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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)

INSIDE INFORMATION

MEMORANDUM OF UNDERSTANDING IN RESPECT OF POSSIBLE FORMATION OF JOINT VENTURE

This announcement is made by Xiwang Special Steel Company Limited (the “**Company**”) and its subsidiaries (collectively, the “**Group**”) pursuant to the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “**SFO**”) and Rule 13.09(2)(a) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

The board of directors (the “**Board**”) of the Company is pleased to announce that on 26 June 2020 (after trading hours), Xiwang Special Steel Company Limited* (西王特鋼有限公司), a company incorporated in the People’s Republic of China (the “**PRC**”) and an indirectly owned subsidiary of the Company (the “**PRC Subsidiary**”), entered into the memorandum of understanding (the “**MOU**”) with The Institute of Metal Research, Chinese Academy of Sciences (中國科學院金屬研究所) (“**IMR**”) and 10 individuals (the “**Technical Personnel**”) in relation to the proposed formation of a joint venture company (the “**JV Company**”) between the PRC Subsidiary, IMR and the Technical Personnel for, among others, the production and sale of rare earth special steel, various types of steel and steel products (the “**Proposed Joint Venture Formation**”).

PRINCIPAL TERMS OF THE MOU

1. Purpose of the JV Company

The scope of the JV Company is to engage in, among others, the research and development, production and sale of rare earth special steel, various types of steel and steel products.

2. Parties

- (i) PRC Subsidiary;
- (ii) IMR; and
- (iii) Technical Personnel

3. Shareholding

Subject to the entering into of the definitive agreement (the “**Definitive Agreement**”), the registered capital of the JV Company will be owned as to 65% by the PRC Subsidiary, and as to 35% by IMR and the Technical Personnel in aggregate, (approximately 16.6% and 18.4% attributable to IMR and the Technical Personnel, respectively). It is contemplated that contribution into the JV Company will be made by way of (a) injecting certain production facilities and plants from the Group; and (b) contributing certain intellectual properties in respect of the technologies by IMR.

4. Capital and valuation

Subject to the entering into of the Definitive Agreement(s), the initial registered capital of the JV Company will be RMB1 billion, of which RMB650 million and RMB350 million will be contributed by the PRC Subsidiary and IMR respectively. The actual contribution amount from respective parties will be subject to an independent valuation of the assets to be contributed into the JV Company by each party in accordance with the terms of the Definitive Agreement. Any future potential capital contributions and governance structure (including board composition) shall be subject to the terms of the Definitive Agreement. Upon execution of the MOU, parties agreed to commence business and tax registration procedures for the JV Company.

5. Conditions and termination

The Proposed Joint Venture Formation is subject to, among others, obtaining all necessary approvals by the Company as required under the Listing Rules and applicable laws. The MOU will be terminated upon the execution of the Definitive Agreement. If the Company is unable to obtain the approval from the shareholders of the Company within 9 months from the date of the MOU (or within an extended period as agreed by parties), the parties agreed to terminate the transaction (and if necessary, to de-register the JV Company) without recourse.

The MOU is intended solely as a basis to facilitate the business and tax registration procedures for the JV Company, is not intended to be, and does not constitute a legally binding obligation on any party, except for clauses regarding governing law and dispute resolution.

INFORMATION ON THE PARTIES

The PRC Subsidiary is a company incorporated in the PRC with limited liability and an indirectly owned subsidiary of the Company. The principal business of the PRC Subsidiary is the production and sale of steel products in the PRC.

IMR was founded in 1953. Since then, IMR has firmly established itself as an indispensable base for materials science and engineering research in China. Researches at IMR focus mainly on high performance metallic materials, new types of inorganic non-metallic materials, and advanced composite materials.

The Technical Personnel are core technical personnel from IMR who have contributed to the development of the technologies to be contributed to the JV Company by IMR.

As at the date of this announcement, Shenyang China Research and Technologies Co., Ltd* (沈陽中科金研科技有限公司), a company incorporated in the PRC and a wholly-owned subsidiary of IMR, and the Technical Personnel are interested in approximately 2.07% and, 2.12% (in aggregate) of the issued share capital of the Company, respectively. Save as disclosed above, to the best of the directors' knowledge, information and belief, and having made all reasonable enquiries, IMR, its ultimate beneficial owner and the Technical Personnel are third parties independent of the Company and its connected persons (as defined in the Listing Rules).

REASONS FOR AND BENEFITS OF THE PROPOSED JOINT VENTURE FORMATION

The Group is a leading high-end special steel manufacturer located in Shandong Province of China. The Group's products consist of ordinary steel products that are used primarily buildings and infrastructures, as well as special steel products that is used in automobile, shipbuilding, chemical and petrochemical, machinery and equipment sectors. The Group also engaged in commodities trading business, mainly iron ore trading.

It has been the business strategy of the Group to consider promising business and investment opportunities from time to time in order to increase the value of the Company. Subject to the materialisation of the Definitive Agreement, the JV Company will be principally engaged in, among others, the production and sale of rare earth special steel to be used as materials in the production of high-end equipment and facilities. The Board believes that, given the respective strength, resources and expertise of IMR and the Group, the Proposed Joint Venture Formation, if materialized, will create synergies and allow the Company to accelerate its development in its special steel business and further strengthen the Group's position in the special steel market.

In view of the above, the Board considers that the Proposed Joint Venture Formation is in the interests of the Company and its shareholders as a whole.

GENERAL

The MOU may or may not lead to the entering into of the Definitive Agreement(s) and the transactions contemplated thereunder may or may not be consummated. The Proposed Joint Venture Formation, if materialized, may constitute a notifiable transaction for the Company under the Listing Rules. The Company will comply with the applicable provisions of the Listing Rules in relation to the Proposed Joint Venture Formation including, but not limited to, obtaining the approval of shareholders of the Company, if required. Further announcement will be made in respect thereof as and when required by the Listing Rules.

As the Proposed Joint Venture Formation may or may not proceed, shareholders of the Company and potential investors are advised to exercise caution when dealing in the securities of the Company.

By order of the board of
Xiwang Special Steel Company Limited
WANG DI
Chairman

Hong Kong, 26 June 2020

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 purpose only