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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)

MAJOR AND CONTINUING CONNECTED TRANSACTIONS ELECTRICITY PURCHASE AGENCY AGREEMENT

ELECTRICITY PURCHASE AGENCY AGREEMENT

On 21 August 2020 (after trading hours of the Stock Exchange), the Electricity Purchase Agency Agreement was entered into between Zouping Power (a connected person of the Company) and Xiwang Metal (a wholly-owned subsidiary of the Company), pursuant to which Xiwang Metal contracted Zouping Power to provide agency services in relation to the Electricity Purchase from Binzhou Power through Zouping Power for the period from 1 January 2020 to 31 December 2022, subject to the approval from the Independent Shareholders at the EGM to be convened. According to the requirements of Binzhou Power, Xiwang Group and its affiliated companies are required to settle the electricity bills together. During the course of the Electricity Purchase, Xiwang Metal will also pay Zouping Power a certain amount of Prepaid Electricity Charge for Zouping Power to pay to Binzhou Power.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Xiwang Group is the ultimate holding company of the Company and Zouping Power is a branch company established by Xiwang Group. Therefore, Zouping Power is a connected person of the Company under Chapter 14A of the Listing Rules and the transactions contemplated under the Electricity Purchase Agency Agreement constitute continuing connected transactions of the Company.

As the highest of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Prepaid Electricity Charge Annual Caps under the Electricity Purchase Agency Agreement exceeds 25% but less than 100%, the Electricity Purchase Agency Agreement and the transactions contemplated thereunder constitute a major transaction of the Company under Chapter 14 of the Listing Rules, which are subject to the reporting, announcement, circular and Shareholders' approval requirements.

Moreover, as the highest of the applicable percentage ratios (other than the profits ratio) (as defined under Rule 14.07 of the Listing Rules) in respect of each of the Electricity Purchase Annual Caps and the Prepaid Electricity Charge Annual Caps under the Electricity Purchase Agency Agreement exceed 5%, the Electricity Purchase Agency Agreement and the transactions contemplated thereunder constitute non-exempt continuing connected transactions of the Company under Chapter 14A of the Listing Rules, which are subject to the reporting, announcement, circular and Independent Shareholders' approval requirements.

BACKGROUND

On 21 August 2020 (after trading hours of the Stock Exchange), the Electricity Purchase Agency Agreement was entered into between Zouping Power (a connected person of the Company) and Xiwang Metal (a wholly-owned subsidiary of the Company), pursuant to which, Xiwang Metal contracted Zouping Power to provide agency services in relation to the Electricity Purchase from Binzhou Power through Zouping Power. According to the requirements of Binzhou Power, Xiwang Group and its affiliated companies are required to settle the electricity bills together. During the course of Electricity Purchase, Xiwang Metal will also pay Zouping Power a certain amount of Prepaid Electricity Charge for Zouping Power to pay to Binzhou Power.

ELECTRICITY PURCHASE AGENCY AGREEMENT

The principal terms of the Electricity Purchase Agency Agreement are set out as follows:

- Date : 21 August 2020
- Parties : – Xiwang Metal (for and on behalf of the Group); and
– Zouping Power
- Term of the agreement : Three calendar years commencing from 1 January 2020 and ending on 31 December 2022
- Major terms : 1. Zouping Power will act as an agent of the Group to purchase electricity from Binzhou Power for and on behalf of the Group.
2. Xiwang Metal undertakes to bear and enjoy all the obligations and rights relating to the use of the electricity as prescribed by Binzhou Power.
3. Zouping Power will charge Xiwang Metal for the electricity supplied to the Group at the original price charged by Binzhou Power, and the price must not be increased in any other way.
4. Zouping Power should not charge Xiwang Metal any service fees, commission or agency fee (except for any charges to be paid to Binzhou Power and/or other independent third parties).
5. This agency arrangement should be conducted on normal commercial terms or better to the Group (i.e. on arm's length basis or on terms no less favourable to the Group than terms available to or from independent third parties).
6. Electricity meters should be installed by the Group at each and every points of electricity supply, and meter reading should be recorded by Zouping Power on the first day of each calendar month.

- Prepaid Electricity Charge and settlement : 1. Xiwang Metal should prepay Zouping Power the Prepaid Electricity Charge, the amount of which should be no less than one month of the expected electricity charge.
2. After each meter reading, the accrued electricity charge should be settled by setting off against the Prepaid Electricity Charge received by Zouping Power.
- Condition precedent : The Electricity Purchase Agency Agreement should be conditional upon the approval of the Independent Shareholders at the EGM in accordance with the Listing Rules.

The terms of the Electricity Purchase Agency Agreement were concluded after arm's length negotiations between the parties to the Electricity Purchase Agency Agreement.

Proposed Caps and Historical Transaction Amounts

Electricity Purchase Annual Caps

The proposed Electricity Purchase Annual Caps are as follows:

	Electricity Purchase Annual Caps (including VAT) <i>RMB' million</i>
For the year ending 31 December 2020	1,204
For the year ending 31 December 2021	1,467
For the year ending 31 December 2022	1,661

The above proposed Electricity Purchase Annual Caps were determined after taking into account of the followings:

1. the anticipated increase in downstream demand for the Group's products;
2. the anticipated increase in electricity consumption of the Group;
3. the actual electricity consumption of the Group in the second quarter of 2020, during which the electricity consumption of the Group was more representative of the normal pattern due to alleviation of COVID-19; and

4. The historical amount of electricity purchased by the Group. For the years ended 31 December 2018 and 2019, the electricity purchased by the Group from Binzhou Power through Xiwang Power (and/or its associate(s)) was approximately RMB705.3 million (excluding VAT) and RMB820.4 million (including VAT), and RMB643.5 million (excluding VAT) and RMB731.6 million (including VAT), respectively. For the six months ended 30 June 2020, the electricity purchased by the Group from Binzhou Power through Zouping Power (and/or its associate(s)) was approximately RMB402.1 million (excluding VAT) and RMB454.4 million (including VAT) respectively.

The Directors (excluding the independent non-executive Directors, whose views will be contained in the circular after considering the advice from the Independent Financial Adviser) consider that the above proposed Electricity Purchase Annual Caps are fair and reasonable.

Prepaid Electricity Charge Annual Caps

The proposed Prepaid Electricity Charge Annual Caps are as follows:

	Prepaid Electricity Charge Annual Caps RMB' million
For the year ending 31 December 2020	268
For the year ending 31 December 2021	298
For the year ending 31 December 2022	328

Note: For the avoidance of doubt, the Prepaid Electricity Charge will be applied to set off the consideration of Electricity Purchase, which also includes the VAT payable to the relevant authorities.

The above proposed Prepaid Electricity Charge Annual Caps were determined after taking into account of the followings:

1. the anticipated increase in downstream demand for the Group's products;
2. the anticipated increase in electricity consumption of the Group;
3. the actual electricity consumption of the Group in the second quarter of 2020, during which the electricity consumption of the Group was more representative of the normal pattern due to alleviation of COVID-19; and

4. The historical amount of electricity charge prepaid by the Group. During the years ended 31 December 2018 and 2019, the maximum amount of electricity charge prepaid by the Group to Xiwang Power (and/or its associate(s)) for the purchase of electricity from Binzhou Power was approximately RMB68.6 million and RMB216.3 million, respectively. During the six months ended 30 June 2020, the maximum amount of electricity charge prepaid by the Group to Zouping Power (and/or its associate(s)) for the purchase of electricity from Binzhou Power was approximately RMB264.2 million.

The Directors (excluding the independent non-executive Directors, whose views will be contained in the circular after considering the advice from the Independent Financial Adviser) consider that the above proposed Prepaid Electricity Charge Annual Caps are fair and reasonable.

Internal Control Measures

The Group has established a series of internal control measures in order to ensure that the terms of the transactions under the Electricity Purchase Agency Agreement are fair and reasonable and conducted on normal commercial terms so as to ensure that they serve the interest of the Group and the shareholders as a whole. Such internal control measures include:

1. relevant departments of the Company will conduct regular checks, on a monthly basis, to review and assess whether the continuing connected transactions contemplated under the Electricity Purchase Agency Agreement are conducted in accordance with the terms of the Electricity Purchase Agency Agreement;
2. the relevant departments of the Company will also regularly check the per unit cost stated on the invoice given by Binzhou Power to Zouping Power, against the per unit cost stated on the invoice provided by Zouping Power to the Group, for the purpose of considering if the amount of Electricity Purchase charged on the Group is fair and reasonable and in accordance with the terms of the Electricity Purchase Agency Agreement;
3. the Group shall, at least on a monthly basis, review and ensure the amount of the Electricity Purchase and Prepaid Electricity Charge shall not exceed the annual caps to be approved by the Independent Shareholders; and
4. in accordance with the Listing Rules, (i) the independent auditors of the Company will report annually on the Electricity Purchase and Prepaid Electricity Charge to confirm, among other matters, whether the Electricity Purchase and Prepaid Electricity Charge were paid into in accordance with the Electricity Purchase Agency Agreement; and (ii) the independent non-executive Directors will continue to report annually on whether the Electricity Purchase and Prepaid Electricity Charge are, among other things, paid or conducted on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Considering the internal control measures outlined above, the Directors believe that the procedures outlined above are sufficient to ensure that the transactions contemplated under the Electricity Purchase Agency Agreement will be conducted on normal commercial terms and are not prejudicial to the interests of the Company and its minority Shareholders.

Reasons for and Benefit of the Transactions Under the Electricity Purchase Agency Agreement

The Group consumed a significant amount of electricity in the production process of its steel products. Zouping Power acted as an agent of several companies (which are also connected persons of the Company) in purchasing electricity from Binzhou Power. The Group is joining such arrangement, and has been purchasing electricity from Binzhou Power (which is an independent third party of the Company) through Xiwang Power (and its associate(s), which includes Zouping Power), as an agent of the Group. Zouping Power (and its associate(s)) did not and will not charge any service fee nor add any mark-up on top of the electricity charge. According to the requirements of Binzhou Power, Xiwang Group and its affiliated companies are required to settle the electricity bills together.

To facilitate the Electricity Purchase, the Group also, from time to time, prepaid a Prepaid Electricity Charge to Xiwang Power (and its associate(s), which includes Zouping Power) for Zouping Power to pay to Binzhou Power on the Group's behalf.

In view of the above, the Directors (excluding the independent non-executive Directors whose views will be contained in the circular after considering the advice from the Independent Financial Adviser) are of the view that the terms of the Electricity Purchase Agency Agreement are fair and reasonable, and the Electricity Purchase Agency Agreement is entered into in the ordinary and usual course of business of the Group and on normal commercial terms or better, and on terms no less favourable than those available from independent third parties under the prevailing local market conditions, and in the interests of the Company and the Shareholders as a whole.

Past continuing connected transactions

For the years ended 31 December 2018 and 2019 and up to the date of the Announcement, the Group has been conducting Electricity Purchase through Xiwang Power (and/or its associate(s), which includes Zouping Power) as an agent and has been paying Prepaid Electricity Charge to Xiwang Power (and/or its associate(s), which includes Zouping Power) for payment to Binzhou Power. All such transactions constituted continuing connected transactions for the Company under Chapter 14A of the Listing Rules. However, due to an inadvertent oversight, the Company did not duly fulfil the reporting, announcement, circular, independent financial advice, Independent Shareholders' approval, annual caps and annual review requirements in respect of the Electricity Purchase and the Prepaid Electricity Charge under Chapter 14A of the Listing Rules. Please refer to paragraphs headed "Remedial Measures" for a series of measures to prevent recurrence of similar events.

Remedial Measures

The Company would like to stress that such non-compliance was inadvertent.

The current internal control measure adopted by the Company to ascertain whether a transaction is a connected transaction involves maintaining a list of connected persons and circulating such list together with copies of the relevant extracts of the Listing Rules to the directors and personnel/senior management of each member of the Group. The personnel/senior management of the relevant subsidiary should report any potential connected transaction to the personnel/senior management of the Company in advance in order to ascertain whether there will be any implications under the Listing Rules.

The Company will take further remedial measures to tighten its internal control procedure with a view to ensuring timely compliance with the Listing Rules and to prevent recurrence of similar events. These measures include (1) relevant internal training session will be arranged for all the Directors and senior management/relevant personnel of the Company and its subsidiaries to explain the relevant requirements under Chapter 14A of the Listing Rules; and (2) for proposed transaction(s) which may constitute new connected transaction(s) of the Group, to consult legal advisers and the Stock Exchange (where necessary) in a timely manner prior to entering into of such transaction(s).

INFORMATION OF THE PARTIES

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

Xiwang Group is a company incorporated in the PRC with limited liability on 24 April 2001 and the ultimate holding company of the Company.

Zouping Power is branch company of Xiwang Group. The scope of business of Zouping Power 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.

LISTING RULES IMPLICATIONS

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As the highest of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Prepaid Electricity Charge Annual Caps under the Electricity Purchase Agency Agreement exceeds 25% but less than 100%, the Electricity Purchase Agency Agreement and the transactions contemplated thereunder constitute a major transaction of the Company under Chapter 14 of the Listing Rules, which are subject to the reporting, announcement, circular and Shareholders' approval requirements.

Moreover, as the highest of the applicable percentage ratios (other than the profits ratio) (as defined under Rule 14.07 of the Listing Rules) in respect of each of the Electricity Purchase Annual Caps and the Prepaid Electricity Charge Annual Caps under the Electricity Purchase Agency Agreement exceed 5%, the Electricity Purchase Agency Agreement and the transactions contemplated thereunder constitute non-exempt continuing connected transactions of the Company under Chapter 14A of the Listing Rules, which are subject to the reporting, announcement, circular and Independent Shareholders' approval requirements.

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

The Company will hold an EGM to consider and approve (i) the Electricity Purchase Agency Agreement and the transactions contemplated thereunder; and (ii) the Electricity Purchase Annual Caps and the Prepaid Electricity Charge Annual Caps.

APPROVAL BY THE BOARD

The proposal in respect of the entry into the Electricity Purchase Agency Agreement was approved at the Board meeting held by the Company. As each of Mr. WANG Di and Mr. SUN Xihu being a Director was also a director and shareholder of Xiwang Group, and Mr. ZHANG Jian is a director of Xiwang Group, such Directors had abstained from voting on the board resolution to approve the entry into the Electricity Purchase Agency Agreement. Save as disclosed above, none of the Directors have a material interest in the transactions under the Electricity Purchase Agency Agreement.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An independent board committee comprising all the independent non-executive Directors (who have no material interest in the Electricity Purchase Agency Agreement) will be formed to advise the Independent Shareholders on (i) the Electricity Purchase Agency Agreement and the transactions contemplated thereunder; and (ii) the Electricity Purchase Annual Caps and the Prepaid Electricity Charge Annual Caps.

The Company has appointed Lego Corporate Finance Limited as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on (i) the Electricity Purchase Agency Agreement and the transactions contemplated thereunder; and (ii) the Electricity Purchase Annual Caps and the Prepaid Electricity Charge Annual Caps.

DESPATCH OF CIRCULAR

A circular containing details of the Electricity Purchase Agency Agreement, a letter from the Independent Board Committee and a letter from the Independent Financial Adviser, both advising on (i) the Electricity Purchase Agency Agreement and the transactions contemplated thereunder; and (ii) the Electricity Purchase Annual Caps and the Prepaid Electricity Charge Annual Caps, and the notice of the EGM will be despatched to the Shareholders in accordance with the Listing Rules on or before 11 September 2020.

DEFINITIONS

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

“Binzhou Power”	State Grid Shandong Electric Power Company Binzhou Power Supply Company* (國網山東省電力公司濱州供電公司), a local power supply company which is an independent third party of the Company
“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 on 6 August 2007 and the shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“continuing connected transaction”	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 agency services in relation to Electricity Purchase and the payment of Prepaid Electricity Charge to Zouping Power by the Group under the Electricity Purchase Agency Agreement
“Electricity Purchase”	the purchase of electricity from Binzhou Power through Xiwang Power, Zouping Power and/or their associate(s)
“Electricity Purchase Agency Agreement”	the agency services agreement dated 21 August 2020 entered into between the Group and Zouping Power in relation to provision of agency services in relation to Electricity Purchase and the payment of Prepaid Electricity Charge to Zouping Power by the Group
“Electricity Purchase Annual Caps”	the maximum annual consideration (being the aggregate of the purchase price of Electricity Purchase) to be paid through Zouping Power to Binzhou Power for the Electricity Purchase under the Electricity Purchase Agency Agreement for each of the three financial years ending 31 December 2020, 2021 and 2022, details of which are set out in this announcement
“Group”	the Company and its subsidiaries
“Independent Board Committee”	the committee of Directors consisting of Mr. LEUNG Shu Sunny, Mr. LI Banguang and Mr. YU Kou, being all the independent non-executive Directors, formed to advise the Independent Shareholders in respect of the terms of the Electricity Purchase Agency Agreement
“Independent Financial Adviser”	Lego Corporate Finance Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity as defined under the Securities and Futures Ordinance (Cap. 571 of The Laws of Hong Kong) which has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Electricity Purchase Agency Agreement
“Independent Shareholders”	shareholders who are not involved in or interested in the relevant resolution(s) to be approved at the EGM

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Partie(s)” or “partie(s)”	the Group and Zouping Power, and “Party” means any one of them
“PRC”	the People’s Republic of China
“Prepaid Electricity Charge”	the amount of prepayment made by the Group to (i) Xiwang Power; (ii) Zouping Power and/or their associate(s) for Xiwang Power; and/or (iii) Zouping Power and/or their associate(s) to pay to Binzhou Power
“Prepaid Electricity Charge Annual Caps”	the maximum amount of Prepaid Electricity Charge prepaid by the Group to Zouping Power, but not yet paid to Binzhou Power (or due from Zouping Power to the Group) under the Electricity Purchase Agency Agreement at anytime during the term of the Electricity Purchase Agency Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) in the issued share capital of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“VAT”	PRC value-added tax
“Xiwang Group”	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 and a connected person of the Company
“Xiwang Metal”	Xiwang Metal Technology Co., Ltd.* (西王金屬科技有限公司), a wholly-owned subsidiary of the Company
“Xiwang Power”	Zouping Xiwang Power Co., Ltd.* (鄒平市西王動力有限公司), a wholly-owned subsidiary of Xiwang Group and is a connected person of the Company

“Zouping Power” Xiwang Group Company Limited Zouping Power Branch*
(西王集團有限公司鄒平動力分公司), a branch company
established by Xiwang Group and is a connected person of
the Company

“%” per cent.

* *The English translation of the Chinese names is included for information purposes only and should not be regarded as their official English translation.*

By Order of the Board of
Xiwang Special Steel Company Limited
WANG DI
Chairman

Hong Kong, 21 August 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