance of the Group with Xiwang Finance Company out of the total maximum month-end deposit balance of the Group for the same periods (whether with Xiwang Finance Company or other financial institutions) will not exceed 50%;
- the Board, including the independent non-executive Directors, will, no less frequent than four times a year, review and evaluate the continuation of the procurement of depository service from the Xiwang Finance Company, including but not limited to whether the Group should transfer part or all of its deposits at the Xiwang Finance Company to other financial institutions; and

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- the Group also, in general, takes into account the business cooperation relationships established with Xiwang Finance Company, particularly the fact that deposit service is part and parcel of the variety of services available under the Financial Services Agreement, which covers loan and other financial services. For instance, if the Group has drawn down a substantial amount of loan on favourable terms from Xiwang Finance Company for working capital and business development needs, such substantial funding obtained may be maintained in the account at Xiwang Finance Company before being utilised, for a depository interest rate no less favourable than that offered by independent third parties.

Taking in account, in particular, (i) the historical actual amount of Deposit Balance; (ii) the possible fund raising and borrowing to be drawn from Xiwang Finance Company for the business development of the Group; (iii) the cash generated from the continuous operation of the growing business of the Group; (iv) the proposed caps provide the flexibility rather than an obligation to the Group to deposit its cash with Xiwang Finance Company on terms no less favourable than those with independent third parties; (v) the credibility of Xiwang Finance Company and Xiwang Group Company, particularly its financial position and credit rating, as previously mentioned; and (vi) the internal control measures of the Group, particularly the review of the fairness and reasonableness of the terms and the proportion of deposits to be placed at Xiwang Finance Company to assess the risks of the deposits placed at Xiwang Finance Company as mentioned previously, we consider the proposed caps of the Deposit Balance to be fair and reasonable so far as the Independent Shareholders are concerned.

### *Bill Discounting Amount*

In respect of the proposed caps of the Bill Discounting Amount, we have discussed with and are advised by the management of the Group that the proposed caps were determined based on the following:

- in case the terms offered by Xiwang Finance Company are more favourable as compared with independent third parties, the bill discounting services required by the Group would be procured from Xiwang Finance Company rather than from independent third parties. The aggregate amount of bill discounting service procured by the Group (including from Xiwang Finance Company and independent third parties) for the nine months ended 30 September 2018 amounted to approximately RMB3,489 million. Accordingly, on a pro rata basis, the estimated aggregate amount of bill discounting service for the year ending 31 December 2018 is approximately RMB4,652 million;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- based on the General Growth Rate of 10% per annum, the estimated aggregate amount of bill discounting service for the year ending 31 December 2019 is approximately RMB5,117 million. After taking into account a buffer of no more than 10% to the aforesaid estimated amount, the annual cap for the year ending 31 December 2019 is RMB5,500 million; and
- the annual caps for each of the years ending 31 December 2020 and 2021 of RMB6,000 million and RMB6,600 million, respectively, were primarily determined based on the annual cap for the preceding year and the General Growth Rate of 10% per annum in view of the continuous development of the business of the Group.

In respect of the assumption that the bill discounting services required by the Group would primarily be procured from Xiwang Finance Company, we have discussed with and are advised by the management of the Group that (i) the Group chooses its bill discounting service provider primarily based on the terms offered, because more favourable terms would imply lower costs for the Group; and (ii) in case the terms offered by Xiwang Finance Company are more favourable than those offered by independent third parties in the future, the Group will choose Xiwang Finance Company as the service provider to save costs. Therefore, despite only a portion of the service required by the Group in the past was provided by Xiwang Finance Company, we consider such assumption to be acceptable for the purpose of determining the future annual caps. We also understand that the actual percentage of annual caps utilised or to be utilised depends on the then circumstances, including the demand of services and also the terms offered by Xiwang Finance Company.

Taking in account, in particular, (i) the historical actual aggregate amount of bills discounted by the Group; (ii) the annual caps were calculated based on the aggregate transaction amount on a pro rata basis, the General Growth Rate and an acceptable level of buffer; and (iii) the proposed caps provide the flexibility rather than an obligation to the Group to discount its bills via Xiwang Finance Company to enhance its cashflow on terms no less favourable than those with independent third parties, we consider the proposed caps of the Bill Discounting Amount to be fair and reasonable so far as the Independent Shareholders are concerned.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Bill Acceptance Amount*

In respect of the proposed caps of the Bill Acceptance Amount, we have discussed with and are advised by the management of the Group that the proposed caps were determined based on the following:

- in case the terms offered by Xiwang Finance Company are more favourable as compared with independent third parties, the bill acceptance services required by the Group would be procured from Xiwang Finance Company rather than from independent third parties. The aggregate amount of bill acceptance service procured by the Group (including from Xiwang Finance Company and independent third parties) for the nine months ended 30 September 2018 amounted to approximately RMB3,765 million. Accordingly, on a pro rata basis, the estimated aggregate amount of bill acceptance service for the year ending 31 December 2018 is approximately RMB5,020 million;
- based on the General Growth Rate of 10% per annum, the estimated aggregate amount of bill acceptance service for the year ending 31 December 2019 is approximately RMB5,500 million, being the proposed cap for the year ending 31 December 2019; and
- the annual caps for each of the years ending 31 December 2020 and 2021 of RMB6,000 million and RMB6,600 million, respectively, were primarily determined based on the annual cap for the preceding year and the General Growth Rate of 10% per annum in view of the continuous development of the business of the Group.

In respect of the assumption that the bill acceptance services required by the Group would primarily be procured from Xiwang Finance Company, we have discussed with and are advised by the management of the Group that (i) the Group chooses its bill acceptance service provider primarily based on the terms offered, because more favourable terms would imply lower costs for the Group; and (ii) in case the terms offered by Xiwang Finance Company are more favourable than those offered by independent third parties in the future, the Group will choose Xiwang Finance Company as the service provider to save costs. Therefore, despite only a portion of the service required by the Group in the past was provided by Xiwang Finance Company, we consider such assumption to be acceptable for the purpose of determining the future annual caps. We also understand that the actual percentage of annual caps utilised or to be utilised depends on the then circumstances, including the demand of services and also the terms offered by Xiwang Finance Company.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Taking in account, in particular, (i) the historical actual aggregate amount of bill acceptance service procured by the Group; (ii) the annual caps were calculated based on the aggregate transaction amount on a pro rata basis and the General Growth Rate; and (iii) the proposed caps provide the flexibility rather than an obligation to the Group to procure bill acceptance service via Xiwang Finance Company to enhance its cashflow on terms no less favourable than those with independent third parties, we consider the proposed caps of the Bill Acceptance Amount to be fair and reasonable so far as the Independent Shareholders are concerned.

### 3. The Delivery Services

#### *a) Background to and benefits of the Delivery Services*

Xiwang Logistics is situated less than 500 metres away from the Company and is the closest logistics company to the Company. We are advised by the management of the Group that the Delivery Services involve:

- the delivery of the steel products of the Group by Xiwang Logistics pursuant to the Steel Delivery Service Agreement (the “**Product Delivery Service**”) to the customers of the Group, whereby the Group can provide convenience to customers of the Group and may generate extra revenue to the Group because the Group may charge its customers a premium over the delivery cost; and
- the delivery of ore powder to the Group by Xiwang Logistics pursuant to the Ore Powder Delivery Service Agreement (the “**Ore Powder Delivery Service**”) from the suppliers of the Group, whereby the Group might reduce total procurement cost when the delivery fee offered by Xiwang Logistics is more favourable than those offered by independent third parties.

The Independent Shareholders should note that the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement (i) provide the flexibility and do not impose an obligation to the Group to procure the Delivery Services from Xiwang Logistics; and (ii) do not prevent the Group from using delivery services provided by independent third parties. The Group retains the discretion to select its delivery service provider according to its business needs as well as the fee and quality of the relevant services.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Taking into account, in particular, (i) the Product Delivery Service could provide convenience to customers of the Group and might generate extra revenue to the Group; (ii) the Ore Powder Delivery Service might reduce total procurement cost; (iii) Xiwang Logistics is the closest logistics company to the Company; and (iv) the terms of the Delivery Services are fair and reasonable as discussed below, we are of the view that the procurement of the Delivery Services is in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

***b) Principal terms of the Delivery Services***

The Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement shall commence on 1 January 2019 (or a date when the shareholders' approval is obtained, if it is later than 1 January 2019) and end on 31 December 2021 (both dates inclusive). The cost of the Delivery Services shall be determined with reference to prevailing market price, where the terms of the Delivery Services provided by Xiwang Logistics shall be no less favourable than those offered by independent third parties.

In respect of the internal control measures for the Delivery Services, we are advised by the management of the Group that:-

- the Group will (i) obtain the terms offered by at least two independent third parties for the provision of the Delivery Services; and (ii) ensure the terms of the Delivery Services shall be no less favourable than those offered by independent third parties; and
- in accordance with the Listing Rules, (i) the independent non-executive Directors will continue to report annually on whether the Delivery Services are, among other things, conducted on normal commercial terms; and (ii) the independent auditors of the Company will also continue to report on the Delivery Services.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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For each category of the Delivery Services (being the Product Delivery Service and the Ore Powder Delivery Service), we have reviewed recent random transaction samples which the Group entered into with Xiwang Logistics and the corresponding terms offered by independent third parties, where we noted that the principal terms entered into with Xiwang Logistics were no less favourable than those offered by independent third parties. We have further reviewed the two most recent annual reports of the Company and noted that, for each of the years ended 31 December 2016 and 2017, (i) the independent non-executive Directors reviewed the continuing connected transactions of the Company, including those for the Delivery Services, and confirmed, among other things, such transactions were conducted on normal commercial terms; and (ii) the independent auditors of the Company had also reported on such transactions. Accordingly, we understand the Group has a positive track record in respect of compliance with the Listing Rules.

Taking into account, in particular, (i) the terms of the Delivery Services shall be no less favourable than those offered by independent third parties; (ii) the reasons and benefits of the Delivery Services previously mentioned; and (iii) the internal control measures set out above, particularly the review procedure to ensure the terms of the Delivery Services shall be no less favourable than those offered by independent third parties, we are of the view that the terms of the Delivery Services are fair and reasonable so far as the Independent Shareholders are concerned.

**c) Proposed caps of the Delivery Services**

The following table sets out the historical actual amounts and the proposed caps of the Delivery Services.

	Historical actual amounts			Proposed caps		
	For the year ended 31 December 2016 <i>RMB million</i>	For the year ended 31 December 2017 <i>RMB million</i>	For the nine months ended 30 September 2018 <i>RMB million</i>	For the year ending 31 December 2019 <i>RMB million</i>	For the year ending 31 December 2020 <i>RMB million</i>	For the year ending 31 December 2021 <i>RMB million</i>
Product Delivery Service procured from Xiwang Logistics	8	60	36	124	143	165
Ore Powder Delivery Service procured from Xiwang Logistics	75	173	107	236	273	315

*Notes:*

- We are advised by the management of the Group that the Group commenced procurement of the Product Delivery Service and the Ore Powder Delivery Service from Xiwang Logistics in May 2016 and April 2016, respectively.
- The proposed caps shall not be construed as an assurance by the Group of its future revenue, profitability or cashflow.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Product Delivery Service*

In respect of the proposed caps of the Product Delivery Service, we are advised by the management of the Group that the key underlying assumptions include:

- (a) for the nine months ended 30 September 2018, the delivery of approximately 25% of the steel products sold by the Group were arranged by the Group, while the delivery of the remaining 75% were arranged by the customers. Given the possibility of getting more delivery requests from customers, the percentage of delivery to be arranged by the Group (rather than arranged by customers) is assumed to increase to approximately 35% for the upcoming years;
- (b) for the year ended 31 December 2017 and the nine months ended 30 September 2018, the product delivery services required by the Group (as mentioned in paragraph (a) above) were, depending on the terms offered, procured from either Xiwang Logistics or independent third parties. The aggregate amount of product delivery service procured by the Group (including from Xiwang Logistics and independent third parties) amounted to approximately RMB58 million for the nine months ended 30 September 2018 and, on a pro rata basis, approximately RMB77 million for the year ending 31 December 2018. In the case where the terms offered by Xiwang Logistics are more favourable as compared with those offered by independent third parties, the product delivery services required by the Group would be procured from Xiwang Logistics rather than from independent third parties, therefore the aforementioned pro rata amount of RMB77 million is the assumed amount of the Product Delivery Service procured from Xiwang Logistics for the year ending 31 December 2018 for the purpose of the calculation of the annual caps for each of the years ending 31 December 2019, 2020 and 2021;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (c) based on (i) the assumed amount for the year ending 31 December 2018 of approximately RMB77 million as mentioned in paragraph (b) above; (ii) the increase in the portion of steel product delivery to be arranged by the Group from 25% to 35% as mentioned in paragraph (a) above; (iii) the General Growth Rate of 10% per annum; and (iv) an assumed inflation rate of 5% per annum (the “**Inflation Buffer**”), the estimated aggregate amount of product delivery service for the year ending 31 December 2019 is approximately RMB124 million, being the proposed cap for the year ending 31 December 2019; and
- (d) the annual caps for each of the years ending 31 December 2020 and 2021 of RMB143 million and RMB165 million, respectively, were primarily determined based on (i) the annual cap for the preceding year; (ii) the General Growth Rate of 10% per annum; and (iii) the Inflation Buffer of 5% per annum in view of the continuous development of the business of the Group.

In respect of the assumption of the increase in the portion of steel product delivery to be arranged by the Group from approximately 25% for the nine months ended 30 September 2018 to the estimation of 35% for each of the upcoming full financial years, (i) we have reviewed the historical percentages and are advised by the management of the Group that such percentage increased from approximately 4% for the year ended 31 December 2016 to approximately 27% for the year ended 31 December 2017; (ii) we have discussed with and are advised by the management of the Group that more customers may choose to have the Group to arrange delivery if the terms offered by Xiwang Logistics are more favourable in the future; (iii) we note that more customers of the Group may request the Group to arrange delivery services and the Group wishes to satisfy these requests by customers at fair and reasonable costs; and (iv) we note that the Group may be able to generate extra revenue because the Group may charge its customers a premium over the delivery cost, and, accordingly, after primarily taking into account the aforementioned work done and factors, we consider such assumption to be acceptable for the purpose of determining the annual caps.

In respect of the Inflation Buffer, we have reviewed the October 2018 edition of the World Economic Outlook Database published by the International Monetary Fund and we note that the inflation of the PRC is expected to be between 2% to 3% per annum for each of the years ending 31 December 2019, 2020 and 2021. Therefore, we consider the adoption of the Inflation Buffer to be acceptable for the purpose of determining the annual caps of the Delivery Services.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Taking in account, in particular, (i) the annual caps were calculated based on factors including the aggregate transaction amount, the General Growth Rate, the Inflation Buffer and the assumption of the portion of steel product delivery to be arranged by the Group; (ii) our previous discussions on the key factors; and (iii) the proposed caps provide the flexibility rather than an obligation to the Group to procure the Product Delivery Service from Xiwang Logistics, we consider the proposed caps of the Product Delivery Service to be fair and reasonable so far as the Independent Shareholders are concerned.

### *Ore Powder Delivery Service*

In respect of the proposed caps of the Ore Powder Delivery Service, we are advised by the management of the Group that the key underlying assumptions include:

- (a) for the nine months ended 30 September 2018, the balance of the Ore Powder Delivery Service represented the delivery of approximately 85% of the ore powder procured by the Group, which was arranged by the Group through Xiwang Logistics. The delivery of the remaining 15% in respect of the aforesaid were arranged by the ore powder suppliers. Given the possible more favourable terms offered by Xiwang Logistics, the percentage of delivery to be arranged by the Group (rather than arranged by suppliers) is assumed to increase to 100% for the upcoming years;
- (b) the historical actual amount of the Ore Powder Delivery Service procured from Xiwang Logistics for the year ended 31 December 2017 was approximately RMB173 million and such actual achieved amount for the latest full financial year is assumed to be the amount of the Ore Powder Delivery Service for the year ending 31 December 2018 for the purpose of the calculation of the annual caps for each of the years ending 31 December 2019, 2020 and 2021;
- (c) based on (i) the assumed amount for the year ending 31 December 2018 of approximately RMB173 million as mentioned in paragraph (b) above; (ii) the increase in the portion of ore powder delivery to be arranged by the Group from 85% to 100% as mentioned in paragraph (a) above; (iii) the General Growth Rate of 10% per annum; and (iv) the Inflation Buffer of 5%, the estimated amount of the Ore Powder Delivery Service for the year ending 31 December 2019 is approximately RMB236 million, being the proposed cap for the year ending 31 December 2019; and

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (d) the annual caps for each of the years ending 31 December 2020 and 2021 of RMB273 million and RMB315 million, respectively, were primarily determined based on (i) the annual cap for the preceding year; (ii) the General Growth Rate of 10% per annum; and (iii) the Inflation Buffer of 5% per annum in view of the continuous development of the business of the Group.

In respect of the assumption that the estimated amount of the Ore Powder Delivery Service for the year ending 31 December 2018 is equivalent to that for the year ended 31 December 2017 of approximately RMB173 million, although we note that the historical actual amount for the nine months ended 30 September 2018, on a pro rata basis, amounted to approximately RMB143 million for the year ending 31 December 2018, representing a buffer of approximately 21% as compared with the estimated amount of RMB173 million, (i) we have reviewed and are advised by the management of the Group that the historical actual amount for the nine months ended 30 September 2018 of approximately RMB107 million represented a year on year decline of approximately 11%, which we note that such decline during the first nine months was not material; (ii) we note that the historical actual amount for the year ended 31 December 2017 of RMB173 million represented a substantial increase as compared with the historical actual amount for the year ended 31 December 2016 of RMB75 million, where the Ore Powder Delivery Service commenced in April 2016; (iii) we note that the assumption for the full year ending 31 December 2018 was based on the amount actually achieved during the latest full financial year of the year ended 31 December 2017; (iv) we note that such estimation for the year ending 31 December 2018 is for the arrival of the base value for the estimation of the annual caps for each of the years ending 31 December 2019, 2020 and 2021 in the future; and (v) we note the prospects of the business of the Group as mentioned in our previous discussion of the General Growth Rate, and, accordingly, after primarily taking into account the aforementioned work done and factors, particularly (i) the assumption for the upcoming full financial year is based on the amount actually achieved during the latest full financial year; (ii) the year on year decline for the nine months ended 30 September 2018 was not material; and (iii) the growth achieved for the year ended 31 December 2017 as compared with the preceding year, we consider such assumption to be acceptable for the purpose of determining the annual caps.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In respect of the assumption of the increase in the portion of ore powder delivery to be arranged by the Group from approximately 85% for the nine months ended 30 September 2018 to the estimation of 100% for each of the upcoming full financial years, (i) we have reviewed the historical percentages and are advised by the management of the Group that such percentage increased from approximately 52% for the year ended 31 December 2016 to approximately 89% for the year ended 31 December 2017; (ii) we have discussed with and are advised by the management of the Group that the Group may choose to have Xiwang Logistics to arrange the delivery of ore powder rather than by the suppliers if the terms offered by Xiwang Logistics are more favourable in the future so that the Group can save overall procurement costs; and (iii) we note that such portion was already at a high level recently and the possibility of further increase in the future, and, accordingly, after primarily taking into account the aforementioned work done and factors, we consider such assumption to be acceptable for the purpose of determining the annual caps.

Taking in account, in particular, (i) the annual caps were calculated based on factors including the historical actual transaction amount, the General Growth Rate, the Inflation Buffer and the assumption of the portion of ore powder delivery to be arranged by the Group; (ii) our previous discussions on the key factors; and (iii) the proposed caps provide the flexibility rather than an obligation to the Group to procure the Ore Powder Delivery Service from Xiwang Logistics, we consider the proposed caps of the Ore Powder Delivery Service to be fair and reasonable so far as the Independent Shareholders are concerned.

### RECOMMENDATION

Having considered the above principal factors, we are of the opinion that (i) the Services are in the ordinary and usual course of business of the Group; and (ii) the Services are in the interests of the Company and the Shareholders as a whole. We are also of the opinion that the terms of the Services are on normal commercial terms and, together with the relevant proposed caps, are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the resolutions to approve the Services at the EGM.

Yours faithfully,  
For and on behalf of  
**First Shanghai Capital Limited**  
**Allen Wang**  
*Managing Director*

*Note:* Mr. Allen Wang has been a responsible officer of Type 6 (advising on corporate finance) regulated activity under the SFO since 2014. He has participated in the provision of independent financial advisory services for various types of transactions involving companies listed in Hong Kong.



**1. SUMMARY OF FINANCIAL INFORMATION**

Financial information of the Group for each of the three financial years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018 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](http://www.xiwangsteel.com)):

- 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);
- annual report of the Company for the year ended 31 December 2017 published on 26 April 2018 (pages 70 to 147); and
- interim report of the Company for the six months ended 30 June 2018 published on 26 September 2018 (pages 20 to 52).

**2. STATEMENT OF INDEBTEDNESS**

At the close of business on 31 October 2018 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 RMB6,270,000;
- unsecured interest-bearing loan from Xiwang Finance Company of approximately RMB578,010,000;
- secured interest-bearing bank loans and other borrowings of approximately RMB2,642,550,000;
- convertible bonds of approximately RMB208,938,000; and
- guarantees of approximately RMB2,849,990,000 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 2018.

### **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 Financial Services Agreement with Xiwang Finance Company is to strengthen the supervision and control of funds, raise lower-interest-rate loans and bill discounting, and access higher-interest-rate on deposits and lower-rate payment and settlement services through the funds management platform of Xiwang Finance Company, which will not only help further enhance the capital usage efficiency and improve the overall operational standards of the corporate funds, but reinforce the bargaining power of the Group for external financing. Despite of this, it is expected that the Group will not have dependence on Xiwang Finance Company for accessing such services, and that the entering into of the Financial Services Agreement will not also impede the Group from entering into similar agreements with other financial institutes when it considers necessary.

The Company can accumulate the idle funds within the Group quickly through the capital pool of Xiwang Finance Company and apply them through unified allocation, which will effectively save the finance costs and realise the profitability potential of the Company. The improvement of the capital usage efficiency will reduce the dependence of the Group on external financing and the lines of credit, which will in turn decrease the overall gearing of the Company to some extent.

The Company expects that the entering into the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement by the Company with Xiwang Logistics will not have material impact on the earnings and assets and liabilities of the Group.

## 5. FINANCIAL AND TRADING PROSPECT OF THE GROUP

Since the Central Economic Work Conference first proposed the policy of “Three Removals (de-capacity, de-stocking and de-leveraging), One Decrease (cutting corporate costs) and One Improvement (improving weak links)” (三去一降一補) in late 2015, reform of supply side has achieved progress by stages. After cutting national production capacity of crude steel by 65 million tonnes in 2016 and 50 million tonnes in 2017, and “Sub-Standard Steels” by approximately 140 million tonnes, the government has set the target of further cutting production capacity by 30 million tonnes in 2018. It is expected that the target of the “13th Five-Year” of cutting a maximum of total steel production capacity of 150 million tons will be completed within the year. Meanwhile, to prevent the production capacity of “Sub-Standard Steels” from reverting, the Central Environmental Protection Inspectorate has conducted inspection locally to strictly monitor the implementation of cutting production capacity. With the battle to defend the blue sky in full swing within the year, the Ministry of Environmental Protection has introduced measures on the prevention and control of air pollution in key areas of Beijing-Tianjin-Hebei and surrounding areas, the Yangtze River Delta, and the Fenwei Plain (汾渭平原), and also proposed staggered and non-staggered production and further tightened the environmental standards of the industry. The Group believes the above supply-side policy reflected the government’s determination to de-capacity on an on-going basis. In the context of the exit of illegal and excessive production capacity, the advantageous production capacity of the Group will be offered plenty of room for development and its operating efficiency will continue to improve.

Looking forward, benefited from the rigorous supply-side policy and the steady development of domestic real estate sector, the continued strength of infrastructure projects in Shandong Province, and the demand from infrastructure projects in countries along the “Belt and Road Initiative”, the steel market will be in the status of “low inventory, high profit, high demand”, and steel prices will have certain support in the future. The Group will continue to adopt the market-oriented approach, take steel prices as an indicator of the market to reallocate its capacity between ordinary and special steel in a flexible way and to focus on the manufacturing of ordinary steel with higher demand and profits so as to maximize its profit in the short term.

In the long-term, supported by the technological and development capabilities of Chinese Academy of Sciences (the “Academy”), together with the strategic development goal of the Company, the Group will actively optimize its production technology to reinforce its competitiveness and profitability. As the highest domestic scientific research institution in the field of science and technology, targeted R&D of the Academy is addressing the major needs of the country. By properly utilizing the exclusive development technology of the Academy, the Group will aim at the needs of the country, focus on developing special steel products with higher technology and more stable market. Built on the success of jointly development of over 100 new products, we will focus on promoting the industrialization of quality special steel products in the field of military, nuclear power, high-speed rail and marine engineering, and further broaden the coverage of existing products.

For the above development, the Group will spare no effort to push forward the rail steel projects with the Academy and launch rail steel products with high strength, tenacity and durability in the market, so as to significantly increase the proportion of special steel business. It is expected that the production line will produced annually 700,000 tonnes of steel rail, 150,000 tonnes of railway billet and 150,000 tonnes of figured steel. According to the current status of construction works, the first phase of the project (300,000 tonnes of steel rails and 150,000 tonnes of railway billets) is expected to be completed in mid-2019, and the second phase will be completed in 2020. In respect of other railway products, the Group has also entered into product supply and technology agreements with some large-scale enterprises in relation to its products, such as axle shaft steel and braking beams, and has successfully entered their supplier lists. This further reflects the Group’s core competitiveness.

As the overwhelming needs for environmental protection continue, the Group will also vigorously invested in environmental protection equipment. In addition to projects such as newly-invested projects regarding the improvement of tertiary dust removal of converters and raw material yards, it will also invest in projects such as ultra-low smoke emission of sintering machine heads, sewage treatment and diversion of rain and sewage to meet environmental regulations of the industry. In the future, the Group will continue to step up R&D, lay network, lower financial costs and business risks, thereby providing a more solid foundation for the profitability of the Group.

## 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 <i>(Note 1)</i>	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 <i>(Note 2)</i>	1,500,000,000 (L) ordinary shares <i>(Note 4)</i>	66.12%
	Xiwang Investment	Interest of controlled corporations <i>(Notes 2, 3)</i>	3 shares (L)	100%

**APPENDIX II**
**GENERAL INFORMATION**

Name of Director	Name of company/ associated corporation	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
	Xiwang Holdings	Beneficial owner <i>(Note 2)</i>	6,738 shares (L)	3.37%
		Interest of controlled corporations <i>(Note 2)</i>	190,000 shares (L)	95%
	Xiwang Hong Kong	Interest of controlled corporations <i>(Note 2)</i>	694,132,000 shares (L)	100%
	Xiwang Group	Beneficial owner <i>(Note 2)</i>	RMB1,383,000,000 (L)	69.15%
	Xiwang Property	Interest of controlled corporations <i>(Note 3)</i>	982,999,588 (L) ordinary shares <i>(Note 3)</i>	69.78%
			506,244,669 (L) convertible preference shares <i>(Note 3)</i>	99.75%
WANG Di	Company	Beneficial owner	9,333,333 shares	0.41%
	Company	Beneficial owner	1,666,667 share option	0.07%
	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 (L) share options	0.21%

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
SUN Xihu	Company	Beneficial owner	1,800,000 (L) shares	0.08%
	Company	Beneficial owner	500,000 (L) share option	0.02%
	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 (L) share options	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 Company is the ultimate holding company of the Company. Xiwang Group Company 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 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 of the Company had any interest, direct or indirect, in any asset which have been since 31 December 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 Financial Services Agreement, the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement, none of the Directors of the Company was materially interested in any contract or arrangement entered into by any member of the Group since 31 December 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 of Shares of the Company held/interested <i>(Note 1)</i>	Approximate percentage of interest in the Company as at the Latest Practicable Date <i>(%)</i>
Xiwang Investment	Beneficial owner	1,500,000,000 (L) ordinary shares	66.12%
Xiwang Holdings	Interest of a controlled corporation <i>(Note 2)</i>	1,500,000,000 (L) ordinary shares	66.12%
Xiwang Hong Kong	Interest of controlled corporations <i>(Notes 2, 3)</i>	1,500,000,000 (L) ordinary shares	66.12%



**APPENDIX II**
**GENERAL INFORMATION**

Name of Shareholder	Capacity	Number of Shares of the Company held/interested <i>(Note 1)</i>	Approximate percentage of interest in the Company as at the Latest Practicable Date <i>(%)</i>
Xiwang Group	Interest of controlled corporations <i>(Notes 2, 3)</i>	1,500,000,000 (L) ordinary shares	66.12%
ZHANG Shufang	Interest of spouse <i>(Note 4)</i>	1,500,000,000 (L) ordinary shares	66.12%
Haitong Securities Co., Ltd	Interest of a controlled corporation/trustee	1,400,000,000 (L) ordinary shares	61.71%
	Investment manager	102,094,240 (L) ordinary shares	4.50%
Haitong International Holdings Limited	Interest of a controlled corporation/trustee	1,400,000,000 (L) ordinary shares	61.71%
	Investment manager	102,094,240 (L) ordinary shares	4.50%
Haitong International Securities Group Limited	Interest of a controlled corporation/trustee	1,400,000,000 (L) ordinary shares	61.71%
	Investment manager	102,094,240 (L) ordinary shares	4.50%
Haitong International Financial Solutions Limited	Security interest in shares/trustee <i>(Note 5)</i>	1,400,000,000 (L) ordinary shares	61.71%
China Minsheng Investment Corporation Limited	Interest of a controlled corporation	1,400,000,000 (L) ordinary shares	61.71%
China Minsheng Financial Holding Corporation Limited	Interest of corporation controlled	1,400,000,000 (L) ordinary shares	61.71%
CM Wealth Holdings Limited	Security interest in shares <i>(Note 5)</i>	1,400,000,000 (L) ordinary shares	61.71%

*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.
- (5) Since 8 December 2017, 1,400,000,000 shares of the Company has been held by way of security by Haitong International Financial Solutions Limited as security agent for Haitong International Financial Solutions Limited and CM Wealth Holdings Limited.

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

As at the Latest Practicable Date, none of the Directors 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 31 December 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:

<b>Name</b>	<b>Qualifications</b>
First Shanghai Capital Limited	a licensed corporation under the SFO to carry on Type 6 (advising on corporate finance) regulated activity as defined in the SFO

- (b) As at the Latest Practicable Date, First Shanghai Capital Limited did 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) As at the Latest Practicable Date, First Shanghai Capital Limited did 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 2017, the date to which the latest published audited financial statements of the Company were made up.
- (d) First Shanghai Capital 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 First Shanghai Capital 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 placing and subscription agreement, dated 14 September 2017, for the top-up placing of the shares of the Company under general mandate (granted on 16 June 2017) entered into among (i) the Company as issuer, (ii) Xiwang Investment as vendor and subscriber in the shares of the Company, and (iii) Guotai Junan Securities (Hong Kong) Limited as placing agent, pursuant to which up to 100,000,000 shares of the Company was placed at a placing price of HK\$1.51 per share;
- (b) the convertible bond subscription agreement, dated 22 September 2017, for the issue of convertible bonds (“Convertible Bonds”) under general mandate (granted on 16 June 2017) entered into among the Company as issuer, Haitong Global Investment SPCIII acting on behalf as and for the account of Haitong Dynamic Multi-Tranche Investment Fund II S.P. and Blooming Global Fund as subscriber, and Mr. Wang Yong (a Director and controlling shareholder of the Company) as guarantor, pursuant to which the Company conditionally agreed to issue the Convertible Bonds in an aggregate principal amount of US\$30,000,000 for a consideration of US\$30,000,000;
- (c) the guarantee agreement, dated 10 November 2017, entered into between the Group as guarantor and Xiwang Group Company, pursuant to which the Group agreed to guarantee and bear certain obligations of Xiwang Group Company and the Relevant Subsidiaries, at a maximum cap of RMB5.0 billion;
- (d) the placing and subscription agreement, dated 25 January 2018, for the top-up placing of the shares of the Company under general mandate (granted on 16 June 2017) entered into among (i) the Company as issuer, (ii) Xiwang Investment as vendor and subscriber in the shares of the Company, and (iii) Guotai Junan Securities (Hong Kong) Limited, Zhongtai International Securities Limited and SBI China Capital Financial Services Limited as placing agent, pursuant to which up to 151,111,000 shares of the Company was placed at a placing price of HK\$1.59 per share, and pursuant to which the Company allotted 151,111,000 shares of the Company to Xiwang Investment at a subscription price of HK\$1.59 per share;

- (e) the finance lease agreement, dated 22 August 2018, entered into among Xiwang Special Steel as vendor and lessee, and a financial leasing company based in Shandong province of the PRC (“Lessor”) as purchaser and lessor, respectively, pursuant to which certain equipment was sold by Xiwang Special Steel to the Lessor at an aggregate price of RMB200 million and leased back from the Lessor to Xiwang Special Steel at a fixed interest rate of 7.5% of the aggregate price of sale over 3 years.

#### **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 2015, 2016 and 2017;
- (c) the interim report of the Company for the six months ended 30 June 2018;
- (d) the letter from the Board, the text of which is set out on pages 8 to 34 of this circular;
- (e) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 35 to 37 of this circular;
- (f) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 38 to 62 of this circular;
- (g) the material contracts as referred to in the section headed “Material Contracts” in this appendix;
- (h) the Financial Services Agreement;

- (i) the Steel Delivery Service Agreement;
- (i) the Ore Powder Delivery Service Agreement; and
- (k) 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 share registrar and transfer office of the Company is Boardroom Share Registrars (HK) Limited, at 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.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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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)**

#### 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, Wan Chai, Hong Kong at 11:00 a.m. on Monday, 31 December 2018 (or any adjournment thereof) for the purposes of considering and, if thought fit, passing the following resolutions as ordinary resolutions of the Company:

#### ORDINARY RESOLUTIONS

1. “**THAT**

the deposit services, bill discounting services and bill acceptance services under Financial Services Agreement 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 deposit services, bill discounting and bill acceptance services under the Financial Services Agreement and the related annual caps and all such acts and things the Directors have done are hereby approved, confirmed and ratified.”

2. “**THAT**

the Steel Delivery Service 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 Steel Delivery Service 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.”

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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3. “**THAT**

the Ore Powder Delivery Service 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 Ore Powder Delivery Service 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, 10 December 2018

*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



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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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*Notes:*

1. A Shareholder entitled to attend and vote at the above meeting may appoint one or more than one proxy to attend and to vote in his stead. A proxy need not be a Shareholder of the Company.
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 Company's share registrar, Boardroom Share Registrars (HK) Limited, at 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.
4. In order to determine the entitlement to attend and vote at the meeting, the register of members of the Company will be closed from Monday, 24 December 2018 to Monday, 31 December 2018 (both days inclusive), during which period no transfer of shares can be registered. In order to be eligible to attend and vote at the meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Boardroom Share Registrars (HK) Limited at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong for registration by not later than 4:30 p.m. on Friday, 21 December 2018.

*As at the date of this Notice, the executive directors of the Company are Mr. ZHANG Jian, Mr. SUN Xihu 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.*