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XIWANG SPECIAL STEEL COMPANY LIMITED

西王特鋼有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1266)

ANNOUNCEMENT

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS – NEW STEAM SUPPLY AGREEMENT

NEW STEAM SUPPLY AGREEMENT

Reference is made to the announcement of the Company dated 14 December 2016 in respect of the 2016 Steam Supply Agreement. The 2016 Steam Supply Agreement will expire on 31 December 2019. On 16 December 2019 (after trading hours), the Company entered into the New Steam Supply Agreement to renew the terms of the 2016 Steam Supply Agreement for a period of three years commencing on 1 January 2020 and ending on 31 December 2022.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Xiwang Group is a controlling shareholder of the Company and is directly or indirectly interested in approximately 98.22% of the equity interest in Shandong Xiwang Sugar. Therefore, Shandong Xiwang Sugar is an associate of Xiwang Group and also a connected person (as defined in Chapter 14A of the Listing Rules) of the Company and the transactions contemplated under the New Steam Supply Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

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

BACKGROUND

Reference is made to the announcement of the Company dated 14 December 2016 in respect of the 2016 Steam Supply Agreement. The 2016 Steam Supply Agreement will expire on 31 December 2019. On 16 December 2019 (after trading hours), the Company entered into the New Steam Supply Agreement to renew the terms of the 2016 Steam Supply Agreement for a period of three years commencing on 1 January 2020 and ending on 31 December 2022.

NEW STEAM SUPPLY AGREEMENT

Date

16 December 2019 (after trading hours)

Parties

Seller: Xiwang Metal

Purchaser: Shandong Xiwang Sugar

Supply of steam

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

Term

The term of the New Steam Supply Agreement is for a period commencing on 1 January 2020 and ending on 31 December 2022 (both dates inclusive).

Consideration and payment

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

- 2) Xiwang Metal will calculate the price of steam (tax-inclusive) supplied to the Shandong Xiwang Sugar Group according to the price in that month and issue a value-added tax receipt settled at the end of the month and payable before the 10th day of the following month. The fee payable under the New Steam Supply Agreement is to be made principally by cash.
- 3) Transactions contemplated under the New Steam Supply Agreement will be conducted:
 - a. in the ordinary and usual course of business of the Group and the Shandong Xiwang Sugar Group;
 - b. on normal commercial terms and on terms no less favourable than those offered by independent third parties;
 - c. on terms that are fair and reasonable; and
 - d. in compliance with all requirements under the Listing Rules (including the requirement that the annual amounts of the transactions shall not exceed the Annual Caps), applicable laws and the terms of the New Steam Supply Agreement.

Annual Caps

The transactions under the New Steam Supply Agreement are a continuation of the transactions under the 2016 Steam Supply Agreement, according to the 2016 Steam Supply Agreement, and the transaction amounts under the New Steam Supply Agreement for the two years ended 31 December 2017, 31 December 2018 and the eleven months ended 30 November 2019 were approximately RMB36.0 million, RMB38.6 million and RMB29.4 million, respectively.

It is expected that the maximum aggregate annual transaction amounts under the New Steam Supply Agreement for each of the three years ending 31 December 2020, 2021 and 2022 will be RMB30.0 million per annum.

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

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

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

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

INFORMATION ABOUT THE PARTIES

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

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

LISTING RULES IMPLICATIONS

As at the date of this announcement, Xiwang Group is a controlling shareholder of the Company and is directly or indirectly interested in approximately 98.22% of the equity interest in Shandong Xiwang Sugar. Therefore, Shandong Xiwang Sugar is an associate of Xiwang Group and also a connected person (as defined in Chapter 14A of the Listing Rules) of the Company and the transactions contemplated under the New Steam Supply Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

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

BOARD’S APPROVAL

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

DEFINITION

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

“2016 Steam Supply Agreement”	the agreement entered into between Shandong Xiwang Sugar and the Company dated 14 December 2016 in relation to the supply of steam for the three years ending 31 December 2019.
“Annual Caps”	the annual cap(s) for supply of steam by the Group to the Shandong Xiwang Sugar Group under the New Steam Supply Agreement for the period commencing on 1 January 2020 and ending on 31 December 2022
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors of the Company
“Company”	Xiwang Special Steel Company Limited (西王特鋼有限公司) (Stock Code: 1266), a company incorporated in Hong Kong with limited liability and the shares of which are listed on the main board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“New Steam Supply Agreement”	the steam supply agreement dated 16 December 2019 entered into between Shandong Xiwang Sugar and Xiwang Metal

“PRC” or “China”	The People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shandong Xiwang Sugar”	Shandong Xiwang Sugar Industry Company Limited* (山東西王糖業有限公司), a company established in the PRC
“Shandong Xiwang Sugar Group”	Shandong Xiwang Sugar and its subsidiaries
“Shareholders”	the shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it in the Listing Rules
“Xiwang Group”	西王集團有限公司 (Xiwang Group Company Limited*), one of the controlling shareholders of the Company
“Xiwang Metal”	Xiwang Metal Science & Technology Company Limited* (西王金屬科技有限公司), a company established in the PRC and a wholly-owned subsidiary of the Company
“%”	per cent

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

Hong Kong, 16 December 2019

As at the date of this announcement, the Board comprises the following Directors:

Executive Directors

Mr. ZHANG Jian
Mr. SUN Xinqu
Ms. LI Hai Xia

Independent non-executive Directors

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

Non-executive Director

Mr. WANG Di

* For identification purposes only