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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 2022 TO 2024 – (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



Lego Corporate
Finance Limited
力高企業融資有限公司

A letter from the Board is set out on pages 8 to 46 of this circular. A letter from the Independent Board Committee is set out on pages 47 to 48 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 49 to 84 of this circular.

A notice convening the EGM to be held at 2:00 p.m. on 17 December 2021 at Boardroom 3-4, Mezzanine Floor, Renaissance Hong Kong Harbour View Hotel, No.1 Harbour Road, Wanchai, Hong Kong is set out on pages 97 to 101 of this circular.

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

PRECAUTIONARY MEASURES FOR THE EGM

To safeguard the health and safety of Shareholders and to prevent and control the spreading of the coronavirus disease 2019 (COVID-19), the following precautionary measures will be implemented at the EGM of the Company:

1. Compulsory temperature screening/checks;
2. Submission of Health and Travel Declaration Form;
3. Wearing of surgical face mask;
4. No provision of refreshments or drinks; and
5. No provision of corporate gifts.

Attendees who do not comply with the precautionary measures referred to in (1) to (5) above may be denied entry to the EGM venue, at the absolute discretion of the Company as permitted by law. For the health and safety of Shareholders, the Company would like to encourage Shareholders to exercise their right to vote at the EGM by appointing the chairman of the EGM as their proxy and to return their proxy forms by the time specified above, instead of attending the EGM in person.

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	8
Letter from the Independent Board Committee	47
Letter from the Independent Financial Adviser	49
Appendix I – Financial Information of the Group	85
Appendix II – General Information	88
Notice of Extraordinary General Meeting	97

DEFINITIONS

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 referring to the 2015 Steel Delivery Service Agreement and the 2015 Ore Powder Delivery Service Agreement
“2015 Ore Powder Delivery Service 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 Service 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

DEFINITIONS

“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
“2018 Financial Services Agreement”	the financial services agreement dated 18 October 2018 entered into between the Company and Xiwang Finance Company in relation to provision of financial services by Xiwang Finance Company to the Company and the Qualified Subsidiaries
“2018 Logistics Agreements”	collectively referring to the 2018 Steel Delivery Service Agreement and the 2018 Ore Powder Delivery Service Agreement
“2018 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
“2018 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
“2018 Services Circular”	the circular issued by the Company titled “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” dated 10 December 2018
“2020 Annual Report”	annual report of the Company for the year ended 31 December 2020
“2021 Interim Report”	interim report of the Company for the six months ended 30 June 2021

DEFINITIONS

“Announcements”	collectively referring 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; (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; and (iv) “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)” dated 18 October 2018
“Annual Caps”	the Financial Services Annual Caps, the Steel Delivery Service Annual Caps and the Ore Powder Delivery Service Annual Caps
“Articles”	the articles of association of the Company currently in force
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“CBIRC”	China Banking and Insurance 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 referring to the 2016 Revision Circular, the 2016 Services Circular and the 2018 Services Circular
“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

DEFINITIONS

“connected person(s)”	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 4 November 2021 entered into between the Company and Xiwang Finance Company in relation to provision of financial services by Xiwang Finance Company to the Company and the Qualified Subsidiaries
“Financial Services Annual Caps”	the annual caps for the provision of financial services by Xiwang Finance Company to the Company and the Qualified Subsidiaries under the Finance Services Agreement for the period commencing on 1 January 2022 (or a date when the Independent Shareholders’ approval is obtained, if it is later than 1 January 2022) and ending in 31 December 2024
“Group”	the Company and its subsidiaries
“Guarantee”	a guarantee dated 4 November 2021 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
“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

DEFINITIONS

“Independent Financial Adviser”	Lego Corporate Finance 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”	26 November 2021, 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 4 November 2021 entered into between Xiwang Metal and Xiwang Logistics in relation to the provision of delivery service for ore powder by Xiwang Logistics to Xiwang Metal
“Ore Powder Delivery Service Annual Caps”	the annual caps for the provision of delivery service for ore powder by Xiwang Logistics to Xiwang Metal under the Ore Powder Delivery Service Agreement for the period commencing on 1 January 2022 (or a date when the Independent Shareholders’ approval is obtained, if it is later than 1 January 2022) and ending on 31 December 2024
“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 20% by the Company and its subsidiaries, individually or collectively and as the largest shareholders

DEFINITIONS

“Relevant Transactions”	the transactions contemplated under the 2015 Financial Services Agreement as supplemented by the 2016 Financial Services Agreement, the 2015 Logistics Agreement, the 2018 Financial Services Agreement and the 2018 Logistics Agreements
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	shareholders of the Company
“Steel Delivery Service Agreement”	the steel delivery service agreement dated 4 November 2021 entered into between Xiwang Metal and Xiwang Logistics in relation to the provision of delivery service for steel by Xiwang Logistics to Xiwang Metal
“Steel Delivery Service Annual Caps”	the annual caps for the provision of delivery service for steel by Xiwang Logistics to Xiwang Metal under the Steel Delivery Service Agreement for the period commencing on 1 January 2022 (or a date when the Independent Shareholders’ approval is obtained, if it is later than 1 January 2022) and ending on 31 December 2024
“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 52.32% 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

DEFINITIONS

“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
“Xiwang Logistics”	Xiwang Logistics Company Limited* (西王物流有限公司), formerly known as Shandong Xiwang Logistics Company Limited* (山東西王物流有限公司), a company incorporated in the PRC and a 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)(“ Shandong Xiwang Special Steel ”)), 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* (西王糖業有限公司), a company incorporated in the PRC with limited liability on 14 December 2005 and as to 35.52% owned by Xiwang Group Company and 37.16% by Xiwang Holdings which is indirectly owned as to 95% by Xiwang Group Company

* For identification purpose only

LETTER FROM THE BOARD



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

(incorporated in Hong Kong with limited liability)

(Stock code: 1266)

Executive Directors:

Mr. ZHANG Jian
(Chief Executive Officer)
Mr. SUN Xihu
Ms. LI Hai Xia

Non-executive Directors:

Mr. WANG Di *(Chairman)*

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
Shandong Province
China
256209

30 November 2021

To the Shareholders

Dear Sir or Madam,

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
AND NEW ANNUAL CAPS FOR 2022 TO 2024 –
(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, the 2015 Logistics Agreements, the 2018 Financial Services Agreement and the 2018 Logistics Agreements with the relevant connected persons of the Company. The Company intends to continue the Relevant Transactions and set new Annual Caps for a term of three years commencing from 1 January 2022 and expiring on 31 December 2024.

LETTER FROM THE BOARD

Accordingly, the Board announces that:

- (1) on 4 November 2021, 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 4 November 2021, Xiwang Metal, one of the wholly-owned subsidiaries of 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

4 November 2021

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 2022 to 31 December 2024. 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.

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 CBIRC, subject to the terms and conditions provided therein.

LETTER FROM THE BOARD

Based on the understanding of the Directors, Xiwang Finance Company is qualified by the CBIRC to provide the abovementioned financial services. The deposits are either repayable on demand or are with fixed terms as determined by the Company. The bill discounting services to be provided by Xiwang Finance Company is on a non-recourse basis. The bill discounting services is differentiated from the bill acceptance services, that bill discounting is a trade-related activity in which Xiwang Metal's unpaid invoices which are due to be paid, i.e. customers of Xiwang Metal, who are yet to settle the trade receivable owed to Xiwang Metal at a future date are sold to Xiwang Finance Company, whereas bill acceptance services is a written commercial bill that is issued by Xiwang Metal and is accepted by Xiwang Finance Company after Xiwang Finance Company reviews and agrees the application submitted by Xiwang Metal. Xiwang Finance Company is the primary payer of such bill acceptance, and Xiwang Metal should deposit full bill amount of such bill in the account with Xiwang Finance Company before the due date.

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 and the Qualified Subsidiaries 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 and the Qualified Subsidiaries.

Capital risk control measures

1. Xiwang Finance Company shall ensure the secure operations of its funds management network and safety of funds, control the asset-debt risks and satisfy the payment requirements of the Company;

LETTER FROM THE BOARD

2. Xiwang Finance Company shall ensure that it is in strict compliance with the risk monitoring indicators applicable to Xiwang Finance Company issued by the CBIRC and that its major regulatory indicators such as asset-liability ratio and liquidity ratio will also comply with the requirements of the CBIRC and other relevant PRC laws and regulations;
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) on a quarterly basis when a Board meeting is convened, which should be at least four times a year.

The risk monitoring indicators and the relevant formulae includes:

1. Any financial index of Xiwang Finance Company does not meet the requirements of Article 34 of the “Administrative Measures for Enterprise Group Finance Companies”;
2. Xiwang Finance Company runs on deposits, cannot pay due debts, overdue large loans or guarantee advances, serious computer system failures, robbery or fraud, directors or senior managers involved in serious violations of discipline, criminal cases and other major matters;
3. The occurrence of major institutional changes, equity transactions or operational risks that may affect the normal operation of Xiwang Finance Company;
4. The debts of the shareholders of Xiwang Finance Company to Xiwang Finance Company have been overdue for more than one year and have not been repaid;
5. Xiwang Finance Company has a serious payment crisis;

LETTER FROM THE BOARD

6. Xiwang Finance Company's loss in the current year exceeds 30% of the registered capital or the loss for 3 consecutive years exceeds 10% of the registered capital;
7. Xiwang Finance Company is subject to administrative penalties by the CBIRC and other regulatory authorities for serious violations of national laws, administrative regulations and other relevant regulations; and
8. Xiwang Finance Company was ordered by the CBIRC to conduct rectification.

According to Article 34 of the Administrative Measures for Enterprise Group Finance Companies, finance companies operating business shall comply with the following requirements for the ratio of assets to liabilities:

- (1) The capital adequacy ratio shall not be lower than 10%;
- (2) The balance of borrowed funds shall not be higher than the total capital;
- (3) The guarantee balance shall not be higher than the total capital;
- (4) The ratio of short-term securities investment to total capital shall not exceed 40%;
- (5) The ratio of long-term investment to total capital shall not be higher than 30%; and
- (6) The ratio of self-owned fixed assets to total capital shall not be higher than 20%.

The CBIRC may adjust the above-mentioned ratios according to the business development of the financial company or the needs of prudential supervision.

Xiwang Finance Company has met these indicators in the last three financial years as follows:

		As at 31 December 2018	As at 31 December 2019	As at 31 December 2020	As at 30 June 2021
Capital adequacy ratio		34.51%	32.33%	31.05%	30.02%
Balance of borrowed funds (RMB'million)		190	1,150	1,150	1,150
Total capital (RMB'million)	(A)	2,324	2,417	2,362	2,362
Guaranteed balance (RMB'million)		1,508	1,316	1,309	1,451
Short-term securities investment	(B)	0.30	0.31	-	-
Ratio of short-term securities investment to total capital	(C) = (B)/(A)	0.01%	0.01%	0.00%	0.00%
Long-term investment (RMB'million)	(D)	-	-	-	-
Ratio of long-term investment to total capital (RMB'million)	(E) = (D)/(A)	0%	0%	0%	0%
Own fixed asset (RMB'million)	(F)	1.34	0.78	0.32	0.25
Ratio of own fixed assets to total capital	(G) = (F)/(A)	0.06%	0.03%	0.01%	0.01%

LETTER FROM THE BOARD

When the above situation occurs, the Group may reserve the following powers in accordance with the risk disposal plan:

1. Xiwang Finance Company is required to explain the reasons for the risk and put forward corresponding measures for prevention, control, and resolution;
2. When Xiwang Finance Company encounters emergency situations such as payment difficulties, promptly notify the board of directors of Xiwang Group Company to take rescue measures and increase the corresponding capital in accordance with the actual needs to solve the payment difficulties; and
3. Suspend or terminate the “Financial Service Agreement” signed with Xiwang Finance Company.

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 and the 2018 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 the period from 1 January 2016 to 31 December 2018 and the period from 1 January 2019 to 31 December 2021, respectively.

The actual transaction amounts with Xiwang Finance Company for the years ended 31 December 2019 and 2020 and the nine months ended 30 September 2021, were:

	For the year ended 31 December 2019 <i>RMB million</i>	For the year ended 31 December 2020 <i>RMB million</i>	For nine months ended 30 September 2021 <i>RMB million</i>
Maximum daily deposit balance	1,331	757	371
Actual aggregate annual transaction amounts of bill discounting	301	128	Nil
Actual aggregate annual transaction amounts of bill acceptance	715	746	248
Maximum loan amounts	38	340	38

LETTER FROM THE BOARD

The following table sets out the historical actual amounts and Financial Services Annual Caps between the Group and Xiwang Finance Company.

	Historical actual amounts			Proposed annual caps		
	Year ended 31 December 2019 <i>RMB' million</i>	Year ended 31 December 2020 <i>RMB' million</i>	Nine months	Year ending 31 December 2022 <i>RMB' million</i>	Year ending 31 December 2023 <i>RMB' million</i>	Year ending 31 December 2024 <i>RMB' million</i>
			ended 30 September 2021 <i>RMB' million</i>			
Maximum daily deposit						
balance	1,331	757	371	2,100	2,300	2,500
<i>Utilisation rate</i>	63.4%	32.9%	N/A	N/A	N/A	N/A
Aggregate annual						
transaction amounts of						
bill discounting	301	128	–	2,000	2,000	2,000
<i>Utilisation rate</i>	5.5%	2.1%	–	N/A	N/A	N/A
Aggregate annual						
transaction amounts of						
bill acceptance	715	746	248	2,000	2,000	2,000
<i>Utilisation rate</i>	13.0%	12.4%	N/A	N/A	N/A	N/A

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:

Period	Transaction amounts (<i>RMB million</i>)
From 1 January 2022 to 31 December 2022	2,100
From 1 January 2023 to 31 December 2023	2,300
From 1 January 2024 to 31 December 2024	2,500

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

1. The maximum daily deposit balance with Xiwang Finance Company for the years ended 31 December 2019 and 2020 and the nine months ended 30 September 2021 of approximately RMB1,331 million, RMB757 million and RMB371 million, respectively;

LETTER FROM THE BOARD

2. The maximum daily deposit balance of the Group of approximately RMB2,418 million, RMB1,688 million and RMB1,059 million during the years ended 31 December 2019 and 2020 and the nine months ended 30 September 2021, respectively;
3. 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 (placed with Xiwang Finance Company) are expected to increase during the three years ending 31 December 2022, 2023 and 2024. 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 funding requirement of the Group in the next three years; and
 - (ii) the expected net cash flow from operating activities of the Group in the next three years.
4. 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;

Efficient allocation of funds can be achieved via Xiwang Finance Company as the Group can centralise its cash pool and earn higher interest income from time deposits placed with Xiwang Finance Company. Xiwang Finance Company can provide the deposit services in a way that is more efficient than other commercial banks licensed by the CBIRC as Xiwang Finance Company is a non-wholly owned subsidiary of Xiwang Group Company, the ultimate holding company of the Group, and the Group, also being as a minority shareholder of Xiwang Finance Company, can also leverage on the long-term business relationship established with Xiwang Finance Company. The Group can effectively save the finance cost through the capital pool by earning higher interest rates and better capital management. Based on the understanding of the Directors, the Board is not aware of similar financial services, i.e. deposit services that can be provided by the external finance institutions;

LETTER FROM THE BOARD

It is the Group's policy that it will only place deposits with Xiwang Finance Company if the interest rates offered by Xiwang Finance Company is higher than those by independent third parties.

5. A general growth for the annual caps of deposit services after considering the following factors:
 - (i) the historical financial and operating performance of the Group for the years ended 31 December 2019 and 2020 and the nine months ended 30 September 2021, including its annual growth rates of revenue, profit before tax and the sales volume of steel 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) in the PRC for each of the years ending 31 December 2022, 2023 and 2024; and
 - (iv) the increased demand for steel products in view of the market conditions which are favourable to the Group,

Based on the understanding of the Directors, Xiwang Finance Company had never defaulted its repayment obligation under the deposit services provided to the Group.

In the opinion of the Directors, the decreasing trends of the utilisation rates of annual caps for deposit services as well as the maximum daily deposit balance of the Group (irrespective of deposit in Xiwang Finance Company or independent third parties) for the years ended 31 December 2019 and 2020 and the nine months ended 30 September 2021 were primarily attributable to the Group's increase in purchase of inventories in response to the growth of the Group's business operations. The maximum daily deposit balance of the Group (irrespective of deposit in Xiwang Finance Company or independent third parties) amounted to approximately RMB2,418 million, RMB1,688 million and RMB1,059 million for the years ended 31 December 2019 and 2020 and the nine months ended 30 September 2021, respectively. The maximum daily deposit balance of the Group (irrespective of deposit in Xiwang Finance Company or independent third parties) had reached as high as approximately RMB2,418 million (the "**Historical Highest Maximum DDB**") for the year ended 31 December 2019, which illustrates the maximum level that the Group can attain prior to the COVID-19 pandemic since year 2019. The average of the maximum daily deposit balance of the Group (irrespective of deposit in Xiwang Finance Company or independent third parties) for the two years ended 31 December 2019 and 2020 and the nine months ended 30 September 2021 amounted to approximately RMB1,722 million (the "**Historical Average Maximum DDB**"), which represents approximately 82.0%, 74.9% and 68.9% of the Financial Services Annual Cap in respect of deposit services for the three years

LETTER FROM THE BOARD

ending 31 December 2022, 2023 and 2024, respectively. As disclosed in the 2020 Annual Report and the 2021 Interim Report, total revenue of the Group increased from approximately RMB11,170 million for the year ended 31 December 2019 to approximately RMB15,288 million for the year ended 31 December 2020, representing an increase of approximately 36.9%, and the Group's revenue increased from approximately RMB4,740 million for the six months ended 30 June 2020 to approximately RMB9,891 million for the six months ended 30 June 2021, representing an increase of approximately 108.7%, indicating a significant recovery in the business operation of the Group as a result of the gradual stabilisation of the economic situation in the PRC. In view of the historical growth in the revenue of the Group, in the opinion of the Directors, the growth rate of the Financial Services Annual Caps for deposit service for the three years ending 31 December 2022, 2023 and 2024 ranged from approximately 8.7% to 9.5% are justifiable. In the opinion of the Directors, the Financial Services Annual Caps for deposit services were determined after applying additional buffer to cater for, among others, the possible fund raising for future capital expenditure to support the business development plan, the growing scale of business operation of the Group and the net cash flow generated from operating activities of the Group in the future, and on the principal assumptions that, during the three years ending 31 December 2022, 2023 and 2024, there will not be any adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect the businesses of the Group. As such, the Directors are of the view that the buffer provides the Group with flexibility to ensure stable and smooth operations of the Group. Taking into consideration (i) the Historical Highest Maximum DDB and the Historical Average Maximum DDB exceed and/or are comparable to the Financial Services Caps in respect of deposit services; (ii) the proposed annual 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; (iii) the expected increase in amount of deposit of the Group in the next three years due to the expected increase in the asset scale of the Group; and (iv) the additional buffer provides the Group with flexibility to ensure stable and smooth operations of the Group, in the opinion of the Directors, the Financial Services Annual Caps in respect of deposit services and the major factors considered as the bases of determining the Financial Services Annual Caps in respect of deposit services are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

The Directors (excluding the independent non-executive Directors, whose views are included 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.

LETTER FROM THE BOARD

Bill discounting services

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

Period	Transaction amounts (RMB million)
From 1 January 2022 to 31 December 2022	2,000
From 1 January 2023 to 31 December 2023	2,000
From 1 January 2024 to 31 December 2024	2,000

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

1. the historical amounts of bill discounting of the Group for the years ended 31 December 2019 and 2020 and the nine months ended 30 September 2021 of approximately RMB2,863 million, 2,533 million and 1,554 million, 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
4. a general growth rate for the annual caps of bill discounting services taking into consideration the factors as stated in paragraph numbered (5) in the sub-section headed “Financial Services Agreement – Proposed caps – Deposit services” in this circular.

In the opinion of the Directors, the relatively low utilisation rates of annual caps for bill discounting services and the decreasing trend of the amounts of bill discounting of the Group (irrespective of bill discounting made with Xiwang Finance Company or independent third parties) for the two years ended 31 December 2019 and 2020 and the nine months ended 30 September 2021 were primarily attributable to the more prevalent use of cash settlement as requested by the Company to the customers amid the COVID-19 pandemic. The historical amounts of bill discounting of the Group (irrespective of bill discounting made with Xiwang Finance Company or independent third parties) amounted to approximately RMB2,863 million, RMB2,533 million and RMB1,554 million for the years ended 31 December 2019 and 2020 and the nine months ended 30 September 2021, respectively. The annualised amount of bill discounting of the Group (irrespective of bill discounting made with Xiwang Finance Company or independent third parties) for the year ending 31 December 2021 amounted to approximately RMB2,072 million (the “**Annualised Amount of Bill Discounting**”), which exceeds the

LETTER FROM THE BOARD

Financial Services Annual Caps in respect of bill discounting services for the three years ending 31 December 2022, 2023 and 2024. As disclosed in the Group's historical annual and interim reports, total revenue of the Group increased from approximately RMB11,170 million for the year ended 31 December 2019 to approximately RMB15,288 million for the year ended 31 December 2020, and total revenue of the Group increased from approximately RMB4,740 million for the six months ended 30 June 2020 to approximately RMB9,891 million for the six months ended 30 June 2021. In the opinion of the Directors, the business scale and the revenue of the Group are expected to increase moderately, which indicates a possible increase in demand for bill discounting services to be provided by Xiwang Finance Company. Taking into consideration (i) the historical amounts of bill discounting of the Group (irrespective of bill discounting made with Xiwang Finance Company or independent third parties) for the two years ended 31 December 2020 and the Annualised Amount of Bill Discounting exceed the Financial Services Caps in respect of bill discounting services; (ii) the proposed annual caps provide the flexibility rather than an obligation to the Group to discount its bills via Xiwang Finance Company to enhance its cash flow on terms no less favourable than those with independent third parties; and (iii) the expected increase in the amount of bill discounting of the Group in the next three years in light of the expected increase in business scale of the Group, in the opinion of the Directors, the Financial Services Annual Caps in respect of bill discounting services and the major factors considered as the bases of determining the Financial Services Annual Caps in respect of bill discounting services are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

The Directors (excluding the independent non-executive Directors, whose views will be included 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:

Period	Transaction amounts (RMB million)
From 1 January 2022 to 31 December 2022	2,000
From 1 January 2023 to 31 December 2023	2,000
From 1 January 2024 to 31 December 2024	2,000

LETTER FROM THE BOARD

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, which was approximately RMB3,530 million, RMB2,902 million and RMB1,548 million for the years ended 31 December 2019 and 2020 and the nine months ended 30 September 2021, 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
4. a general growth rate for the annual caps of bill acceptance services taking into consideration the factors as stated in paragraph numbered (5) in the sub-section headed “Financial Services Agreement – Proposed caps – Deposit services” in this circular.

In the opinion of the Directors, the relatively low utilisation rates of annual caps for bill acceptance services and the decreasing trend of the amounts of bill acceptance of the Group (irrespective of bill acceptance made with Xiwang Finance Company or independent third parties) for the years ended 31 December 2019 and 2020 and the nine months ended 30 September 2021 were primarily attributable to the more prevalent use of cash settlement requested by the suppliers amid the COVID-19 pandemic. The historical amounts of bill acceptance of the Group (irrespective of bill acceptance made with Xiwang Finance Company or independent third parties) amounted to approximately RMB3,530 million, RMB2,902 million and RMB1,548 million for the two years ended 31 December 2019 and 2020 and the nine months ended 30 September 2021, respectively. We noted that the annualised amount of bill acceptance of the Group (irrespective of bill acceptance made with Xiwang Finance Company or independent third parties) for the year ending 31 December 2021 amounted to approximately RMB2,064 million (the “**Annualised Amount of Bill Acceptance**”), which exceeds the Financial Services Annual Caps in respect of bill acceptance services for the three years ending 31 December 2022, 2023 and 2024. As disclosed in the 2020 Annual Report and 2021 Interim Report, the total cost of sales of the Group increased from approximately RMB10,465 million for the year ended 31 December 2019 to approximately RMB14,819 million for the year ended 31 December 2020, and total cost of sales of the Group increased from approximately RMB4,699 million for the six months ended 30 June 2020 to approximately RMB9,246 million for the six months ended 30 June 2021. In the opinion of the Directors, the business scale and the cost of sales of the Group are expected to increase moderately, which indicates a possible increase in demand for bill acceptance services to be provided by Xiwang Finance Company. Taking into consideration (i) the historical amounts of bill acceptance of the Group (irrespective of bill acceptance made with Xiwang Finance Company or independent third parties) for the two years ended 31 December 2019 and 2020 and the Annualised Amount of Bill Acceptance exceed the Financial Services Caps in respect of bill

LETTER FROM THE BOARD

acceptance services; (ii) the proposed annual 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; and (iii) the expected increase in the amount of bill acceptance of the Group in the next three years in light of the expected increase in business scale of the Group, in the opinion of the Directors, the Financial Services Annual Caps in respect of bill acceptance services and the major factors considered as the bases of determining the Financial Services Annual Caps in respect of bill acceptance services are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

The Directors (excluding the independent non-executive Directors, whose views will be included 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 and the Qualified Subsidiaries with other financial services approved by the CBIRC.

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.

LETTER FROM THE BOARD

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 would be 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.

The Company has the right, but not an obligation, to use the services of Xiwang Finance Company, and the Company has full discretion to use the financial services provided by other financial institutions.

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 approval is prior to the entering into of each deposit, bill discounting, and bill acceptance transactions. 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 fees 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.

LETTER FROM THE BOARD

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. 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. 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%. Maximum month-end deposit refers to the maximum amount of the deposit balance placed by the Group with Xiwang Finance Company and other financial institutions at the end of each month. In the opinion of the Directors, although only the month-end deposit balance is monitored but not daily balance of deposit, this is an effective measure to lower the concentration risk as the Directors consider that the daily balance of deposit will not fluctuate significantly due to the nature of the Group's businesses and the frequency of the Group's cash receipts from customers and cash payments to the suppliers. Based on the understanding of the Directors, the frequency of cash receipts from customers and cash payments to the suppliers is usually on a monthly basis. 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 4 November 2021, 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.

LETTER FROM THE BOARD

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, including non-compliance with risk monitoring indicators, 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.

Pursuant to the Guarantee Agreement, Xiwang Group Company has unconditionally, unreservedly and irrevocably made the following guarantees to the Group:

- (1) Xiwang Group Company undertakes to the Group and guarantees that when an emergency situation arises or foresees payment difficulties will occur in Xiwang Finance Company, Xiwang Group Company will resolve the payment difficulties in accordance with the actual conditions. If necessary, increase the corresponding capital for Xiwang Finance Company to ensure the normal operation of Xiwang Finance Company.
- (2) If Xiwang Finance Company violates or may violate any laws and regulations of the country, or has or may have any major operating problems or payment difficulties, or fails to fully perform any of the terms under the Financial Services Agreement, or when the breach of contract causes or may cause the Group to bear significant risks or incur losses, or cause losses to the Group and/or the eligible company (including but not limited to the amount of deposits, interest and related expenses incurred, etc.), Xiwang Finance Company will immediately make full compensation to the Group at the request of the Group. Xiwang Group Company promises and guarantees that it will bear joint and several liability for such compensation, that is, the Group and/or the qualified company do not need to pay the financial, the Company can directly request Xiwang Group Company to bear the above-mentioned repayment responsibilities.
- (3) Xiwang Group Company confirms that Xiwang Finance Company assumes various procuring and/or guarantee obligations to Xiwang Group Company in the "Financial Service Agreement" (including Article 4(2)), and guarantees that it will act in accordance with the instructions of Xiwang Finance Company at that time. If there is a violation, the Group can directly request Xiwang Group Company to assume the relevant responsibilities without first claiming compensation from Xiwang Finance Company.

LETTER FROM THE BOARD

Pursuant to the Guarantee Agreement, if Xiwang Group Company violates the relevant clauses of this agreement at any time, Xiwang Group Company agrees to compensate the Group for all losses in full. In the opinion of the Directors, such Guarantee can effectively safeguard the interests of the Company.

In respect of the financial position of Xiwang Group, based on the consolidated unaudited management accounts of Xiwang Group for the three financial years ended 31 December 2018, 2019 and 2020 and six months ended 30 June 2021, the unaudited consolidated financial information are summarised as follows:

	For the year ended 31 December 2018	For the year ended 31 December 2019	For the year ended 31 December 2020	For the six months ended 30 June 2021
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Revenue	35,630	28,111	30,195	16,713
Net assets attributable to shareholders	18,924	15,149	16,047	15,813
Current assets	12,278	14,313	13,365	14,652
Cash and cash equivalents	3,179	3,248	1,199	937

The unaudited consolidated financial information of Xiwang Group includes that of the Group.

In respect of the financial position of the Group, based on the annual reports of the Group for the three financial years ended 31 December 2018, 2019 and 2020 and interim report for the six months ended 30 June 2021, the consolidated financial information are summarised as follows:

	For the year ended 31 December 2018	For the year ended 31 December 2019	For the year ended 31 December 2020	For the six months ended 30 June 2021
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Revenue	11,917	11,170	15,288	9,891
Net assets attributable to shareholders	5,997	5,721	5,731	5,915
Current assets	3,717	2,973	3,249	4,018
Cash and cash equivalents	936	194	387	331

LETTER FROM THE BOARD

Based on the financial performance of Xiwang Group Company, the Directors (excluding the independent non-executive Directors, whose views are included 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 “Financial Services Agreement – Proposed caps” in 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 fees for bill acceptance and the service fees for other financial services to be offered by Xiwang Finance Company to the Company and the Qualified Subsidiaries 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 CBIRC, 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; and
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.

LETTER FROM THE BOARD

In view of the above, the Directors (excluding the independent non-executive Directors whose views are included 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 Group with Xiwang Finance Company in all material aspects, 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

4 November 2021

Parties

- (1) Xiwang Logistics
- (2) Xiwang Metal

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 Xiwang Metal for the delivery of the Group's steel to Shandong Province and other provinces in the PRC, during the term of the agreement.
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 Xiwang Metal after the receipt of the value-added tax invoice from Xiwang Logistics.
4. Term: three years commencing on 1 January 2022 (or a date when the Shareholders' approval is obtained, if it is later than 1 January 2022) and ending on 31 December 2024 (both dates inclusive).

LETTER FROM THE BOARD

5. Transactions contemplated under the Steel Delivery Service Agreement will be conducted:
 - (a) in the ordinary and usual course of business of Xiwang Metal 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 i.e. market price quotations, offered by independent third parties by the staff of the sales department of the Group on a monthly basis.
2. the Company's external auditors, HLB Hodgson Impey Cheng Limited, 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.

LETTER FROM THE BOARD

Steel delivery service historical figures and annual caps

The Company and Xiwang Logistics had entered into the 2015 Steel Delivery Service Agreement on similar terms as the Steel Delivery Service Agreement for the period from 1 January 2019 to 30 September 2021. The actual transaction amounts i.e. the delivery fee the Group paid, for the year ended 31 December 2019, 2020 and nine months ended 31 September 2021 amounted to approximately RMB18 million, RMB1 million and RMB3 million, respectively.

It is expected that the maximum aggregate annual transaction amounts i.e. the delivery fee the Group should pay, under the Steel Delivery Service Agreement for each of the next three years are as follows:

Period	Transaction amounts (RMB million)
From 1 January 2022 to 31 December 2022	118
From 1 January 2023 to 31 December 2023	160
From 1 January 2024 to 31 December 2024	196

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

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

- (i) the actual amounts of the steel delivered and the transportation costs incurred from the delivery of steel of the Group by Xiwang Logistics for the years ended 31 December 2019 and 2020 and the nine months ended 30 September 2021, which were approximately RMB18 million, RMB1 million and RMB3 million, respectively;
- (ii) the aggregate amount of steel delivery service procured by the Group (by Xiwang Logistics) for the year ending 31 December 2021 with reference to the actual amount of steel delivery service procured by the Group. 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 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 due to the possibility of increased delivery requests from customers of the Group;

LETTER FROM THE BOARD

- (iv) a general growth rate for the Steel Delivery Service Annual Caps taking into consideration the factors as stated in paragraph numbered (5) in the sub-section headed “Financial Services Agreement – Proposed caps – Deposit services” in this circular; and
- (v) an expected inflation rate for each of the years ending 31 December 2022, 2023 and 2024.

The following table sets out the historical actual amounts and the Steel Delivery Service Annual Caps.

	Historical actual amounts			Steel Delivery Service Annual Caps		
	Year ended	Year ended	Nine	Year ending	Year ending	Year ending
	31 December	31 December	months ended	31 December	31 December	31 December
	2019	2020	30 September	2022	2023	2024
	RMB' million	RMB' million	RMB' million	RMB' million	RMB' million	RMB' million
Steel Delivery Service procured	18	1	3	118	160	196
Utilisation rate	14.6%	0.6%	2.4% <i>(Note)</i>	-	-	-

Note: The utilisation rate is calculated by dividing the historical transaction amount for the nine months ended 30 September 2021 by annual cap for the year ending 31 December 2021 on a pro-rata basis.

The Directors consider that the pro-rata figure is a reasonable estimate for the full year as the delivery order is almost fully booked for the fourth quarter of the current year.

There are two ways of settlement for Xiwang Metal’s customer purchase and sales business, namely, one-invoice settlement and two-invoice settlement. One-invoice settlement means that the freight is included in the price of the goods, and the freight is not separately settled; two-invoice settlement means that the price of the goods and the freight are separate settlement. During the period from 2018 to 2021, Xiwang Metal’s customers mainly used the one-invoice system for settlement. Therefore, the shipping fee for Xiwang Metal was lower during the period from 2018 to 2021. The Directors believe that there is uncertainty about which settlement method will be adopted in the future. The Directors believe that the number of customers of Xiwang Metal who adopt the one-invoice settlement system between 2022 and 2024 will significantly decrease, while the number of settlements that adopt the two-invoice system will significantly increase. Therefore, the Directors believe that it is reasonable for Xiwang Metal to increase the upper limit of Xiwang Logistics and transportation services.

LETTER FROM THE BOARD

In 2019, the production and sales volume was low, and the transportation volume of steel was reduced, and the freight was correspondingly reduced. In the opinion of the Directors, the relatively low utilisation rates of annual caps for steel delivery service for the two years ended 31 December 2019 and 2020 and the nine months ended 30 September 2021 were primarily because (i) the Group would provide logistics services only upon request by the customers prior to the outbreak of COVID-19 epidemic; and (ii) the Group requested its customers to arrange logistics services themselves as a result of the outbreak of COVID-19 epidemic, in view of several cities in the PRC were restricted by the travel restriction and quarantine policies by local governments (the “**Restrictions**”). Based on the 2020 Annual Report and the 2021 Interim Report, total revenue of the Group increased from approximately RMB11,170 million for the year ended 31 December 2019 to approximately RMB15,288 million for the year ended 31 December 2020, representing an increase of approximately 36.9%, and the Group’s revenue increased from approximately RMB4,740 million for the six months ended 30 June 2020 to approximately RMB9,891 million for the six months ended 30 June 2021 representing an increase of approximately 108.7%. In the opinion of the Directors, the business scale and the revenue of the Group are expected to increase moderately, which indicates a possible increase in demand for logistics services to be provided by Xiwang Logistics. In view of the historical growth in the revenue of the Group, the Directors consider that the growth rate of the Steel Delivery Service Annual Caps for the three years ending 31 December 2024 ranged from approximately 22.5% to 35.6% are justifiable. In the opinion of the Directors, after when the Restrictions are lifted as the COVID-19 pandemic gradually comes under control, (i) the increase in possibility of getting more delivery requests from customers of the Group given the Group is capable of providing one-stop services for years so as to save the time cost and administrative costs of the customers; and (ii) the Group is dedicated to arrange delivery of steels for the customers so as to provide more value added services to the customers and generate extra revenue to the Group. As such, the Directors expects that the percentage of delivery to be arranged by the Group (rather than arranged by customers) will recover to pre-COVID-19 conditions and will further increase for the upcoming years when the economy and business activities of the cities in the PRC continues to resume. In the opinion of the Directors, the Steel Delivery Service Annual Caps were determined applying additional buffer to cater for, among others, projected inflation and growth of business size and on the principal assumptions that, during the three years ending 31 December 2022, 2023 and 2024, there will not be any adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect the businesses of the Group. As such, the Directors are of the view that the additional buffer provides the Group with flexibility to ensure stable and smooth operations of the Group. Taking into consideration (i) the increase in total revenue of the Group in recent year/period; (ii) the proposed annual caps provide the flexibility rather than an obligation to the Group to deliver steels via Xiwang Logistics at terms no less favourable than those with independent third parties; (iii) the expected increase in percentage of delivery to be arranged by the Group (rather than arranged by customers) for the upcoming years; and (iv) the additional buffer provides the Group with flexibility to ensure stable and smooth operations of the Group, the Directors are of the view that the Steel Delivery Service Annual Caps and the major factors considered as the bases of determining the Steel Delivery Service Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

The Directors had adopted the following specific assumptions in estimating the Steel Delivery Service Annual Caps:

	<i>Note</i>	For the year ended 31 December 2022	For the year ended 31 December 2023	For the year ended 31 December 2024
Volume of steel delivery service (tonnes) (A)	(a)	1,440,000	1,800,000	2,000,000
<i>YoY Growth</i>			25%	11%
Unit Prices (RMB per tonne) (B)	(b)	82.09	89.12	98.03
<i>YoY Growth</i>			9%	10%
Steel Delivery Service Annual Caps (RMB, round to million) (C)=(A)*(B)		118	160	196

Notes:

- (a) The Directors estimate that volume of steel delivery service will gradually increase in 2023 and 2024, with a year-on-year growth rate of 25% and 11% respectively.
- (b) The Directors estimate that unit prices of steel delivery service will gradually increase in 2023 and 2024, with a year-on-year growth rate of 9% and 10% respectively.

The Group is currently building a new project, and it is expected to start production in 2022 and fully put into production in 2023. It is estimated that from 2022 to 2024, the Group's total steel production and sales will be 3.6 million tonnes, 4 million tonnes, and 4 million tonnes, respectively. It is estimated that 40% of steel, which is 1.44 million tonnes will be transported by logistics in 2022. Considering that more steel will be transported by logistics in the future, an increase of 5% in 2023 and 2024 respectively, that is, 45% and 50% of steel will be transported by logistics, which is 1.8 million tonnes and 2 million tonnes, respectively. Considering future price increases, the freight per tonne will increase by about 10%.

LETTER FROM THE BOARD

The volume of steel sold in years ended 31 December 2019 and 2020 and the nine months ended 30 September 2021 are as follows:

	For the year ended 31 December 2019 (Tonnes)	For the year ended 31 December 2020 (Tonnes)	For the nine months ended 30 September 2021 (Tonnes)
Volume of steel sold	2,509,652	3,071,827	2,360,000

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

Xiwang Logistics is located in Handian Town, Zouping County, Shandong Province, which is less than 500 meters away from Xiwang Metal. It is the closest logistics company to Xiwang Metal, 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 included 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

4 November 2021

Parties

- (1) Xiwang Logistics
- (2) Xiwang Metal

LETTER FROM THE BOARD

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 Xiwang Metal for the delivery of ore powder from Shandong Province and other provinces in the PRC to the location of Xiwang Metal 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.
3. Settlement and payment: settlement shall be made by Xiwang Metal after the receipt of the value-added tax invoice from Xiwang Logistics.
4. Term: three years commencing on 1 January 2022 (or a date when the Independent Shareholders' approval is obtained, if it is later than 1 January 2022) and ending on 31 December 2024 (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 Xiwang Metal 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.

LETTER FROM THE BOARD

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 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;
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

The Company and Xiwang Logistics had entered into the 2018 Ore Powder Delivery Services Agreement on similar terms as the Ore Powder Delivery Service Agreement for the period from 1 January 2019 to 30 September 2021. The actual transaction amounts for the year ended 31 December 2019 and 2020 and the nine months ended 30 September 2021 amounted to approximately RMB82 million, RMB15 million and RMB4 million, respectively. 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:

Period	Transaction amounts (RMB million)
From 1 January 2022 to 31 December 2022	299
From 1 January 2023 to 31 December 2023	365
From 1 January 2024 to 31 December 2024	402

LETTER FROM THE BOARD

If the actual transaction amounts exceed 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 amounts of the ore powder delivered and the transportation costs incurred from the delivery of ore powder of the Group, which was arranged by Xiwang Logistics, for the years ended 31 December 2019 and 2020 and the nine months ended 30 September 2021 were approximately RMB82 million, RMB15 million and RMB4 million, respectively;
- (ii) given that the terms offered by Xiwang Logistics were more favourable, the Ore Powder Delivery Service Annual Caps for the three years ending 31 December 2024, is estimated 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 as the terms offered by Xiwang Logistics are more favourable as compared with those offered by independent third parties;
- (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 due to the more favourable terms offered by Xiwang Logistics;
- (iv) a general growth rate for the Ore Powder Delivery Service Annual Caps taking into consideration the factors as stated in paragraph numbered (5) in the sub-section headed "Financial Services Agreement – Proposed caps – Deposit services" in this circular; and
- (v) an expected inflation rate for each of the three years ending 31 December 2022, 2023 and 2024.

The following table sets out the historical actual amounts and Ore Powder Delivery Service Annual Caps.

	Historical actual amounts			Ore Powder Delivery Service Annual Caps		
	Year ended 31 December 2019	Year ended 31 December 2020	Nine months ended	Year ending 31 December 2022	Year ending 31 December 2023	Year ending 31 December 2024
			30 September 2021			
	RMB' million	RMB' million	RMB' million	RMB' million	RMB' million	RMB' million
Ore powder delivery service procured	82	15	4	299	365	402
Utilisation rate	34.6%	5.3%	1.7% ^(Note)	-	-	-

Note: The utilisation rate is calculated by dividing the historical transaction amount for the nine months ended 30 September 2021 by annual cap for the year ending 31 December 2021 on a pro-rata basis.

LETTER FROM THE BOARD

The Directors consider that the pro-rata figure is a reasonable estimate for the full year as the delivery order is almost fully booked for the fourth quarter of the current year.

In 2019, the production and sales volume was low, and the transportation volume of mineral powder was reduced, and the freight was correspondingly reduced. In the opinion of the Directors, the relatively low utilisation rates of annual caps for ore powder delivery service for the year ended 31 December 2020 and the nine months ended 30 September 2021 were primarily because the Group requested its suppliers to arrange logistics services themselves as a result of the outbreak of COVID-19 epidemic, in view of several cities in the PRC were restricted by the Restrictions. The purchase value of ore powder increased from approximately RMB2,623.7 million for the year ended 31 December 2019 to approximately RMB3,411.8 million for the year ended 31 December 2020, representing an increase of approximately 30.0% and the purchase of ore powder amounted to approximately RMB3,627.8 million for the nine months ended 30 September 2021, which exceeded the purchase value of ore powder for the year ended 31 December 2020. In the opinion of the Directors, the business scale and the costs of sales of the Group are expected to increase moderately, which indicates a possible increase in demand for logistics services to be provided by Xiwang Logistics. In the opinion of the Directors, when the Restrictions are lifted as the COVID-19 pandemic gradually comes under control, the Group is dedicated to arrange delivery of ore powder by themselves as the Group might reduce total procurement costs. As such, the Directors expect that the percentage of delivery to be arranged by the Group (rather than arranged by suppliers) is assumed to increase for the upcoming years when the economy and business activities of the cities in the PRC resume. In the opinion of the Directors, the Ore Powder Delivery Service Annual Caps were determined after applying additional buffer to cater for, among others, projected inflation and growth of business size, and on the principal assumptions that, during the three years ending 31 December 2022, 2023 and 2024, there will not be any adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect the businesses of the Group. As such, the Directors are of the view that the additional buffer provides the Group with flexibility to ensure stable and smooth operations of the Group. Taking into consideration (i) the increase in purchase value of ore powder in recent year/period; (ii) the proposed annual caps provide the flexibility rather than an obligation to the Group to deliver ore powder via Xiwang Logistics at terms no less favourable than those with independent third parties; (iii) the expected increase in percentage of delivery to be arranged by the Group (rather than arranged by customers) for the upcoming years; and (iv) the additional buffer provides the Group with flexibility to ensure stable and smooth operations of the Group, the Directors are of the view that the Ore Powder Delivery Service Annual Caps and the major factors considered as the bases of determining the Ore Powder Delivery Service Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

The Directors had adopted the following specific assumptions in estimating the Ore Powder Delivery Service Annual Caps:

	<i>Note</i>	For the year ended 31 December 2022	For the year ended 31 December 2023	For the year ended 31 December 2024
Volume of ore powder delivery service (tonnes) (A)	(a)	4,300,000	4,773,000	4,773,000
<i>YoY Growth</i>			11%	0%
Unit Prices (RMB per tonne) (B)	(b)	69.66	76.63	84.29
<i>YoY Growth</i>			10%	10%
Ore Powder Delivery Service Annual Caps (RMB, rounded to million) (C)=(A)*(B)		300	366	402

Notes:

- (a) The Directors estimate that volume of ore powder delivery service will gradually increase in 2023, with a year-on-year growth rate of 11%. No growth rate is assumed in 2024.
- (b) The Directors estimate that unit prices of ore powder delivery service Annual Caps will gradually increase in 2023 and 2024, with a year-on-year growth rate of 10% respectively.

The Group is currently building a new project, and it is expected to start production in 2022 and fully put into production in 2023. It is expected that the future output will increase and the purchase of mineral powder will increase. It is estimated that the Group's total purchase of mineral powder will be 4.9 million tonnes, 5.44 million tonnes and 5.44 million tonnes from 2022 to 2024, respectively. It is estimated that 80% of the ore powder will be transported by logistics, that is, the quantity transported by logistics in 2022 to 2024 will be 4.3 million tonnes, 4.77 million tonnes, and 4.77 million tonnes, respectively. Considering future price increases, the freight per tonne will increase by about 10%.

LETTER FROM THE BOARD

The volume of ore powder procured in years ended 31 December 2019 and 2020 and the nine months ended 30 September 2021 are as follows:

	For the year ended 31 December 2019 (Tonnes)	For the year ended 31 December 2020 (Tonnes)	For the nine months Ended 30 September 2021 (Tonnes)
Volume of ore powder procured	3,670,000	4,440,000	3,040,000

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

Xiwang Logistics is located in Handian Town, Zouping County, Shandong Province, which is less than 500 meters away from Xiwang Metal. It is the closest logistics company to Xiwang Metal, 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 included 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. The Group's products mainly 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.

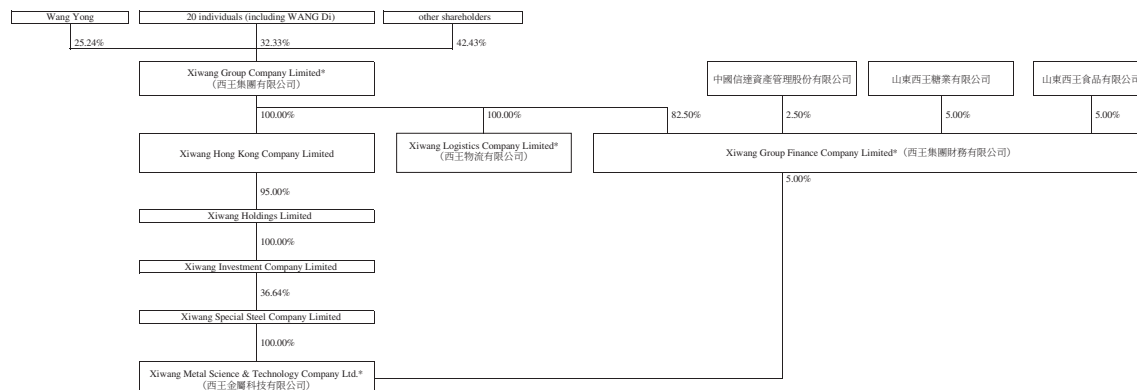
LETTER FROM THE BOARD

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, each of Xiwang Finance Company and Xiwang Logistics is an associate of Xiwang Investment and also a connected person (as defined in Chapter 14A of the Listing Rules) of the Company, and the transactions contemplated under the 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.

The below is a simplified organisational chart illustrating the ultimate beneficial owners of the parties relevant to the transaction and their relationships:



LETTER FROM THE BOARD

Pursuant to Rule 14A.70(3) of the Listing Rules, the identity of the 20 individuals (who, in aggregate, own approximately 32.33% of Xiwang Group) and the other shareholders (who, in aggregate, own approximately 42.43% of Xiwang Group) are disclosed as follows:

Name in Chinese	Name in English (For identification purpose only)	Percentage of shareholdings
王剛	Wang Gang	1.88%
王呈林	Wang Chenglin	1.08%
王會議	Wang Huiyi	0.72%
王明詩	Wang Mingshi	0.72%
王明鶴	Wang Minghe	2.17%
王呈軍	Wang Chengjun	0.72%
甯立江	Ning Lijiang	1.80%
王濤	Wang Tao	1.44%
王棟	Wang Dong	1.88%
賀曉光	He Xiaoguang	0.72%
孫新虎	Sun Xihu	1.44%
王棣	Wang Di	1.44%
王方明	Wang Fangming	1.44%
韓忠	Han Zhong	1.44%
王燕	Wang Yan	8.68%
王呈龍	Wang Chenglong	0.72%
韓本芳	Han Benfang	0.72%
王亮	Wang Liang	1.88%
王傳玉	Wang Chuanyu	0.72%
王岩	Wang Yan	0.72%
	Sub-total	32.33%
國民信託有限公司	National Trust Co., Ltd.	5.45%
新華基金管理股份有限公司	Xinhua Fund Management Co., Ltd.	1.77%
濱州正誠永盛股權投資合夥企業 (有限合夥)	Binzhou Zhengcheng Yongsheng Equity Investment Partnership (Limited Partnership)	0.33%
北京福海合昇科技有限公司(Note)	Beijing Fuhai Hesheng Technology Co., Ltd.	6.00%
濱州正應世嘉股權投資合夥企業 (有限合夥)	Binzhou Zhengying Shijia Equity Investment Partnership (Limited Partnership)	5.05%
鄒平市韓店鎮西王村村民委員會	Village Committee of Xiwang Village, Handian Town, Zouping City	23.83%
	Sub-total	42.43%
王勇	Wang Yong	25.24%
	Grand Total	100.00%

LETTER FROM THE BOARD

Note: The ultimate beneficial owners of 北京福海合昇科技有限公司 are disclosed as follows:

Name in Chinese	Name in English (For identification purpose only)	Percentage of shareholdings
周志峰	Zhou Zhifeng	51%
楊孟欣	Yang Mengxin	25%
洪偉	Hong Wei	24%
		<hr/>
		100%
		<hr/> <hr/>

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 the provision of each of the deposit services, bill discounting services and bill acceptance services under the Financial Services Agreement exceeds 25%, the provision of each of the deposit services, bill discounting services and bill acceptance services under the Financial Services Agreement constitutes a major transaction and non-exempt continuing connected transaction of the Company, which is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules. The loan services to be provided by Xiwang Finance Company to the Company and the Qualified Subsidiaries 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 provided 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 or the Qualified Subsidiaries will be granted in respect of the provision of the loan services, the provision of the loan services are exempt under Rule 14A.90 of the Listing Rules from all reporting, announcement and Independent Shareholders' approval requirements.

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 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.

LETTER FROM THE BOARD

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 transaction 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 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. 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 exceeds 25%, 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, circular and Independent Shareholders' approval requirements as set out in Chapters 14 and 14A of the Listing Rules. 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.

LETTER FROM THE BOARD

APPROVAL BY THE BOARD

The proposal in respect of the entering into of the Financial Services Agreement, the 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 4 November 2021. As (i) each of Mr. WANG Di and Mr. SUN Xinqu being a Director and Shareholder of the Company is also a director and shareholder of Xiwang Group Company; (ii) Mr. ZHANG Jian being a Director is also a director of Xiwang Group Company; and (iii) 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 entering into of the Financial Services Agreement. As each of Mr. WANG Di and Mr. SUN Xinqu 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 resolutions to approve the entering into of 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 contemplated under the Financial Services Agreement, the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement.

INDEPENDENT BOARD COMMITTEE

The Company has established an Independent Board Committee comprising all independent non-executive Directors for providing advice to the Independent Shareholders on whether the terms of the Financial Services Agreement with respect to the provision of deposit services, bill discounting services and bill acceptance services, the terms of the Steel Delivery Service Agreement and 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 47 to 48 of this circular. The letter from the Independent Board Committee to the Independent Shareholders contains its recommendation on the terms of the Financial Services Agreement with respect to the provision of deposit services, bill discounting services and bill acceptance services, the terms of the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement, the transactions contemplated thereunder and the Annual Caps.

LETTER FROM THE BOARD

Having considered the appropriate internal control procedures in place and the pricing policies with respect to the terms of the Financial Services Agreement with respect to the provision of deposit services, bill discounting services and bill acceptance services, the terms of 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 terms of the Financial Services Agreement with respect to the provision of deposit services, bill discounting services and bill acceptance services, the terms of 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 terms of the Financial Services Agreement with respect to the provision of deposit services, bill discounting services and bill acceptance services, the terms of the Steel Delivery Service Agreement and 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.

INDEPENDENT FINANCIAL ADVISER

The Company has appointed Lego Corporate Finance Limited as the Independent Financial Adviser to the Company for providing advice to the Independent Board Committee and the Independent Shareholders on whether the terms of the New Guarantee Agreement and the transactions contemplated thereunder and the Guarantee Annual Caps are fair and reasonable, and whether they are in the interest of the Company and the Shareholders as a whole. A letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 49 to 84 of this circular. The letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders indicates that the Independent Financial Adviser considers the New Guarantee Agreement and the transactions contemplated thereunder and the Guarantee Annual Caps are fair and reasonable to the Shareholders, and are in the interests of the Company and the Shareholders as a whole.

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

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.

LETTER FROM THE BOARD

THE EGM AND PROXY ARRANGEMENT

A notice convening the EGM is set out on pages 97 to 101 of this circular.

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

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

RECOMMENDATION

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

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



XIWANG SPECIAL STEEL COMPANY LIMITED

西王特鋼有限公司

(incorporated in Hong Kong with limited liability)

(Stock code: 1266)

30 November 2021

To the Independent Shareholders

Dear Sir or Madam,

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
AND NEW ANNUAL CAPS FOR 2022 TO 2024 –
(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 30 November 2021 (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires. Under the Listing Rules, the entering into of the Financial Services Agreement constitutes connected and major transaction of the company, and the entering into of the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement constitutes connected transactions 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. 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 exceeds 25%, 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, circular and Independent Shareholders’ approval requirements as set out in Chapters 14 and 14A of the Listing Rules. As

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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 transaction of the Company, which is subject to the reporting, announcement, circular 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 provision of 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. Lego Corporate Finance 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, which contains its advice to the Independent Board Committee and the Independent Shareholders on the terms of the Financial Services Agreement with respect to the provision of deposit services, bill discounting services and bill acceptance services, the terms of 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 49 to 84 of the Circular).

Having considered the advice of the Independent Financial Adviser, we are of the view that the terms of the Financial Services Agreement with respect to the provision of deposit services, bill discounting services and bill acceptance services, and the terms of 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. We also consider that the terms of the Financial Services Agreement with respect to the provision of deposit services, bill discounting services and bill acceptance services, and the terms of 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 terms of the Financial Services Agreement with respect to the provision of deposit services, bill discounting services and bill acceptance services, and the terms of 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 transactions contemplated thereunder.

Yours faithfully,

For and on behalf of the Independent Board Committee

Xiwang Special Steel Company Limited

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

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice from Lego Corporate Finance Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, which have been prepared for the purpose of inclusion in this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the Financial Services Agreement, the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement and the respective transactions contemplated thereunder, the Financial Services Annual Caps, the Steel Delivery Service Annual Caps and the Ore Powder Delivery Service Annual Caps.



30 November 2021

To the Independent Board Committee and the Independent Shareholders

Dear Sirs or Madams,

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
AND NEW ANNUAL CAPS FOR 2022 TO 2024 –
(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 appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Financial Services Agreement, the Steel Delivery Service Agreement, the Ore Powder Delivery Service Agreement and the transactions contemplated thereunder, the Financial Services Annual Caps, the Steel Delivery Service Annual Caps and the Ore Powder Delivery Service Annual Caps, details of which are set out in the “Letter from the Board” (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 30 November 2021 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The 2018 Financial Services Agreement, the 2018 Steel Delivery Service Agreement and the 2018 Ore Powder Delivery Service Agreement will expire on 31 December 2021. The Company intends to continue the Relevant Transactions and to set new Annual Caps for a term of three years commencing from 1 January 2022 and expiring on 31 December 2024. On 4 November 2021, (i) 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 (ii) Xiwang Metal, a wholly-owned subsidiary of the Company, entered into the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement with Xiwang Logistics.

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.

Given that one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of (i) the provision of each of the deposit services, bill discounting services and bill acceptance services under the Financial Services Agreement; and (ii) the provisions of the services under the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement exceeds 25%, thus constitute non-exempt continuing connected transactions of the Company, and are subject to the reporting, annual review, announcement, circular and Independent Shareholders' approval requirements as set out in Chapters 14 and 14A of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. Leung Shu Sun Sunny, Mr. Li Bangguang and Mr. Yu Kou, has been established to advise the Independent Shareholders as to (i) whether the Financial Services Agreement, the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement have been entered into in the ordinary and usual course of business of the Group based on normal commercial terms; and (ii) whether the terms of the Financial Services Agreement, the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement and the respective transactions contemplated thereunder, as well as the Financial Services Annual Caps, the Steel Delivery Service Annual Caps and the Ore Powder Delivery Service Annual Caps, are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders as to whether to vote in favour of the relevant resolutions to be proposed at the EGM to approve the Financial Services Agreement, the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement and the respective transactions contemplated thereunder, the Financial Services Annual Caps, the Steel Delivery Service Annual Caps and the Ore Powder Delivery Service Annual Caps. As the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regard.

As at the Latest Practicable Date, Lego Corporate Finance Limited did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to the independence of Lego Corporate Finance Limited. In the last two years, save for the appointments as the independent financial adviser to the independent board committee and the independent shareholders of the Company in respect of (i) the electricity purchase agency agreement and the transactions contemplated of which the letter of advice was published on 23 October 2020 together with the circular; and (ii) the new guarantee agreement and the transactions contemplated of which the letter of advice was published on 26 February 2021 together with the circular, there was no other engagement between the Group and Lego Corporate Finance Limited. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exists whereby we had received or will receive any fees or benefits from the Company or any other party to the transactions. Accordingly, we consider that we are eligible to give independent advice on the Financial Services Agreement, the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement and the respective transactions contemplated thereunder, the Financial Services Annual Caps, the Steel Delivery Service Annual Caps and the Ore Powder Delivery Service Annual Caps.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BASIS OF OUR OPINION

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

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background of the parties

a) Background of the Group

The Group is a leading high-end special steel manufacturer located in Shandong Province of the PRC. The Group's products consist of ordinary steel that is primarily used in buildings and infrastructures, as well as special steel that is used in automobile, shipbuilding, chemical and petrochemical, machinery and equipment sectors.

The following table sets out a summary of the recent financial performance of the Group based on the annual report of the Company for the year ended 31 December 2020 (the "2020 Annual Report") and the interim report of the Company for the six months ended 30 June 2021 (the "2021 Interim Report"), respectively.

	For the year ended		For the six months ended	
	31 December		30 June	
	2019	2020	2020	2021
	RMB' million	RMB' million	RMB' million	RMB' million
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	11,170	15,288	4,740	9,891
Gross profit	705	469	41	645
Profit/(loss) for the year/period	20	18	(274)	192

For the six months ended 30 June 2020 and 2021

As set out in the 2021 Interim Report, total revenue of the Group increased from approximately RMB4,740 million for the six months ended 30 June 2020 to approximately RMB9,891 million for the six months ended 30 June 2021, representing an increase of approximately 108.7%. Such increase was mainly attributable to (i) the increase in the average selling prices of ordinary and special steel products of the Group in 2021 as compared to 2020; and (ii) an increase in sales in trading of commodities. As a result of the forgoing, the Group recorded gross profit and net profit of approximately RMB645 million and RMB192 million for the six months ended 30 June 2021, respectively, as compared to gross profit and net loss of approximately RMB41 million and RMB274 million for the six months ended 30 June 2020, respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For the years ended 31 December 2019 and 2020

As set out in the 2020 Annual Report, total revenue of the Group increased from approximately RMB11,170 million for the year ended 31 December 2019 to approximately RMB15,288 million for the year ended 31 December 2020, representing an increase of approximately 36.9%. Such increase was primarily attributable to (i) the increase in revenue from sales of steel; and (ii) the increase in revenue from trading of commodities. Gross profit of the Group amounted to approximately RMB469 million for the year ended 31 December 2020, representing a decrease of approximately 33.5% as compared to that of approximately RMB705 million for the year ended 31 December 2019. Such decrease was mainly attributable to (i) the decrease in demand for the Group's products primarily because the Group's downstream customers had experienced difficulties in exporting their products, which was mainly affected by the COVID-19 pandemic; and (ii) the increase in production costs due to the increase in sales volume and trade business. As a result of the foregoing, net profit of the Group decreased slightly from approximately RMB20 million for the year ended 31 December 2019 to approximately RMB18 million for the year ended 31 December 2020.

The following table sets out a summary of the recent financial position of the Group as extracted from the 2021 Interim Report.

	As at 31 December 2020	As at 30 June 2021
	<i>RMB' million</i> (audited)	<i>RMB' million</i> (unaudited)
Non-current assets	12,121	12,065
Current assets	3,249	4,018
Total assets	15,370	16,083
Current liabilities	8,287	9,516
Non-current liabilities	1,352	652
Total liabilities	9,639	10,168
Net assets attributable to the Shareholders	5,731	5,915

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at 30 June 2021, the Group had (i) non-current assets of approximately RMB12,065 million, which mainly comprised property, plant and equipment of approximately RMB11,197 million; (ii) current assets of approximately RMB4,018 million, which mainly comprised (a) prepayments, other receivables and other assets of approximately RMB1,735 million; (b) inventories of approximately RMB1,422 million; and (c) cash and cash equivalents of approximately RMB330 million; (iii) current liabilities of approximately RMB9,516 million, which mainly comprised (a) interest-bearing bank and other borrowings of approximately RMB3,160 million; (b) contract liabilities of approximately RMB2,737 million; and (c) trade and bills payables of approximately RMB2,568 million; and (iv) non-current liabilities of approximately RMB652 million, which mainly comprised interest-bearing bank and other borrowings of approximately RMB484 million.

b) Background of Xiwang Group

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

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.

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.

2. Financial Services Agreement

a) Reasons for and benefits of entering into the Financial Services Agreement

We have discussed with the Management and were given to understand 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As disclosed in the Letter from the Board, 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 and the Qualified Subsidiaries will be equal to or more favourable than those offered by other independent commercial banks in the PRC in respect of comparable services.

Furthermore, Xiwang Finance Company is established as a non-banking financial institution regulated by the PBOC and the CBIRC, 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.

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. This is particularly conducive for the Group's daily operation to save the time cost.

By entering into the Financial Services Agreement with Xiwang Finance Company, it provides flexibility for, and does not impose an obligation to, the Group to procure the Financial Services from Xiwang Finance Company; and does not prevent the Group from using services provided by independent third party financial services providers. The Group retains the discretion to select its financial services provider according to its business needs as well as the fee and quality of the relevant services.

Additionally, 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.

As disclosed in the Letter from the Board, based on the understanding of the Directors, the Board is not aware of similar financial services, i.e. deposit services that can be provided by the external finance institutions. In any event the deposit interest rates to be offered by Xiwang Finance Company to the Company and the Qualified Subsidiaries are similar to those offered by other independent commercial banks in the PRC, we concur with the Management's view that it is fair and reasonable to place deposits with Xiwang Finance Company and benefits the Company and Shareholders as a whole on the basis that Xiwang Finance Company can provide the deposit services in a way that is more efficient than other

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

commercial banks licensed by the CBIRC as Xiwang Finance Company is a non-wholly owned subsidiary of Xiwang Group Company, the ultimate holding company of the Group, and the Group, also being a minority shareholder of Xiwang Finance Company, can also leverage on the long-term business relationship established with Xiwang Finance Company. The Group can effectively save the time cost by better capital management.

Taking into consideration that (i) the Group requires deposit services, bill discounting services and bill acceptance services from time to time to facilitate its business operation; (ii) the terms offered by Xiwang Finance Company to the Group shall be no less favourable than those offered by independent third party financial services providers as discussed below; (iii) Xiwang Finance Company is regulated by the PBOC and the CBIRC, which is required to comply with relevant rules and regulations; (iv) the capital risk control measures under the Financial Services Agreement and the Guarantee are adequate to monitor and curb the potential risks; (v) the flexible, expedient and efficient services to be provided by Xiwang Finance Company as compared to other PRC commercial banks; (vi) the Financial Services Agreement does not preclude the Group from choosing other financial services providers; (vii) the mutual beneficial relationship between the Group and Xiwang Finance Company; and (viii) the Group may continue to regulate current and future transactions contemplated under a clear framework agreement, we are of the view that the entering into the Financial Services Agreement is within the ambit of the businesses currently run by the Group and (a) is therefore conducted in the ordinary and usual course of the Group's businesses; (b) is on normal commercial terms; (c) is fair and reasonable; and (d) is in the interests of the Company and the Shareholders as a whole.

b) Principal terms of the Financial Services Agreement

The principal terms of the Financial Services Agreement are set out as follows:

Date	:	4 November 2021
Parties	:	– the Company; and – Xiwang Finance Company
Term of the agreement	:	Valid for a term of three years commencing from 1 January 2022 to 31 December 2024.

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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- Major terms : 1. Xiwang Finance Company shall provide the Company and the Qualified Subsidiaries with deposit services, loan services, bill discounting and bill acceptance services and other financial services approved by the CBIRC, subject to the terms and conditions provided therein.

Based on the understanding of the Directors, Xiwang Finance Company is qualified by the CBIRC to provide the abovementioned financial services. The deposits are either repayable on demand or are with fixed terms as determined by the Company. The bill discounting services to be provided by Xiwang Finance Company is on a non-recourse basis. The bill discounting services is differentiated from the bill acceptance services, that bill discounting is a trade-related activity in which Xiwang Metal's unpaid invoices which are due to be paid i.e. customers of Xiwang Metal who are yet to settle the trade receivables owed to Xiwang Metal at a future date are sold to Xiwang Finance Company, whereas bill acceptance services is a written commercial bill that is issued by Xiwang Metal and is accepted by Xiwang Finance Company after Xiwang Finance Company reviews and agrees the application submitted by Xiwang Metal. Xiwang Finance Company is the primary payer of such bill acceptance, and Xiwang Metal should deposit full bill amount of such bill in the account with Xiwang Finance Company before the due date.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 and the Qualified Subsidiaries 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 and the Qualified Subsidiaries.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The pricing terms offered by Xiwang Finance Company to the Group in respect of the transactions contemplated under the Financial Services Agreement shall be no less favourable than those offered by independent third-party financial services providers for similar level of services.

For each category of the financial services contemplated under the Financial Services Agreement (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-party financial services providers. Based on the review of the terms of the comparable transactions, we noted that the principal terms entered into with Xiwang Finance Company were no less favourable than those offered by independent third-party financial services providers.

In respect of the internal control measures for the transactions contemplated under the Financial Services Agreement, we are advised by the Management that:

- (i) 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 two financial institutions and/or commercial banks in the PRC) to ensure that the most favourable terms would be 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.
- (ii) The Company has the right, but not an obligation, to use the services of Xiwang Finance Company, and the Company has full discretion to use the financial services provided by other financial institutions.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (iii) 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 approval is prior to the entering into of each deposit, bill discounting, and bill acceptance transaction. 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.
- (iv) 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.
- (v) 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%. Maximum month-end deposit refers to the maximum amount of the deposit balance placed by the Group with Xiwang Finance Company and other financial institutions at the end of each month. As disclosed in the Letter from the Board, in the opinion of the Directors, although only the month-end deposit balance is monitored but not daily balance of deposit, this is an effective measure to lower the concentration risk as the Directors consider that the daily balance of deposit will not fluctuate significantly due to the nature of the Group's businesses and the frequency of the Group's cash receipts from customers and cash payments to the suppliers. Based on the understanding of the Directors, the frequency of cash receipts from customers and cash payments to the suppliers is usually on a monthly basis.

In this connection, we have obtained and reviewed the relevant internal control policies which stipulate the procedures to be complied with in conducting connected transactions. We considered that there are adequate internal control measures in place to monitor and 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 amount of deposits in the PRC; and (ii) the interest rates for loans and bill discounting and the fee for bill acceptance 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Furthermore, we noted that 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. 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.

We have further reviewed the two most recent annual reports of the Company and noted that, for each of the two years ended 31 December 2020, (i) the independent non-executive Directors had reviewed the continuing connected transactions of the Company, including the financial services contemplated under the Financial Services Agreement, 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.

As disclosed in the Letter from the Board, bill discounting is a trade-related activity in which Xiwang Metal's unpaid invoices which are due to be paid i.e. customers of Xiwang Metal who are yet to settle the trade receivables owed to Xiwang Metal at a future date are sold to Xiwang Finance Company, whereas bill acceptance services is a written commercial bill that is issued by Xiwang Metal and is accepted by Xiwang Finance Company after Xiwang Finance Company reviews and agrees the application submitted by Xiwang Metal. Xiwang Finance Company is the primary payer of such bill acceptance, and Xiwang Metal should deposit full bill amount of such bill in the account with Xiwang Finance Company before the due date. In any event that Xiwang Finance Company does not have the financial capacity (i.e. shortage of cash) to provide bill discounting and bill acceptance services, the Group would not be able to procure bill discounting and bill acceptance services from Xiwang Finance Company and may need to procure such services from other independent financial services providers even when their terms are less favourable to the Group than those offered by Xiwang Finance Company to the Group, which may adversely affect the operation and financial performance of the Group. Hence, we concur with the Management's view that the creditability and liquidity of Xiwang Finance Company are the major risks borne by the Group in using the bill acceptance and bill discounting services.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As disclosed in the Letter from the Board, 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, including non-compliance with risk monitoring indicators, 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.

According to Article 34 of the Administrative Measures for Enterprise Group Finance Companies, finance companies operating business shall comply with the following requirements for the ratio of assets to liabilities (the "**Requirements**"):

- (1) The capital adequacy ratio shall not be lower than 10%;
- (2) The balance of borrowed funds shall not be higher than the total capital;
- (3) The guarantee balance shall not be higher than the total capital;
- (4) The ratio of short-term securities investment to total capital shall not exceed 40%;
- (5) The ratio of long-term investment to total capital shall not be higher than 30%;
and
- (6) The ratio of self-owned fixed assets to total capital shall not be higher than 20%.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For our due diligence purpose, we have obtained and reviewed the financial statements of Xiwang Finance Company as at 31 December 2018, 2019 and 2020 and 30 June 2021 provided by the Management, and noted that the financial ratios of Xiwang Finance Company were in compliance to the Requirements as follows.

		As at 31 December 2018	As at 31 December 2019	As at 31 December 2020	As at 30 June 2021
Capital adequacy ratio		34.51%	32.33%	31.05%	30.02%
Balance of borrowed funds (RMB' million)		190	1,150	1,150	1,150
Total capital (RMB' million)	(A)	2,324	2,417	2,362	2,362
Guaranteed balance (RMB' million)		1,508	1,316	1,309	1,451
Short-term securities investment	(B)	0.30	0.31	-	-
Ratio of short-term securities investment to total capital	(C) = (B)/ (A)	0.01%	0.01%	0.00%	0.00%
Long-term investment (RMB' million)	(D)	-	-	-	-
Ratio of long-term investment to total capital (RMB' million)	(E) = (D)/ (A)	0%	0%	0%	0%
Own fixed asset (RMB' million)	(F)	1.34	0.78	0.32	0.25
Ratio of own fixed assets to total capital	(G) = (F)/ (A)	0.06%	0.03%	0.01%	0.01%

Taking into consideration (i) that Xiwang Finance Company has historically complied with the risk monitoring indicators prescribed by the CBIRC; (ii) pursuant to the Guarantee Agreement, Xiwang Group Company has unconditionally, unreservedly and irrevocably made the guarantees to the Group, in which when an emergency situation arises or foresees payment difficulties will occur in Xiwang Finance Company, Xiwang Group Company will resolve the payment difficulties in accordance with the actual conditions; and (iii) in any event Xiwang Group Company violates the relevant clauses of the Guarantee Agreement at any time, Xiwang Group Company agrees to compensate the Group for all losses in full, we concur with the Management's view that such Guarantee and the aforementioned internal control measures can jointly and effectively safeguard the interests of the Company, ensure recoverability of the deposits to be placed with Xiwang Finance Company, and mitigate the risks borne by the Group in using the bill acceptance and bill discounting services.

Based on the foregoing, we are of the view that the terms of the Financial Services Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and in the interest of the Company as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

c) Proposed Financial Services Annual Caps

The following table sets out the historical actual amounts and proposed Financial Services Annual Caps between the Group and Xiwang Finance Company.

	Historical actual amounts			Proposed Annual Caps		
	Year ended 31 December 2019 <i>RMB' million</i>	Year ended 31 December 2020 <i>RMB' million</i>	Nine months ended	Year ending 31 December 2022 <i>RMB' million</i>	Year ending 31 December 2023 <i>RMB' million</i>	Year ending 31 December 2024 <i>RMB' million</i>
			30 September 2021 <i>RMB' million</i>			
Maximum daily deposit balance	1,331	757	371	2,100	2,300	2,500
<i>Utilisation rate</i>	63.4%	32.9%	N/A	N/A	N/A	N/A
Aggregate annual transaction amounts of bill discounting	301	128	–	2,000	2,000	2,000
<i>Utilisation rate</i>	5.5%	2.1%	–	N/A	N/A	N/A
Aggregate annual transaction amounts of bill acceptance	715	746	248	2,000	2,000	2,000
<i>Utilisation rate</i>	13.0%	12.4%	N/A	N/A	N/A	N/A

Deposit Services

As disclosed in the Letter from the Board, the Financial Services Annual Caps in respect of deposit services were determined after taking into account of (i) the historical maximum daily deposit balance of the Group with Xiwang Finance Company; (ii) the historical maximum daily deposit balance of the Group (irrespective of deposit in Xiwang Finance Company or independent third parties) of approximately RMB2,418 million, RMB1,688 million and RMB1,059 million for the two years ended 31 December 2020 and the nine months ended 30 September 2021, respectively; and (iii) the expected increase in amount of deposit of the Group in the next three years due to the expected increase in the asset scale of the Group taking into account the internal estimates of the Group with reference to (a) the possible funding requirement of the Group and (b) the expected increase in revenue and future net cash flow from operating activities of the Group; and (iv) the expected increase in the amount of deposit of the Group may possibly be placed with Xiwang Finance Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Assessment of the fairness and reasonableness of annual caps for deposit services

We have discussed with the Management and were given to understand that the decreasing trends of the utilisation rates of annual caps for deposit services as well as the maximum daily deposit balance of the Group (irrespective of deposit in Xiwang Finance Company or independent third parties) for the two years ended 31 December 2020 and the nine months ended 30 September 2021 were primarily attributable to the Group's increase in purchase of inventories in response to the growth of the Group's business operations.

As disclosed in the Letter from the Board, the maximum daily deposit balance of the Group (irrespective of deposit in Xiwang Finance Company or independent third parties) amounted to approximately RMB2,418 million, RMB1,688 million and RMB1,059 million for the two years ended 31 December 2020 and the nine months ended 30 September 2021, respectively. We noted that the maximum daily deposit balance of the Group (irrespective of deposit in Xiwang Finance Company or independent third parties) had reached as high as approximately RMB2,418 million (the “**Historical Highest Maximum DDB**”) for the year ended 31 December 2019, which illustrates the maximum level that the Group can attain prior to the COVID-19 pandemic.

We further noted that the average of the maximum daily deposit balance of the Group (irrespective of deposit in Xiwang Finance Company or independent third parties) for the two years ended 31 December 2020 and the nine months ended 30 September 2021 amounted to approximately RMB1,722 million (the “**Historical Average Maximum DDB**”), which represents approximately 82.0%, 74.9% and 68.9% of the Financial Services Annual Cap in respect of deposit services for the three years ending 31 December 2024, respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As disclosed in the 2020 Annual Report and the 2021 Interim Report, total revenue of the Group increased from approximately RMB11,170 million for the year ended 31 December 2019 to approximately RMB15,288 million for the year ended 31 December 2020, representing an increase of approximately 36.9%, and the Group's revenue increased from approximately RMB4,740 million for the six months ended 30 June 2020 to approximately RMB9,891 million for the six months ended 30 June 2021, representing an increase of approximately 108.7%, indicating a significant recovery in the business operation of the Company which is believed to be a result of the gradual stabilisation of the economic situation in the PRC after combating the COVID-19 outbreak. With the effective control of the COVID-19 outbreak, the downstream demands for the Group's products are expected to increase. We have reviewed the internal estimates of the Group provided by the Management, discussed the bases and assumptions with the Management, and were given to understand that the Group will continue to speed up cash collection, increase the sales volume to the Group's core customers, improve the volume and frequency of procurement and sales, and further improve the Group's business and financial performances. Accordingly, the Management expects the sum of cash, trade and other receivables and other assets of the Group to remain at a level close to or above the Financial Services Annual Caps in respect of deposit services during the term of the Financial Services Agreement. In view of the historical growth in the revenue of the Group, we consider that the growth rate of the Financial Services Annual Caps in respect of deposit services for the three years ending 31 December 2024 ranged from approximately 8.7% to 9.5% are justifiable and not excessive.

From the discussion with the Management, we were given to understand that the Financial Services Annual Caps in respect of deposit services were determined after applying additional buffer to cater for, among others, the possible fund raising for future capital expenditure to support the business development plan, the growing scale of business operation of the Group and the net cash flow generated from operating activities of the Group in the future, and on the principal assumptions that, during the three years ending 31 December 2024, there will not be any adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect the businesses of the Group. As such, the Directors are of the view, and we concur, that the buffer provides the Group with flexibility to ensure stable and smooth operations of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Taking into consideration (i) the Historical Highest Maximum DDB and the Historical Average Maximum DDB exceed and/or are comparable to the Financial Services Caps in respect of deposit services; (ii) the proposed annual caps provide 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; (iii) the expected increase in amount of deposit of the Group in the next three years due to the expected increase in the asset scale of the Group; and (iv) the additional buffer provides the Group with flexibility to ensure stable and smooth operations of the Group, we are of the view that the Financial Services Annual Caps in respect of deposit services and the major factors considered as the bases of determining the Financial Services Annual Caps in respect of deposit services are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Bill discounting services

As disclosed in the Letter from the Board, the Financial Services Annual Caps in respect of the bill discounting services were determined after taking into account of (i) the historical amount of bill discounting of the Group (irrespective of bill discounting made with Xiwang Finance Company or independent third parties) of approximately RMB2,863 million, RMB2,533 million and RMB1,554 million for the two years ended 31 December 2020 and the nine months ended 30 September 2021, respectively; (ii) the expected increase in the amount of bill discounting of the Group in the next three years in light of the expected increase in business scale of the Group; and (iii) 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.

Assessment of the fairness and reasonableness of annual caps for bill discounting services

We have discussed with the Management and were given to understand that the relatively low utilisation rates of annual caps for bill discounting services and the decreasing trend of the amounts of bill discounting of the Group (irrespective of bill discounting made with Xiwang Finance Company or independent third parties) for the two years ended 31 December 2020 and the nine months ended 30 September 2021 were primarily attributable to the more prevalent use of cash settlement as requested by the Company to the customers amid the COVID-19 pandemic.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As disclosed in the Letter from the Board, the historical amounts of bill discounting of the Group (irrespective of bill discounting made with Xiwang Finance Company or independent third parties) amounted to approximately RMB2,863 million, RMB2,533 million and RMB1,554 million for the two years ended 31 December 2020 and the nine months ended 30 September 2021, respectively. We noted that the annualised amount of bill discounting of the Group (irrespective of bill discounting made with Xiwang Finance Company or independent third parties) for the year ending 31 December 2021 would amount to approximately RMB2,072 million (the “**Annualised Amount of Bill Discounting**”), which exceeds the Financial Services Annual Caps in respect of bill discounting services for the three years ending 31 December 2024.

As discussed in the section headed “1. Background of the parties” total revenue of the Group increased from approximately RMB11,170 million for the year ended 31 December 2019 to approximately RMB15,288 million for the year ended 31 December 2020, and total revenue of the Group increased from approximately RMB4,740 million for the six months ended 30 June 2020 to approximately RMB9,891 million for the six months ended 30 June 2021. We have reviewed the internal estimates of the Group provided by the Management, discussed the bases and assumptions with the Management, and were given to understand that the business scale and the revenue of the Group are expected to increase moderately, which indicates a possible increase in demand for bill discounting services to be provided by Xiwang Finance Company.

Taking into consideration (i) the historical amounts of bill discounting of the Group (irrespective of bill discounting made with Xiwang Finance Company or independent third parties) for the two years ended 31 December 2020 and the Annualised Amount of Bill Discounting exceed the Financial Services Caps in respect of bill discounting services; (ii) the proposed annual 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; and (iii) the expected increase in the amount of bill discounting of the Group in the next three years in light of the expected increase in business scale of the Group, we are of the view that the Financial Services Annual Caps in respect of bill discounting services and the major factors considered as the bases of determining the Financial Services Annual Caps in respect of bill discounting services are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Bill acceptance services

As disclosed in the Letter from the Board, the Financial Services Annual Caps in respect of the bill acceptance services were determined after taking into account of (i) the historical amount of bill acceptance of the Group (irrespective of bill acceptance made with Xiwang Finance Company or independent third parties) of approximately RMB3,530 million, RMB2,902 million and RMB1,548 million for the two years ended 31 December 2020 and the nine months ended 30 September 2021, respectively; (ii) the expected increase in the amount of bill acceptance of the Group in the next three years in light of the expected increase in business scale of the Group; and (iii) 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.

Assessment of the fairness and reasonableness of annual caps for bill acceptance services

We have discussed with the Management and were given to understand that the relatively low utilisation rates of annual caps for bill acceptance services and the decreasing trend of the amounts of bill acceptance of the Group (irrespective of bill acceptance made with Xiwang Finance Company or independent third parties) for the two years ended 31 December 2020 and the nine months ended 30 September 2021 were primarily attributable to the more prevalent use of cash settlement requested by the suppliers amid the COVID-19 pandemic.

As disclosed in the Letter from the Board, the historical amounts of bill acceptance of the Group (irrespective of bill acceptance made with Xiwang Finance Company or independent third parties) amounted to approximately RMB3,530 million, RMB2,902 million and RMB1,548 million for the two years ended 31 December 2020 and the nine months ended 30 September 2021, respectively. We noted that the annualised amount of bill acceptance of the Group (irrespective of bill acceptance made with Xiwang Finance Company or independent third parties) for the year ending 31 December 2021 would amount to approximately RMB2,064 million (the “**Annualised Amount of Bill Acceptance**”), which exceeds the Financial Services Annual Caps in respect of bill acceptance services for the three years ending 31 December 2024.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have reviewed the 2020 Annual Report and 2021 Interim Report and noted that total cost of sales of the Group increased from approximately RMB10,465 million for the year ended 31 December 2019 to approximately RMB14,819 million for the year ended 31 December 2020, and total cost of sales of the Group increased from approximately RMB4,699 million for the six months ended 30 June 2020 to approximately RMB9,246 million for the six months ended 30 June 2021. We have also reviewed the internal estimates of the Group provided by the Management, discussed the bases and assumptions with the Management, and were given to understand that the business scale and the cost of sales of the Group are expected to increase moderately, which indicates a possible increase in demand for bill acceptance services to be provided by Xiwang Finance Company

Taking into consideration (i) the historical amounts of bill acceptance of the Group (irrespective of bill acceptance made with Xiwang Finance Company or independent third parties) for the two years ended 31 December 2020 and the Annualised Amount of Bill Acceptance exceed the Financial Services Caps in respect of bill acceptance services; (ii) the proposed annual caps provide 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; and (iii) the expected increase in the amount of bill acceptance of the Group in the next three years in light of the expected increase in business scale of the Group, we are of the view that the Financial Services Annual Caps in respect of bill acceptance services and the major factors considered as the bases of determining the Financial Services Annual Caps in respect of bill acceptance services are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

However, the Shareholders should note that as the Financial Services Annual Caps are determined based on various factors relating to future events and assumptions which may or may not remain valid for the entire period up to December 31, 2024, and they do not represent any forecasts or estimations of the Group's financial performance. Consequently, we express no opinion as to how closely the actual future transaction amounts of the continuing connected transactions will correspond with the Financial Services Annual Caps.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement

a) Reasons for and benefits of entering into the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement

As disclosed in the Letter from the Board, Xiwang Logistics is located in Handian Town, Zouping, Shandong Province, which is less than 500 meters away from the Company. It is the closest logistics company to Xiwang Metal, which has logistics capability, possesses adequate vehicles and can deliver the goods in a timely manner. We have discussed with the Management and were given to understand that the transactions contemplated under the Steel Delivery Services Agreement and the Ore Powder Delivery Service Agreement involve:

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

Taking into account, in particular, (i) Xiwang Logistics is one of the closest logistics companies to the Company; (ii) the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement (collectively, the “**Logistics Agreements**”) do not preclude the Group from choosing other logistics services providers; (iii) the Product Delivery Services could provide convenience to customers of the Group and might generate extra revenue to the Group; (iv) the Ore Powder Delivery Services might reduce total procurement cost; and (v) the terms of the Product Delivery Services and Ore Powder Delivery Services (collectively, 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

b) *Principal terms of the Delivery Services*

The principal terms of the Logistics Agreements are set out as follows:

Date	:	4 November 2021
Parties	:	– Xiwang Logistics; and – Xiwang Metal
Term of the agreement	:	Valid for a term of three years commencing from 1 January 2022 to 31 December 2024.

Major terms of the Steel Delivery Service Agreement

Subject matter	:	pursuant to the Steel Delivery Service Agreement, Xiwang Logistics agreed to provide delivery service to Xiwang Metal for the delivery of the Group's steel to Shandong Province and other provinces in the PRC, during the term of the agreement.
Consideration	:	the cost of delivery service shall be determined according to the weight of steel for each delivery with reference to prevailing market prices.
Settlement and payment	:	settlement shall be made by Xiwang Metal after the receipt of the value-added tax invoice from Xiwang Logistics.
Term	:	three years commencing on 1 January 2022 (or a date when the Shareholders' approval is obtained, if it is later than 1 January 2022) and ending on 31 December 2024 (both dates inclusive).
Transactions contemplated under the Steel Delivery Service Agreement will be conducted	:	(a) in the ordinary and usual course of business of Xiwang Metal 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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (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.

Major terms of the Ore Powder Delivery Service Agreement

- Subject matter : pursuant to the Ore Powder Delivery Service Agreement, Xiwang Logistics agreed to provide delivery service to Xiwang Metal for the delivery of ore powder from Shandong Province and other provinces in the PRC to the location of Xiwang Metal during the term of the agreement.
- 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.
- Settlement and payment : settlement shall be made by Xiwang Metal after the receipt of the value-added tax invoice from Xiwang Logistics.
- Term : three years commencing on 1 January 2022 (or a date when the Shareholders' approval is obtained, if it is later than 1 January 2022) and ending on 31 December 2024 (both dates inclusive).
- Transactions contemplated under the Ore Powder Delivery Service Agreement will be conducted : (a) in the ordinary and usual course of business of Xiwang Metal 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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (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.

In respect of the internal control measures for the Delivery Services, the Group has adopted the following measures to ensure that the pricing terms offered by Xiwang Logistics to the Group in respect of the Delivery Services shall be no less favourable than those offered by independent third-party logistics services providers for same services.

1. the price for the Delivery Services 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 i.e. market price quotations, offered by independent third parties by the staff of the sales/procurement department of the Group 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;
3. the independent non-executive Directors will conduct an annual review of the implementation and enforcement of the continuing connected transactions;
4. the Steel Delivery Service Agreement will be reviewed by sales officer and approved by sales manager;
5. the Ore Powder Delivery Service Agreement will be reviewed by purchasing officer and approved by purchasing manager; and
6. the Company will monitor the market price quotations for Delivery Services, 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For each category of the Delivery Services (being Product Delivery Services and Ore Powder Delivery Services), we have reviewed randomly selected recent transaction samples which the Group entered into with Xiwang Logistics and the corresponding terms offered by independent third-party logistics services providers. Based on the review of the terms of the comparable transactions, we noted that the principal terms entered into with Xiwang Logistics were no less favourable than those offered by independent third-party logistics services providers.

We have further reviewed the two most recent annual reports of the Company and noted that, for each of the two years ended 31 December 2020, (i) the independent non-executive Directors had reviewed the continuing connected transactions of the Company, including 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.

Based on the foregoing, we are of the view that the terms of the Logistics Agreements are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and in the interest of the Company as a whole.

c) Proposed Annual Caps of the Delivery Services

The following table sets out the historical actual amounts and Steel Delivery Service Annual Caps and Ore Powder Delivery Service Annual Caps (collectively, “**Delivery Services Annual Caps**”).

	Historical actual amounts			Proposed Annual Caps		
	Year ended 31 December 2019 RMB' million	Year ended 31 December 2020 RMB' million	Nine months ended 30 September 2021 RMB' million	Year ending 31 December 2022 RMB' million	Year ending 31 December 2023 RMB' million	Year ending 31 December 2024 RMB' million
Product Delivery Services procured	18	1	3	118	160	196
Utilisation rate	14.6%	0.6%	2.4% ^(Note)	–	–	–
Ore Powder Delivery Service procured	82	15	4	299	365	402
Utilisation rate	34.6%	5.3%	1.7% ^(Note)	–	–	–

Note:

The utilisation rate is calculated by dividing the historical transaction amount for the nine months ended 30 September 2021 by annual cap for the year ending 31 December 2021 on a pro-rata basis.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Steel Delivery Service Annual Caps

As disclosed in the Letter from the Board, the Steel Delivery Service Annual Caps were determined after taking into account of (i) the actual amount of the steel delivered and the transportation cost incurred from the delivery of steel of the Group by Xiwang Logistics; (ii) the historical aggregate amount of steel delivery service procured by the Group (by Xiwang Logistics) for the year ending 31 December 2021 with reference to the actual amount of steel delivery service procured by the Group; (iii) the expected amount of steel to be delivered by Xiwang Logistic in the next three years; and (iv) the expected inflation rate for each of the three years ending 31 December 2024.

Assessment of the fairness and reasonableness of Steel Delivery Service Annual Caps

We have discussed with the Management and were given to understand that the relatively low utilisation rates of annual caps for Product Delivery Services for the two years ended 31 December 2021 and the nine months ended 30 September 2021 were primarily because (i) the production and sales volume of steel were relatively low for the year ended 31 December 2019, representing approximately 81.7% of the sales volume of steel for the year ended 31 December 2020. Hence, the transportation volume of steel was reduced, which led to decrease in the freight costs for the year ended 31 December 2019; (ii) the adoption of one-invoice settlement in the past, which will be further discussed below; (iii) the Group would provide logistics services only upon request by the customers prior to the COVID-19 pandemic; and (iv) the Group requested its customers to arrange logistics services themselves as a result of the COVID-19 pandemic, in view of several cities in the PRC were restricted by the travel restriction and quarantine policies by local governments (the “**Restrictions**”).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Directors had adopted the following specific assumptions in estimating the Steel Delivery Service Annual Caps:

			Year ending 31 December 2022	Year ending 31 December 2023	Year ending 31 December 2024
	<i>Note</i>				
Volume of steel delivery service (tonnes)	(A)	(a)	1,440,000	1,800,000	2,000,000
Year-on-year growth rate				25%	11%
Unit prices (RMB per tonne)	(B)	(b)	82.09	89.12	98.03
Year-on-year growth rate				9%	10%
Steel Delivery Service Annual Caps (RMB, round to million)	(C) = (A)	*(B)	118	160	196

Notes:

- (a) The Directors estimate that volume of steel delivery service will gradually increase in 2023 and 2024, with a year-on-year growth rate of 25% and 11%, respectively.
- (b) The Directors estimate that unit prices of steel delivery service will gradually increase in 2023 and 2024, with a year-on-year growth rate of 9% and 10%, respectively.

As disclosed in the Letter from the Board, the Group is currently building a new project, and it is expected to start production in 2022 and fully put into production in 2023. It is estimated that from 2022 to 2024, the Group's total steel production and sales will increase to 3.6 million tonnes, 4 million tonnes, and 4 million tonnes, respectively. We have discussed with the Management and were given to understand that it is estimated that 40% of steel, which is 1.44 million tonnes will be transported by Xiwang Logistics in 2022. Considering that more steel will be transported by Xiwang Logistics in the future, an increase of 5% in 2023 and 2024, respectively, that is, 45% and 50% of steel will be transported by Xiwang Logistics, which is 1.8 million tonnes and 2 million tonnes, respectively.

As disclosed in the Letter from the Board, the Group has two settlement methods, namely, one-invoice settlement and two-invoice settlement. One-invoice settlement means that the freight costs are included in the price of the goods, and the freight costs are not separately settled; the two-invoice settlement means that the price of goods and the freight costs are settled separately. As advised by the Management, the one-invoice settlement may decrease in the future, which will increase the demand in logistics and transportation services from Xiwang Logistics, and the transaction amount for the steel delivery service will be increased accordingly.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have reviewed the 2020 Annual Report and the 2021 Interim Report and noted that total revenue of the Group increased from approximately RMB11,170 million for the year ended 31 December 2019 to approximately RMB15,288 million for the year ended 31 December 2020, representing an increase of approximately 36.9%, and the Group's revenue increased from approximately RMB4,740 million for the six months ended 30 June 2020 to approximately RMB9,891 million for the six months ended 30 June 2021 representing an increase of approximately 108.7%. We have reviewed the internal estimates of the Group provided by the Management, discussed the bases and assumptions with the Management, and were given to understand that the business scale and the revenue of the Group are expected to increase moderately, which indicates a possible increase in demand for logistics services to be provided by Xiwang Logistics. In view of the aforementioned historical growth in the revenue of the Group, we consider that (i) the increase in the total volume of steel production and sales from approximately 3.2 million tonnes for the year ending 31 December 2021 (which is estimated by, on a pro-rata basis, the volume of steel sold of approximately 2.4 million tonnes for the nine months ended 30 September 2021) to approximately 3.6 million tonnes for the year ending 31 December 2022, representing a growth of approximately 11.1%; (ii) the increase in the total volume of steel production and sales from approximately 3.6 million tonnes for the year ending 31 December 2022 to approximately 4.0 million tonnes for the year ending 31 December 2023, representing a growth of approximately 11.1%; and (iii) the growth rate of the Steel Delivery Service Annual Caps for the three years ending 31 December 2024 ranged from approximately 22.5% to 35.6% are within the range of the historical growth rate.

We have also discussed with the Management and were given to understand that, when the Restrictions are lifted as the COVID-19 pandemic gradually comes under control, (i) the increase in possibility of getting more delivery requests from customers of the Group given the Group is capable of providing one-stop services for years so as to save the time cost and administrative costs of the customers; and (ii) the Group is dedicated to arrange delivery of steels for the customers so as to provide more value added services to the customers and generate extra revenue to the Group. As such, the Management expects that the percentage of delivery to be arranged by the Group (rather than arranged by customers) will recover to pre-COVID-19 conditions and will further increase for the upcoming years when the economy and business activities of the cities in the PRC continues to resume. In view of the Group's strategy to proactively offer the customers with the one-stop services and the historical growth in the revenue of the Group as discussed above, we concur with the Management's view that (i) 40%, 45% and 50% of steel are assumed to be transported by Xiwang Logistics for the three years ending 31 December 2024, respectively; and (ii) the growth rate of volume of steel delivery service for the three years ending 31 December 2024 are justifiable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

From the discussion with the Management, we were given to understand that the Steel Delivery Service Annual Caps were determined after taking into account the assumption that the unit prices of steel delivery service would gradually increase in 2023 and 2024 with a year-on-year growth rate of 9% and 10%, respectively. The Management noted that the Baltic Dry Index has been volatile since the COVID-19 pandemic and has increased from 487 in January 2020 to 5,167 in September 2021, representing a growth of over 9 times within 21 months. Therefore, when determining the unit prices of steel delivery service, the Management has applied additional buffer to cater to, among others, projected inflation, freight costs and growth of business size, in particular, the uncertainties on the freight costs post-COVID-19. As such, the Directors are of the view, and we concur, that (i) the growth in unit prices of steel delivery service are justifiable; and (ii) the additional buffer provides the Group with flexibility to ensure stable and smooth operations of the Group even in the event of significant increase in freight costs from 2022 to 2024.

Taking into consideration (i) the increase in total revenue of the Group in recent year/period; (ii) the proposed annual caps provide flexibility rather than an obligation to the Group to deliver steels via Xiwang Logistics at terms no less favourable than those with independent third parties; (iii) the expected decrease in adoption of one-invoice settlement; (iv) the expected increase in percentage of delivery to be arranged by the Group (rather than arranged by customers) for the upcoming years; and (v) the additional buffer provides the Group with flexibility to ensure stable and smooth operations of the Group, we are of the view that the Steel Delivery Service Annual Caps and the major factors considered as the bases of determining the Steel Delivery Service Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Ore Powder Delivery Service Annual Caps

As disclosed in the Letter from the Board, the Ore Powder Delivery Service Annual Caps were determined taking into account of (i) the 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; (ii) all ore powder delivery services for the two years ended 31 December 2020 and the nine months ended 30 September 2021 were procured from Xiwang Logistics as the terms offered by Xiwang Logistics were more favourable; (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; and (iv) the expected inflation rate for each of the years ending 31 December 2024.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Assessment of the fairness and reasonableness of the Ore Powder Delivery Service Annual Caps

We have discussed with the Management and were given to understand that the relatively low utilisation rates of annual caps for Ore Powder Delivery Services for the two years ended 31 December 2020 and the nine months ended 30 September 2021 were primarily because (i) the production and sales volume of steel were relatively low for the year ended 31 December 2019, representing approximately 81.7% of the sales volume of steel for the year ended 31 December 2020. Hence, the procurement and transportation volume of ore powder were reduced, which led to decrease in the freight costs for the year ended 31 December 2019; and (ii) the Group requested its suppliers to arrange logistics services themselves as a result of the COVID-19 pandemic, in view of the Restrictions.

The Directors had adopted the following specific assumptions in estimating the Ore Powder Delivery Service Annual Caps:

			Year ending 31 December 2022	Year ending 31 December 2023	Year ending 31 December 2024
Volume of ore powder delivery service (tonnes)	(A)	(a)	4,300,000	4,773,000	4,773,000
Year-on-year growth rate				11%	0%
Unit prices (RMB per tonne)	(B)	(b)	69.66	76.63	84.29
Year-on-year growth rate				10%	10%
Ore Powder Delivery Service Annual Caps (RMB, round to million)	(C) = (A)*(B)		300	366	402

Notes:

- (a) The Directors estimate that volume of ore powder delivery service will gradually increase in 2023, with a year-on-year growth rate of 11%. No growth rate is assumed in 2024.
- (b) The Directors estimate that unit prices of ore powder delivery service will gradually increase in 2023 and 2024, with a year-on-year growth rate of 10%, respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As disclosed in the Letter from the Board, it is expected that the future output will increase and the purchase of ore powder will increase. It is estimated that the Group's total purchase of ore powder will be 4.9 million tonnes, 5.44 million tonnes and 5.44 million tonnes from 2022 to 2024, respectively. We have discussed with the Management and were given to understand that it is estimated that 80% of the ore powder will be transported by Xiwang Logistics, that is, the quantity transported by Xiwang Logistics in 2022 to 2024 will be 4.3 million tonnes, 4.77 million tonnes, and 4.77 million tonnes, respectively.

We have reviewed the historical data provided by the Management and noted that the purchase value of ore powder increased from approximately RMB2,623.7 million for the year ended 31 December 2019 to approximately RMB3,411.8 million for the year ended 31 December 2020, representing an increase of approximately 30.0% and the purchase of ore powder amounted to approximately RMB3,627.8 million for the nine months ended 30 September 2021, which exceeded the purchase value of ore powder for the year ended 31 December 2020. We have reviewed the internal estimates of the Group provided by the Management, discussed the bases and assumptions with the Management, and were given to understand that the business scale and the costs of sales of the Group are expected to increase moderately, which indicates a possible increase in demand for logistics services to be provided by Xiwang Logistics. In view of the historical growth in the purchase value of ore powder of the Group, we consider that (i) the increase in the total volume of ore powder procured from approximately 4.07 million tonnes for the year ending 31 December 2021 (which is estimated by, on a pro-rata basis, the volume of ore powder procured of approximately 3.05 million tonnes for the nine months ended 30 September 2021) to approximately 4.9 million tonnes for the year ending 31 December 2022, representing a growth of approximately 20.4%; (ii) the increase in the total volume of ore powder procured from approximately 4.9 million tonnes for the year ending 31 December 2022 to approximately 5.44 million tonnes for the year ending 31 December 2023, representing a growth of approximately 11.0%; and (iii) the growth rate of the Ore Powder Delivery Service Annual Caps for the three years ending 31 December 2024 ranged from approximately 9.8% to 22% are within the range of the historical growth rate.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have also discussed with the Management and were given to understand that, when the Restrictions are lifted as the COVID-19 pandemic gradually comes under control, the Group is dedicated to arrange delivery of ore powder by themselves as the Group might reduce total procurement costs. As such, the Management expects that the percentage of delivery to be arranged by the Group (rather than arranged by suppliers) is assumed to increase for the upcoming years when the economy and business activities of the cities in the PRC resume. In view of the Group's strategy to proactively arrange delivery of ore powder by themselves and the historical growth in the purchase value of ore powder of the Group as discussed above, we concur with the Management's view that (i) 80% of ore powder are assumed to be transported by Xiwang Logistics for the three years ending 31 December 2024; and (ii) the growth rate of volume of ore powder delivery service for the three years ending 31 December 2024 are justifiable.

From the discussion with the Management, we were given to understand that the Steel Delivery Service Annual Caps were determined after taking into account the assumption that the unit prices of ore powder delivery service would gradually increase in 2023 and 2024 with a year-on-year growth rate of 10%, respectively. The Management noted that the Baltic Dry Index has been volatile since the COVID-19 pandemic and has increased from 487 in January 2020 to 5,167 in September 2021, representing a growth of over 9 times within 21 months. Therefore, when determining the unit prices of ore powder delivery service, the Management has applied additional buffer to cater to, among others, projected inflation, freight costs and growth of business size, in particular, the uncertainties on the freight costs post-COVID-19. As such, the Directors are of the view, and we concur, that (i) the growth in unit prices of ore powder delivery service are justifiable; and (ii) the additional buffer provides the Group with flexibility to ensure stable and smooth operations of the Group even in the event of significant increase in freight costs from 2022 to 2024.

Taking into consideration (i) the increase in purchase value of ore powder in recent year/period; (ii) the proposed annual caps provide flexibility rather than an obligation to the Group to deliver ore powder via Xiwang Logistics at terms no less favourable than those with independent third parties; (iii) the expected increase in demand and percentage of delivery to be arranged by the Group (rather than arranged by suppliers) for the upcoming years; and (iv) the additional buffer provides the Group with flexibility to ensure stable and smooth operations of the Group, we are of the view that the Ore Powder Delivery Service Annual Caps and the major factors considered as the bases of determining the Ore Powder Delivery Service Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

However, the Shareholders should note that as the Delivery Services Annual Caps are determined based on various factors relating to future events and assumptions which may or may not remain valid for the entire period up to December 31, 2024, and they do not represent any forecasts or estimations of the Group's financial performance. Consequently, we express no opinion as to how closely the actual future transaction amounts of the continuing connected transactions will correspond with the Delivery Services Annual Caps.

RECOMMENDATIONS

Having considered the principal factors and reasons as discussed above, we consider that (i) the Financial Services Agreement, the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement have been entered into in the ordinary and usual course of business of the Group based on normal commercial terms; and (ii) the terms of the Financial Services Agreement, the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement and the transactions contemplated thereunder, as well as the Financial Services Annual Caps, the Steel Delivery Service Annual Caps and the Ore Powder Delivery Service Annual Caps, are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to approve the Financial Services Agreement, the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement and the transactions contemplated thereunder, the Financial Services Annual Caps, the Steel Delivery Service Annual Caps and the Ore Powder Delivery Service Annual Caps.

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

Mr. Stanley Ng is a licensed person registered with the Securities and Futures Commission and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong). He has over 15 years of experience in the accounting and investment banking industries.

1. SUMMARY OF FINANCIAL INFORMATION

Financial information of the Group for each of the three financial years ended 31 December 2018, 2019 and 2020 are disclosed in the following documents which have been published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.xiwangsteel.com):

- annual report of the Company for the year ended 31 December 2018 published on 29 April 2019 (pages 71 to 173);
- annual report of the Company for the year ended 31 December 2019 published on 9 June 2020 (pages 55 to 149); and
- annual report of the Company for the year ended 31 December 2020 published on 28 April 2021 (pages 63 to 153).

2. STATEMENT OF INDEBTEDNESS

As at the close of business on 30 September 2021 for the purpose of ascertaining information contained in this statement of indebtedness prior to the printing of the Circular, the details of the Group's indebtedness are as follows:

- unsecured and guaranteed interest-bearing loans from Xiwang Finance Company of approximately RMB34.4 million;
- unsecured and guaranteed bills payable from Xiwang Finance Company of approximately RMB335.0 million;
- secured and guaranteed interest-bearing bank loans and other borrowings of approximately RMB3,503.2 million;
- secured and guaranteed bonds of approximately RMB192.0 million;
- guarantees of approximately RMB4,194.2 million for secured bank loans granted to related parties; and
- lease liabilities (comprising both current and non-current liabilities) of approximately RMB1.2 million.

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 as at the close of business on 30 September 2021.

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.

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

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

5. FINANCIAL AND TRADING PROSPECT OF THE GROUP

The Group is a leading high-end special steel manufacturer located in Shandong Province of the PRC. The Group's products mainly 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. It is expected that the PRC government will continue to strengthen its structural reform with more specific and powerful policies. Green development is expected to become a new norm, while de-leveraging, merger and acquisition and corporate reorganization are expected to be further developed, creating a better operating environment for the steel industry. The "reflective review" on iron and steel capacity reduction and the curtailment of crude steel output will become important tasks in the second half of 2021. Both of them aim to principally focus on the curtailment of crude steel output churned out by enterprises with lower environmental performance, high energy consumption and relatively outdated technique and equipment by upholding the principles of marketization and law on the basis of consolidating and improving the results of iron and steel capacity reduction. Meanwhile, the introduction of the dual carbon targets of "carbon peak" and "carbon neutrality" will have a far-reaching effect on the steel industry, procuring steel companies to actively seek high-quality green and low-carbon development and move towards green and sustainable development featuring reasonable product portfolio, advanced technology and equipment, excellent quality and brand, high intelligentization, strong competitiveness and low carbon. Being a "green factory", the Group will proactively make modifications to enable ultra-low emission and strive to realize transformation into the green and low-carbon style as soon as possible, taking the initiative to compete in the future. On the demand side, the growth in steel demand is expected to remain steady, as the infrastructure sector is expected to remain active, and the price of structural steel may benefit from the reduced output of crude steel. As supply and demand for steel become more

balanced, this creates a greater and healthier market development space for the Group to grow and expand. For ordinary steel products, the PRC Government is expected to increase investment in infrastructure projects in order to stabilise the economy and to improve weak links. As a project lasts for three to five years, the projects verified last year and this year are expected to provide short-term support to the demand. With the objective of producing specialised hot rolled ribbed bars, steel enterprises are expected to strive to improve the quality of construction materials to meet the needs of government investment in railways, roads and water resources and capitalise on these major projects. This is expected to drive strong demands in the medium and high end market of construction materials. Although the growth in real estate has slowed down, it will maintain steady development as guided by the persistent policy of “three types of stability”, and the scale of existing projects in progress and subsequent stable market development can still guarantee the demand for ordinary steel. The Group is expected to continue to follow the market trend, use steel price as guidance, and capitalise on its production capability to switch between production of ordinary steel and special steel to maximise revenue. For special steel products, the Group is expected to develop high-end special steel products, focus on the development of special steel new products (high-end bearing steel, steel for marine engineering, mould steel, spring steel and steel for special use), utilise the national science and innovation platform to reach a market-leading position in industry technology research and development, increase the proportion of special steel production, utilise the Group’s competitive advantages, and enhance the long-term profitability of the Group. The Group is continuing to deepen the strategic co-operation with the Chinese Academy of Sciences (“CAS”), leverage on the scientific research achievements of the Academy, continuously improve research and development capabilities in relation to special steel new products, speed up the shift to new growth drivers as well as the transformation and upgrade of products, and use technology innovation to achieve high quality development. Apart from product development, the Group is expected to increase research and development investment. The Group has established five research and development units in different sectors (such as, special steel research, railway steel research and bearing steel research). Every year, there are research and development projects which can lead to the development of new products that carry intellectual property rights, which provides strong technical support to the research and development of the six sectors of special steel new products. Through specialised research and development, improvement on products, and the commitment to protecting the environment and increasing productivity, the Group is expected to continue to maintain a good revenue level.

References are made to the announcements of the Company dated 16 August 2019, 11 October 2019, 10 January 2020, 10 March 2020, 26 June 2020, 29 July 2020, 26 November 2020, 8 January 2021 and 11 June 2021 in relation to, among others, the further delay of dividend distribution of the Company. The payment of the final dividend for the year ended 31 December 2018 and the despatch of the share certificates for the scrip shares to the shareholders have been further postponed. As a result of the further postponement, the final dividend and the share certificates for the scrip shares are expected to be sent to the Shareholders on or around 30 December 2021 and the dealing in the scrip shares on the Stock Exchange is expected to commence on or around 31 December 2021.

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 included in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

2. DISCLOSURE OF INTERESTS

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

Name of Director	Name of company/ associated corporation	Capacity	Number and class of securities held/ interested (Note 1)	Approximate percentage shareholding in the same class of securities in the relevant corporation as at the Latest Practicable Date
WANG Di	Company	Beneficial owner	9,333,333 (L) shares	0.39%
		Beneficial owner	1,666,667 (L) share options	0.07%
	Xiwang Holdings	Beneficial owner	177 shares (L)	0.09%
	Xiwang Group Company	Beneficial owner	RMB35,460,000 (L)	1.44%
	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	500,000 (L) share options	0.02%
	Xiwang Holdings	Beneficial owner	89 shares (L)	0.04%
	Xiwang Group Company	Beneficial owner	RMB35,460,000 (L)	1.44%
	Xiwang Property	Beneficial owner	3,000,000 (L) share options	0.21%

Notes:

- The letter “L” represents the Director’s long position in the shares of the relevant corporation.
- As at the Latest Practicable Date, Xiwang Group is the ultimate holding company of the Company. Xiwang Group Company is owned as to 25.24% by Mr. WANG Yong, 32.33% by 20 individuals (including WANG Di) and the remaining 42.43% by other shareholders. 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 Company. Accordingly, Mr. WANG Yong is deemed to be interested in 61.26% of the shares of the Company in which Xiwang Group Company is interested. Xiwang Hong Kong is a wholly-owned subsidiary of Xiwang Group Company. 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 Company are deemed to be interested in the number of Shares of the Company directly held by Xiwang Investment.
- As at the Latest Practicable Date, Xiwang Investment, where the entire issued shares are deemed to be interested by Mr. WANG Yong, held 69.78% of ordinary shares of Xiwang Property Holdings Company Limited (“**Xiwang Property**”) and 99.75% of convertible preference shares of Xiwang Property.
- 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.

3. DIRECTORS' INTERESTS IN ASSETS OF CONTRACTS

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any asset which had been since 31 December 2020, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group. As at the Latest Practicable Date, save for the New Guarantee Agreement (as defined below), Financial Services Agreement, the Steel Delivery Service Agreement and the Ore Powder Delivery Service Agreement, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group since 31 December 2020, 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.

4. 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 Substantial Shareholder	Capacity	Number of shares of the Company held/ interested (Note 1)	Approximate percentage of interest in the Company as at the Latest Practicable Date (Note 7)
Xiwang Investment	Beneficial owner	868,093,000 (L) ordinary shares	36.64%
Xiwang Holdings	Interest of a controlled corporation (Note 2)	868,093,000 (L) ordinary shares	36.64%
Xiwang Hong Kong	Interest of controlled corporations (Notes 2, 3)	868,093,000 (L) ordinary shares	36.64%
Xiwang Group	Interest of controlled corporations (Notes 2, 3)	868,093,000 (L) ordinary shares	36.64%
ZHANG Shufang	Interest of spouse (Note 4)	868,093,000 (L) ordinary shares	36.64%
Haitong International Investment Solutions Limited	Person having a security interest in shares (Note 5)	849,875,000	35.87%

Name of Substantial Shareholder	Capacity	Number of shares of the Company held/ interested (Note 1)	Approximate percentage of interest in the Company as at the Latest Practicable Date (Note 7)
Haitong International Financial Solutions Limited	Interest of a controlled corporation (Note 6)	849,875,000	35.87%
Haitong International Finance Company Limited	Interest of a controlled corporation (Note 6)	849,875,000	35.87%
Haitong International (BVI) Limited	Interest of a controlled corporation (Note 6)	849,875,000	35.87%
Haitong International Securities Group Limited	Interest of a controlled corporation (Note 6)	849,875,000	35.87%
Haitong International Holdings Limited	Interest of a controlled corporation (Note 6)	849,875,000	35.87%
Haitong Securities Co., Ltd.	Interest of a controlled corporation (Note 6)	849,875,000	35.87%

Notes:

- The letter “L” represents the entity’s long position in the shares of the Company.
- 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.
- 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 Company. Therefore, Xiwang Hong Kong and Xiwang Group Company are deemed to be interested in the number of Shares of the Company held by Xiwang Investment.
- 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.
- 849,875,000 Shares of the Company were held by way of security by Haitong International Investment Solutions Limited.

6. Haitong International Investment Solutions Limited is a wholly-owned subsidiary of Haitong International Financial Solutions Limited, which in turn is wholly-owned by Haitong International Finance Company Limited. Haitong International Finance Company Limited is a wholly-owned subsidiary of Haitong International (BVI) Limited, which in turn is wholly-owned by Haitong International Securities Group Limited. Haitong International Securities Group Limited is a wholly-owned subsidiary of Haitong International Holdings Limited, which in turn is wholly-owned by Haitong Securities Co., Ltd. Therefore, all these companies are deemed to be interested in the number of Shares in the Company held by Haitong International Investment Solutions Limited.
7. These percentages are calculated based on 2,369,110,999 listed Shares in issue as at the Latest Practicable Date.

5. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

As at the Latest Practicable Date, each of the executive Directors, the non-executive Director, and the independent non-executive Directors had entered into a service agreement with the Company for a term of three years. Each of these service agreements may be terminated by either party by giving to the other not less than three months' prior notice in writing. 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.

6. MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors confirm that there was no material adverse change in the financial or trading position of the Company since 31 December 2020, being the date to which the latest published audited financial statements of the Company were made up.

7. 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) in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with the business of the Group.

8. EXPERTS

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

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

- (b) As at the Latest Practicable Date, Lego Corporate Finance 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, Lego Corporate Finance Limited did not have any interest, direct or indirect, in any assets which had been acquired or disposed of by or leased to the Company, or which were proposed to be acquired or disposed of by or leased to the Company since 31 December 2020, the date to which the latest published audited financial statements of the Company were made up.
- (d) As at the Latest Practicable Date, Lego Corporate Finance Limited had given and had not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they are included.
- (e) The letter, recommendation and opinion given by Lego Corporate Finance Limited is given as of the date of this circular for incorporation herein.

9. MATERIAL LITIGATION

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.

10. 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 steam supply agreement dated 16 December 2019 entered into between Xiwang Metal and Xiwang Sugar in relation to the supply of steam from Xiwang Metal to Shandong Xiwang Sugar Group (as defined therein) (the “**New Steam Supply Agreement**”);
- (b) the supplementary agreement dated 31 December 2019 entered into between Shandong Xiwang Sugar and Xiwang Metal pursuant to which the New Steam Supply Agreement was cancelled;
- (c) the steam supply agreement dated 31 December 2019 entered into between Xiwang Group Company Limited Zouping Power Branch* (西王集團有限公司鄒平動力分公司)(“**Zouping Power Branch**”) and Xiwang Metal in relation to the supply of steam from Xiwang Metal to Zouping Power Branch;
- (d) the memorandum of understanding (the “**MOU**”) dated 26 June 2020 entered into among (i) Xiwang Special Steel Company Limited* (西王特鋼有限公司)(“**Xiwang Special Steel**”) ; (ii) The Institute of Metal Research, CAS (“**IMR**”); and (iii) 10 individuals in relation to the proposed formation of a joint venture company among the parties for, among others, the production and sale of rare earth special steel, various types of steel and steel products;

- (e) the agency services agreement dated 21 August 2020 entered into between the Group and Zouping Power Branch in connection with provision of agency services in relation to electricity purchase and the payment of prepaid electricity charge to Zouping Power Branch by the Group;
- (f) the new guarantee agreement (the “**New Guarantee Agreement**”) dated 19 January 2021 entered into between the Group and Xiwang Group Company (and the all the subsidiaries of Xiwang Group Company except for the member of the Group (the “**Relevant Subsidiaries**”)) in relation to the provision of guarantee services by the Group to Xiwang Group Company and the Relevant Subsidiaries;
- (g) the supplemental memorandum of understanding dated 31 March 2021 entered into among (i) Xiwang Special Steel; (ii) IMR; and (iii) 10 individuals in relation to the extension of the date of the MOU to 30 June 2021;
- (h) the capital contribution agreement entered into among Xiwang Special Steel, IMR and the 10 individuals on 16 August 2021 in relation to the capital contribution to Zhongke Xiwang Special Steel Company Limited* (中科西王特鋼有限公司);
- (i) the Financial Services Agreement;
- (j) the Steel Delivery Service Agreement; and
- (k) the Ore Powder Delivery Service Agreement.

11. DOCUMENTS ON DISPLAY

Copies of the following documents will be available for inspection: (i) 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; and (ii) on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.xiwangsteel.com), in each case from the date of this circular up to and including the date of the EGM:

- (a) the Articles;
- (b) the annual report of the Company for the three financial years ended 31 December 2018, 2019 and 2020;
- (c) the interim report of the Company for the six months ended 30 June 2021;

- (d) the letter from the Board, the text of which is set out on pages 8 to 46 of this circular;
- (e) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 47 to 48 of this circular;
- (f) the letter of advice from Lego Corporate Finance Limited to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 49 to 84 of this circular;
- (g) the material contracts as referred to in the sub-section headed “Material Contracts” in this appendix;
- (h) the Financial Services Agreement;
- (i) the Steel Delivery Service Agreement;
- (j) the Ore Powder Delivery Service Agreement; and
- (k) this circular.

12. MISCELLANEOUS

- (a) The registered office of the Company is at Unit 2110, 21/F Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong.
- (b) The Hong Kong branch share registrar and transfer office of the Company is Boardroom Share Registrars (HK) Limited, 2103B, 21/F, 148 Electric Road, North Point, Hong Kong.
- (c) The company secretary of the Company is Mr. YU Chi Kit, 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.

* *For identification purpose only*

NOTICE OF EXTRAORDINARY GENERAL MEETING

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



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

(incorporated in Hong Kong with limited liability)

(Stock code: 1266)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the an extraordinary general meeting (the “EGM”) of Xiwang Special Steel Company Limited (the “Company”) will be held at Boardroom, 3-4, Mezzanine Floor, Renaissance Hong Kong Harbour View Hotel, No.1 Harbour Road, Wanchai, Hong Kong, at 2:00 p.m. on 17 December 2021 (or any adjournment thereof) for the purposes of considering and, if thought fit, passing the following resolutions as ordinary resolution of the Company. Unless otherwise indicated, capitalised terms used herein shall have the same meaning as those defined in the circular of the Company dated 30 November 2021.

ORDINARY RESOLUTION

1. “**THAT**

the provision of deposit services under the terms of the Financial Services Agreement and the related annual caps for provision of deposit services be and are 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 provision of deposit services under the terms of the Financial Services Agreement and the related annual caps for provision of deposit services and all such acts and things the Directors have done be and are hereby approved, confirmed and ratified.”

NOTICE OF EXTRAORDINARY GENERAL MEETING

2. **“THAT**

the provision of bill discounting services under the terms of the Financial Services Agreement and the related annual caps for the provision of bill discounting services 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 provision of bill discounting services under the Financial Services Agreement and the related annual caps for the provision of bill discounting services and all such acts and things the Directors have done be and are hereby approved, confirmed and ratified.”

3. **“THAT**

the provision of bill acceptance services under the terms of the Financial Services Agreement and the related annual caps for the provision of bill acceptance services 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 provision of bill acceptance services under the Financial Services Agreement and the related annual caps for the provision of bill acceptance services and all such acts and things the Directors have done be and are hereby approved, confirmed and ratified.”

4. **“THAT**

the entering into of the Steel Delivery Service Agreement, the terms of the Steel Delivery Service Agreement and the transactions contemplated thereunder and the related Steel Delivery Service Annual Caps be and are 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 Steel Delivery Service Annual Caps and all such acts and things the Directors have done be and are hereby approved, confirmed and ratified.”

NOTICE OF EXTRAORDINARY GENERAL MEETING

5. “**THAT**

the entering into of the Ore Powder Delivery Service Agreement, the terms of the Ore Powder Delivery Service Agreement and the transactions contemplated thereunder and the related Ore Powder Delivery Service Annual Caps be and are 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 Ore Powder Delivery Service Annual Caps and all such acts and things the Directors have done be and are hereby approved, confirmed and ratified.”

By the order of the Board

WANG Di

Chairman

Hong Kong, 30 November 2021

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

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

1. All resolutions at the EGM will be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), and the results of the poll will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company in accordance with the Listing Rules.
2. Any member of the Company entitled to attend and vote at the Meeting is entitled to appoint a proxy (or more than one proxy if he is the holder of two or more shares) to attend and vote instead of him. A proxy need not be a member of the Company. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
3. Where there are joint registered holders of any share of the Company (the “**Shares**”), 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 EGM personally or by proxy, the vote of the senior who tenders a vote shall be accepted to the exclusion of the votes of the joint holder, and for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
4. In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be delivered to the office of the share registrar of the Company in Hong Kong, Boardroom Share Registrars (HK) Limited, 2103B, 21/F, 148 Electric Road, North Point, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude a member of the Company from attending and voting in person at the EGM and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
5. In order to determine the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from 14 December 2021 to 17 December 2021 (both days inclusive), during which period no transfer of shares can be registered. In order to be eligible to attend and vote at the EGM, 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 13 December 2021.
6. References to time and dates in this notice are to Hong Kong time and dates.
7. If Typhoon Signal No. 8 or above, or a “black” rainstorm warning is in effect any time after 7:00 a.m., the EGM will be postponed. The Company will post an announcement on the Company’s website (www.xiwangsteel.com) and the website of the Stock Exchange of Hong Kong Limited (www.hkexnews.hk) to notify the Shareholders of the date, time and place of the rescheduled meeting.

NOTICE OF EXTRAORDINARY GENERAL MEETING

8. Precautionary measures for the EGM:

Please see cover page of the circular of the Company dated 30 November 2021 for measures being taken to try to prevent and control the spreading of the coronavirus disease (COVID-19) at the EGM, including: (i) compulsory temperature screening/checks; (ii) submission of health and travel declaration form; (iii) wearing of surgical face mask; (iv) no provision of refreshments or drinks; and (v) no provision of corporate gifts.

Any person who does not comply with the precautionary measures may be denied entry to the EGM venue. Shareholders are encouraged to appoint the chairman of the EGM as their proxy to vote on the relevant resolution at the EGM instead of attending the EGM in person.

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 director of the Company is Mr. WANG Di, and the independent non-executive directors of the Company are Mr. LEUNG Shu Sun Sunny, Mr. LI Bangguang and Mr. YU Kou.