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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**

#### **(I) CANCELLATION OF THE NEW STEAM SUPPLY AGREEMENT; AND (II) CONTINUING CONNECTED TRANSACTION – ZOUPIING STEAM SUPPLY AGREEMENT**

Reference is made to the Announcement of the Company dated 16 December 2019 in respect of, among others, the New Steam Supply Agreement and the Annual Caps. Unless otherwise defined in this announcement, terms defined in the Announcement shall have the same meaning when used herein.

Due to the centralized management of Xiwang Group, Xiwang Group, Shandong Xiwang Sugar and Zouping Power Branch (all connected persons of the Company) requested, and Xiwang Metal (a subsidiary of the Company) agreed, (i) to cancel the New Steam Supply Agreement; and (ii) Xiwang Metal and Zouping Power Branch will enter into the Zouping Steam Supply Agreement, whose terms are substantially the same as those contained in the New Steam Supply Agreement.

#### **CANCELLATION OF THE NEW STEAM SUPPLY AGREEMENT**

Due to the centralized management of Xiwang Group, Shandong Xiwang Sugar and Xiwang Metal entered into the Cancellation Agreement on 31 December 2019 in order to cancel the New Steam Supply Agreement. Upon the conclusion of the Cancellation Agreement, the New Steam Supply Agreement ceases to have effect.

## **ZOUPING STEAM SUPPLY AGREEMENT**

The 2016 Steam Supply Agreement will expire on 31 December 2019. In order to continue the supply of steam to Xiwang Group after the expiry of the 2016 Steam Supply Agreement, Xiwang Metal and Zouping Power Branch entered into the Zouping Steam Supply Agreement for the supply of steam for a period of three years commencing on 1 January 2020 and ending on 31 December 2022. The major terms of the Zouping Steam Supply Agreement are substantially the same as those contained in the New Steam Supply Agreement, except that Shandong Xiwang Sugar is substituted by Zouping Power Branch as a party to the Zouping Steam Supply Agreement.

## **LISTING RULES IMPLICATIONS**

As at the date of this announcement, Xiwang Group is the controlling shareholder of the Company and Zouping Power Branch is a branch company of Xiwang Group. Therefore, both Xiwang Group and Zouping Power Branch are connected persons (as defined in Chapter 14A of the Listing Rules) of the Company and the transactions contemplated under the Zouping 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 Zouping Annual Caps for the transactions contemplated under the Zouping Steam Supply Agreement exceeds 0.1% but are less than 5%, the transactions contemplated under the Zouping 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 16 December 2016 in respect of, among others, the New Steam Supply Agreement and the Annual Caps. Unless otherwise defined in this announcement, terms defined in the Announcement shall have the same meaning when used herein.

Due to the centralized management of Xiwang Group, Xiwang Group, Shandong Xiwang Sugar and Zouping Power Branch requested, and Xiwang Metal agreed, (i) to cancel the New Steam Supply Agreement; and (ii) Xiwang Metal and Zouping Power Branch will enter into Zouping Steam Supply Agreement for the supply of steam to Zouping Power Branch for a period of three years commencing on 1 January 2020 and ending on 31 December 2022 following the expiry of the 2016 Steam Supply Agreement and the cancellation of the New Steam Supply Agreement.

## **CANCELLATION AGREEMENT**

To facilitate the request of Xiwang Group, Shandong Xiwang Sugar and Xiwang Metal entered into the Cancellation Agreement in order to cancel the New Steam Supply Agreement.

Upon the conclusion of the Cancellation Agreement, Shandong Xiwang Sugar and Xiwang Metal ceased to enjoy any rights under the New Steam Supply Agreement and both parties are also relieved from performing any obligation under the New Steam Supply Agreement. All other terms and conditions and the relevant Annual Caps under the New Steam Supply Agreement cease to be effective.

## **ZOUPING STEAM SUPPLY AGREEMENT**

Following the expiry of the 2016 Steam Supply Agreement and the cancellation of the New Steam Supply Agreement, the Group will continue to supply steam to Zouping Power Branch of Xiwang Group. In this respect, Xiwang Metal and Zouping Power Branch entered into the Zouping Steam Supply Agreement. The major terms of the Zouping Steam Supply Agreement are substantially the same as those contained in the New Steam Supply Agreement, except that Shandong Xiwang Sugar is substituted by Zouping Power Branch as a party to the Zouping Steam Supply Agreement.

Details of the major terms of the Zouping Steam Supply Agreement are as follows:

### **Date**

31 December 2019 (after trading hours)

### **Parties**

Seller: Xiwang Metal

Purchaser: Zouping Power Branch

### **Supply of steam**

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

## **Term**

The term of the Zouping 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 Zouping Power Branch 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 Zouping Steam Supply Agreement is to be made principally by cash.
- 3) Transactions contemplated under the Zouping Steam Supply Agreement will be conducted:
  - a. in the ordinary and usual course of business of the Group and Zouping Power Branch;
  - 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 Zouping Annual Caps), applicable laws and the terms of the Zouping Steam Supply Agreement.

## **Zouping Annual Caps**

The transactions under the Zouping 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 Zouping Steam Supply Agreement for the two years ended 31 December 2017, 31 December 2018 and the eleven months ended 30 November 2019 were RMB36.0 million, RMB38.6 million and RMB29.4 million, respectively.

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

The Zouping 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 Zouping Power Branch; (iv) the estimated sales of steam to independent third parties; (v) the steam price under the Zouping Steam Supply Agreement; and (vi) the anticipated coal price movements in Zouping.

## **REASONS FOR AND BENEFITS OF ENTERING INTO THE ZOUPING 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 the demand on steam of Zouping Power Branch, and the proximity of Zouping Power Branch 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 Zouping 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**

Zouping Power Branch is branch company of Xiwang Group. The scope of business of Zouping Power Branch includes supply of power, gas, heat, water and electricity. It is also authorized to provide services in respect of installation of power facilities, sewage and water treatment, and involve in sale of iron ore, iron ore powder and coke.

The Group is a leading high-end special steel manufacturer located in Shandong Province of the PRC. Products of the Group 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 Zouping Power Branch is a branch company of Xiwang Group. Therefore both Xiwang Group and Zouping Power Branch are connected persons (as defined in Chapter 14A of the Listing Rules) of the Company and the transactions contemplated under the Zouping 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 Zouping Annual Caps for the transactions contemplated under the Zouping Steam Supply Agreement exceeds 0.1% but are less than 5%, the transactions contemplated under the Zouping 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 Zouping Steam Supply Agreement and the Zouping Annual Caps. Each of Mr. Wang Di and Mr. Sun Xihu are interested in the Zouping 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 Zouping Steam Supply Agreement and none of them was therefore required to abstain from voting on the board resolutions of the transactions contemplated thereunder.

## **DEFINITION**

Unless the context otherwise requires, terms defined in the Announcement shall have the same meaning when used herein, except that the following terms shall have the following meanings:

“Announcement”	an announcement of the Company dated 16 December 2019 in respect of, among others, the New Steam Supply Agreement and the Annual Caps
“Cancellation Agreement”	a supplementary agreement dated 31 December 2019 entered into between Shandong Xiwang Sugar and Xiwang Metal to cancel the New Steam Supply Agreement

“Zouping Annual Caps”	the annual cap(s) for supply of steam by the Group to the Zouping Power Branch under the Zouping Steam Supply Agreement for the period commencing on 1 January 2020 and ending on 31 December 2022
“Zouping Power Branch”	Zouping Power Branch* (鄒平動力分公司) of Xiwang Group, a brach company of Xiwang Group established in the PRC
“Zouping Steam Supply Agreement”	the steam supply agreement dated 31 December 2019 entered into between Zouping Power Branch and Xiwang Metal

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

Hong Kong, 31 December 2019

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

*Executive Directors*

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

*Independent non-executive Directors*

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

*Non-executive Director*

Mr. WANG Di

\* *For identification purposes only*