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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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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)

### MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS ELECTRICITY PURCHASE AGENCY 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

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A letter from the Board is set out on pages 5 to 15 of this circular. A letter from the Independent Board Committee is set out on pages 16 to 17 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 18 to 36 of this circular.

A notice convening the EGM to be held at 2:00 p.m. on Friday, 20 November 2020 at Boardroom 3-4, Mezzanine Floor, Renaissance Hong Kong Harbour View Hotel, No.1 Harbour Road, Wanchai, Hong Kong is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for use at the EGM (or at any adjournment thereof) is also enclosed. Such form of proxy is also published on the websites of Hong Kong Exchanges and Clearing Limited ([www.hkex.com.hk](http://www.hkex.com.hk)) and the Company ([www.xiwangsteel.com](http://www.xiwangsteel.com)).

If you are not able to attend the EGM, please complete and return the enclosed proxy form in accordance with the instructions printed thereon and return it to the Company's share registrar, Boardroom Share Registrars (HK) Limited, Room 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 proxy form will not preclude you from attending the EGM and voting in person if you so wish.

References to time and dates in this circular are to Hong Kong time and dates.

#### 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.

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## CONTENTS

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	<i>Page</i>
<b>Definitions</b> .....	1
<b>Letter from the Board</b> .....	5
<b>Letter from the Independent Board Committee</b> .....	16
<b>Letter from the Independent Financial Adviser</b> .....	18
<b>Appendix I – Financial Information of the Group</b> .....	I-1
<b>Appendix II – General Information</b> .....	II-1
<b>Notice of Extraordinary General Meeting</b> .....	EGM-1

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## DEFINITIONS

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*In this circular, the following expressions have the meaning set out below, unless otherwise indicated in the context:*

“Announcement”	the announcement dated 21 August 2020 issued by the Company in relation to the Electricity Purchase Agency Agreement entered into 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
“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(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 at 2:00 p.m. on Friday, 20 November 2020 at Boardroom 3-4, Mezzanine Floor, Renaissance Hong Kong Harbour View Hotel, No.1 Harbour Road, Wanchai, Hong Kong to approve, among others, the provision of agency services in relation to Electricity Purchase and the payment of Prepaid Electricity Charge to Zouping Power by the Group and relevant annual caps under the Electricity Purchase Agency Agreement
“Electricity Purchase”	the purchase of electricity from Binzhou Power through Xiwang Power, Zouping Power and/or their associates

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## DEFINITIONS

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“Electricity Purchase Agency Agreement”	the agency services agreement dated 21 August 2020 entered into between the Group and Zouping Power in connection with 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 circular
“Group”	the Company and its subsidiaries
“Independent Board Committee”	the committee of Directors consisting of Mr. LEUNG Shu Sun Sunny, Mr. LI Banguang and Mr. YU Kou, being all the independent non-executive Directors, formed to advise the Independent Shareholders in respect of, among others, the terms of the Electricity Purchase Agency Agreement, the Electricity Purchase, the Prepaid Electricity Charge, the Electricity Purchase Annual Caps and the Prepaid Electricity Charge Annual Caps
“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 SFO, 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
“Latest Practicable Date”	19 October 2020, 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

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## DEFINITIONS

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“Parties” or “parties”	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
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“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 Holdings”	Xiwang Holdings Limited, an intermediate holding company of the Company
“Xiwang Hong Kong”	Xiwang Hong Kong Company Limited, an intermediate holding company of the Company and a wholly-owned subsidiary of Xiwang Group

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## DEFINITIONS

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“Xiwang Investment”	Xiwang Investment Company Limited, the controlling shareholder of the Company and a wholly-owned subsidiary of Xiwang Holdings
“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, 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.*

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## LETTER FROM THE BOARD

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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)**

*Executive Directors:*

Mr. ZHANG Jian

*(Chief Executive Officer)*

Mr. SUN Xihu

Ms. LI Hai Xia

*Non-executive Director:*

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 City

Shandong Province China

256209

23 October 2020

*To the Shareholders*

Dear Sir or Madam,

**MAJOR TRANSACTION AND CONTINUING CONNECTED  
TRANSACTIONS  
ELECTRICITY PURCHASE AGENCY AGREEMENT  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

#### **INTRODUCTION**

Reference is made to the Announcement in relation to, among others, the Electricity Purchase Agency Agreement, the Electricity Purchase, the Prepaid Electricity Charge, the Electricity Purchase Annual Caps and the Prepaid Electricity Charge Annual Caps. The purpose of this circular is to provide you with further information on the abovementioned matters so that you can make an informed decision on voting in respect of the relevant resolutions at the EGM.

The following are the principal terms of the Electricity Purchase Agency Agreement.

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## LETTER FROM THE BOARD

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### ELECTRICITY PURCHASE AGENCY AGREEMENT

#### Date

21 August 2020

#### Parties

- (a) Xiwang Metal (for and on behalf of the Group); and
- (b) Zouping Power

#### Term

The Electricity Purchase Agency Agreement is valid for a term of three calendar years commencing from 1 January 2020 and ending on 31 December 2022. Pursuant to the Electricity Purchase Agency Agreement, Xiwang Metal (for and on behalf of the Group) contracted Zouping Power to provide agency services in relation to the Electricity Purchase, and will pay Zouping Power a certain amount of Prepaid Electricity Change for Zouping Power to pay to Binzhou Power.

#### 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.



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## LETTER FROM THE BOARD

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### **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:

<b>Periods</b>	<b>Electricity Purchase Annual Caps (including VAT) <i>RMB' million</i></b>
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 (see Note 1);
2. the anticipated increase in electricity consumption of the Group (see Note 2);
3. The historical amount of electricity purchased by the Group for the years ended 31 December 2018 and 2019 and the six months ended 30 June 2020 (see Note 3); and
4. 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 (see Note 4).

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## LETTER FROM THE BOARD

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*Notes:*

1. Anticipated increase in downstream demand for the Group's products

It is expected that there could be anticipated increase in downstream demand for the Group's products, which could in turn increase the electricity consumption of the Group in the coming years, for the following reasons:

- Major customers, such as distributors and state owned enterprises in construction, infrastructure, machinery, equipment and automobile industries, has maintained with the Group a strong and longstanding business relationship of over five to eight years on average. The revenue of the top 10 customers for the six months ended 30 June 2020 was approximated to that for the year ended 31 December 2019.
- The 2019 Economic Operation Report of China's Steel Industry as issued by the China Iron and Steel Industry Association in May 2020 also indicated that the PRC's steel consumption is estimated to increase, driven by the demand from construction, infrastructure, machinery and equipment sectors, in which the Group's major customers were found. The Group also noted a continued increase in the PRC's steel output in 2020 since the downstream infrastructure and construction demand is being aided by looser credit policies in the PRC. Moreover, the PRC government's backing for infrastructure projects and investments forecasts a strong and stable demand for the Group's steel products in long term.

2. Anticipated increase in electricity consumption of the Group

The electricity consumption of the Group is expected to increase in the coming years for the following reasons:

- The forecasted electricity consumption of the Group was estimated based on the expected demand for steel products with references to historical production volume and expected business growth. As mentioned in note 1 above, given the anticipated increase in downstream demand for the Group's products, electricity consumption of the Group will be increased accordingly.
- As disclosed in the 2019 annual report of the Company, the Group is developing refined and high-ended special steel products with enhanced corporate competitiveness, the manufacturing process of which is more complicated and was estimated to require around 15% higher electricity consumption. The trial production is expected to commence in 2021.
- Moreover, as disclosed in the announcement dated 10 April 2017, a high speed heavy load high intensity rail steel project set up by the Group required the establishment of a new production line which is capable of producing 700,000 tonnes of rail steel, 150,000 tonnes of railway billet and 150,000 tonnes of figured steel per annum. Such development project will be carried out in two phases, with the first phase scheduled to be completed in 2018, and the second phase scheduled to be completed in 2020. The first phase has been completed in 2018 in which the production line is capable of producing 300,000 tonnes of rail steel and 150,000 tonnes of railway billet per annum, while the second phase of the new production line is currently on schedule and will be completed in late 2020. After the second phase is completed, the production capacity of the new production line will be capable of producing additional 400,000 tonnes of rail steel, which represents an increment of approximately 133.3% of the current production capacity of rail steel from the first phase of existing production line, and 150,000 tonnes of figured steel per annum.

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## LETTER FROM THE BOARD

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3. Historical amount of electricity purchased by the Group for the years ended 31 December 2018 and 2019 and the six months ended 30 June 2020

The actual amount of Electricity Purchase of the Group was approximately RMB820.4 million (VAT inclusive) and RMB731.6 million (VAT inclusive) for the years ended 31 December 2018 and 2019, respectively. And, the actual amount of Electricity Purchase of the Group was approximately RMB454.4 million (VAT inclusive) for the six months ended 30 June 2020. The actual monthly average Electricity Purchase of the Group for each of the two years ended 31 December 2018 and 2019 and the six months ended 30 June 2020 was approximately RMB68.4 million (VAT inclusive), RMB61.0 million (VAT inclusive) and RMB75.7 million (VAT inclusive), respectively. Accordingly, the actual monthly average Electricity Purchase of the Group for the six months ended 30 June 2020 as compared to that for the year ended 31 December 2019 showed an increasing trend of the Electricity Purchase amount.

4. Actual electricity consumption of the Group in the second quarter of 2020

The overall operating performance of the Group in the first quarter of 2020 was affected by the unprecedented COVID-19 pandemic. The large-scale domestic lockdown had led to significant disruptions or suspension in the business operation and production of the Group's customers and suppliers. Export sales of steel-export-oriented enterprises or steel downstream processing and manufacturing enterprises had thus been affected.

Notwithstanding the above, the production volume of the Group has been gradually recovering since March 2020 and has eventually resumed to normal capacity in June 2020, attributing to the effective control of the pandemic outbreak and hence resumption of work and production in the PRC. As such, the Group believes that the electricity consumption of the Group during the second quarter of 2020 was more representative of the Group's normal electricity consumption level.

The annualised amount of Electricity Purchase of the Group for the year ending 31 December 2020, which is calculated based on the Group's actual Electricity Purchase in the second quarter of 2020 of approximately RMB278.1 million (VAT inclusive), during which the electricity consumption of the Group was more representative of the Group's normal electricity consumption level due to alleviation of COVID-19, amounted to approximately RMB1,112.4 million (VAT inclusive), which represented an increase of approximately RMB380.8 million or 52.1% as compared to the actual amount of Electricity Purchase of the Group for the year ended 31 December 2019. Notwithstanding the aforesaid annualised amount of Electricity Purchase of the Group of approximately RMB1,112.4 million (VAT inclusive) only represents approximately 92.4% of the Electricity Purchase Annual Cap for the year ending 31 December 2020, having considered that the Group had only resumed its production to normal capacity since June 2020, the Group considers that it fair and reasonable.

In addition, the Group believes that the Electricity Purchase Annual Caps should consist of additional buffer to ensure stable and sufficient supply of electricity for the Group.

The Directors (excluding the independent non-executive Directors, whose views are contained in the letter from the Independent Board Committee as set out in this circular after considering the advice from the Independent Financial Advisor) consider that the above proposed Electricity Purchase Annual Caps are fair and reasonable.

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## LETTER FROM THE BOARD

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### ***Prepaid Electricity Charge Annual Caps***

The proposed caps in respect of the Prepaid Electricity Charge Annual Caps are as follows:

<b>Periods</b>	<b>Prepaid Electricity Charge Annual Caps RMB' million</b>
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 includes the VAT payable to 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 are contained in the letter from the Independent Board Committee as set out in this circular after considering the advice from the Independent Financial Advisor) consider that the above proposed Prepaid Electricity Charge Annual Caps are fair and reasonable.

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## LETTER FROM THE BOARD

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### 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.

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## LETTER FROM THE BOARD

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### **Reasons for and benefits of the transactions under the Electricity Purchase Agency Agreement**

In order to earn a bulk purchase discount, the Group has been purchasing electricity from Binzhou Power through Xiwang Power and/or Zouping Power.

The Group consumed a significant amount of electricity in the production process of its steel products. In order to earn a bulk purchase discount, 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 in order to earn such a bulk purchase discount. 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.

### **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.

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## LETTER FROM THE BOARD

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### LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, 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 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.

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.

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## **LETTER FROM THE BOARD**

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### **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 Electricity Purchase Agency Agreement and the transactions contemplated thereunder as well as the Electricity Purchase Annual Caps and the Prepaid Electricity Charge 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 16 to 17 of this circular. The letter from the Independent Board Committee to the Independent Shareholders contains its recommendation on the Electricity Purchase Agency Agreement and the transactions contemplated thereunder as well as the Electricity Purchase Annual Caps and the Prepaid Electricity Charge Annual Caps. Having considered the appropriate internal control procedures in place with respect to the Electricity Purchase Agency Agreement, the methods and procedures established by the Company to ensure that the transactions contemplated under the Electricity Purchase Agency Agreement will be conducted on normal commercial terms or better and are not prejudicial to the interests of the Company and its minority Shareholders, the independent non-executive Directors are of the view that the Electricity Purchase Agency Agreement and the continuing connected transactions 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 Electricity Purchase Agency Agreement and the transactions contemplated thereunder as well as the Electricity Purchase Annual Caps and the Prepaid Electricity Charge 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 18 to 36 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 Electricity Purchase Agency Agreement and the transactions contemplated thereunder as well as the Electricity Purchase Annual Caps and the Prepaid Electricity Charge 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**

As at the Latest Practicable Date and to the best knowledge, information and belief of the Directors, save for Xiwang Investment 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 resolution.



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## LETTER FROM THE BOARD

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### THE EGM AND PROXY ARRANGEMENT

A notice convening the EGM is set out on pages EGM-1 to EGM-3 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](http://www.hkex.com.hk)) and the Company ([www.xiwangsteel.com](http://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, Room 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 resolution 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,  
By Order of the Board  
**WANG Di**  
*Chairman*

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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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)**

23 October 2020

*To the Independent Shareholders*

Dear Sir or Madam,

**MAJOR AND CONTINUING CONNECTED TRANSACTIONS  
ELECTRICITY PURCHASE AGENCY AGREEMENT**

We refer to the circular issued by the Company to the Shareholders of the company dated 23 October 2020 (the “**Circular**”) of which this letter forms part. Terms defined in this Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders on whether the terms of each of the Electricity Purchase Agency Agreement, the Electricity Purchase, the Prepaid Electricity Charge, the Electricity Purchase Annual Caps and Prepaid Electricity Charge Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company and the Shareholders as a whole. Lego Corporate Finance Limited has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in this respect.

Details of the advice of the Independent Financial Adviser, together with the principal factors and reasons they have taken into account, are contained in their letter set out on pages 18 to 36 of the Circular. Your attention is also drawn to the letter from the Board and the additional information set out in the appendices to this Circular.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having considered, among other matters, the factors and reasons considered by, and the opinion of Independent Financial Adviser as stated in its letter of advice, we consider that the entry into the Electricity Purchase Agency Agreement is in the ordinary and usual course of business of the Company and the terms of the Electricity Purchase Agency Agreement, the Electricity Purchase, the Prepaid Electricity Charge, the Electricity Purchase Annual Caps and the Prepaid Electricity Charge Annual Caps are fair and reasonable and on normal commercial terms so far as the Independent Shareholders are concerned and are in the interest of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to approve the Electricity Purchase Agency Agreement, the Electricity Purchase, the Prepaid Electricity Charge, the Electricity Purchase Annual Caps and Prepaid Electricity Charge Annual Caps to be proposed at the EGM.

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*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*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 Electricity Purchase Agency Agreement and the transactions contemplated thereunder, the Electricity Purchase Annual Caps and the Prepaid Electricity Charge Annual Caps.*



23 October 2020

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs or Madams,

### **MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS ELECTRICITY PURCHASE AGENCY 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 Electricity Purchase Agency Agreement and the transactions contemplated thereunder, the Electricity Purchase Annual Caps and the Prepaid Electricity Charge 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 23 October 2020 (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.

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. 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 prepay Zouping Power a certain amount of Prepaid Electricity Charge for Zouping Power to pay to Binzhou Power.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As at the Latest Practicable Date, Xiwang Group indirectly through Xiwang Investment owned a total of 1,347,550,000 Shares, representing approximately 56.89% of the issued Shares. Accordingly, Xiwang Group is the ultimate holding company of the Company. As Zouping Power is a branch company established by Xiwang Group, it 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.

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 Electricity Purchase Agency Agreement has 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 Electricity Purchase Agency Agreement and the transactions contemplated thereunder, as well as the Electricity Purchase Annual Caps and the Prepaid Electricity Charge Annual Caps, are fair and reasonable so far as the Company and 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 Electricity Purchase Agency Agreement and the transactions contemplated thereunder, the Electricity Purchase Annual Caps and the Prepaid Electricity Charge 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 engagement as the independent financial adviser to the independent board committee and the independent shareholders of the Company in relation to a potential transaction in or around September 2019, 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 Electricity Purchase Agency Agreement and the transactions contemplated thereunder, the Electricity Purchase Annual Caps and the Prepaid Electricity Charge Annual Caps.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 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 Company, Zouping Power or any of their respective subsidiaries or associates.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 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 to the Electricity Purchase Agency Agreement

##### 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 high-speed rail, automobile, vessels, wind power, bearing 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 2019 (the "2019 Annual Report") and the interim report of the Company for the six months ended 30 June 2020 (the "2020 Interim Report").

	For the year ended		For the six months ended	
	31 December		30 June	
	2018	2019	2019	2020
	RMB'	RMB'	RMB'	RMB'
	million	million	million	million
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	11,917	11,170	5,960	4,740
Gross profit	1,967	705	552	41
Profit/(loss) before tax	1,162	33	217	(343)
Profit/(loss) for the year/period	962	20	183	(274)

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *For the six months ended 30 June 2019 and 2020*

As set out in the 2020 Interim Report, total revenue of the Group decreased from approximately RMB5,960 million for the six months ended 30 June 2019 to approximately RMB4,740 million for the six months ended 30 June 2020, representing a decrease of approximately 20.5%. Gross profit of the Group amounted to approximately RMB41 million for the six months ended 30 June 2020, representing a decrease of approximately 92.6% as compared to that of approximately RMB552 million for the six months ended 30 June 2019. Such decrease was mainly attributable to (i) the decrease in the average selling prices of ordinary and special steel products of the Group in 2020 as compared to 2019; and (ii) an unexpected steep price hike in raw materials as a result of the occurrence of a foreign mine tailings collapse accident. As a result of the foregoing, the Group recorded net loss of approximately RMB274 million for the six months ended 30 June 2020 as compared to net profit of approximately RMB183 million for the six months ended 30 June 2019.

### *For the years ended 31 December 2018 and 2019*

As set out in the 2019 Annual Report, total revenue of the Group decreased slightly from approximately RMB11,917 million for the year ended 31 December 2018 to approximately RMB11,710 million for the year ended 31 December 2019, representing a decrease of approximately 1.7%. Gross profit of the Group amounted to approximately RMB705 million for the year ended 31 December 2019, representing a decrease of approximately 64.2% as compared to that of approximately RMB1,967 million for the year ended 31 December 2018. 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 China-US trade war; and (ii) the decrease in the average selling prices of ordinary and special steel products of the Group in 2019 as compared to 2018, and the increase in production costs due to the rapidly rising prices of raw materials and fuels. As a result of the foregoing, net profit of the Group decreased from approximately RMB962 million for the year ended 31 December 2018 to approximately RMB20 million for the year ended 31 December 2019.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The following table sets out a summary of the recent financial position of the Group as extracted from the 2020 Interim Report.

	As at 31 December 2019 <i>RMB' million</i> (audited)	As at 30 June 2020 <i>RMB' million</i> (unaudited)
Non-current assets	10,472	10,361
Current assets	2,973	4,514
Total assets	13,445	14,875
Current liabilities	7,110	7,996
Non-current liabilities	614	1,434
Total liabilities	7,724	9,430
Net assets attributable to the Shareholders	5,721	5,445

As at 30 June 2020, the Group had (i) non-current assets of approximately RMB10,361 million, which mainly comprised property, plant and equipment of approximately RMB9,762 million; (ii) current assets of approximately RMB4,514 million, which mainly comprised (a) prepayments, other receivables and other assets of approximately RMB1,924 million; (b) inventories of approximately RMB794 million; and (c) cash and cash equivalents of approximately RMB765 million; (iii) current liabilities of approximately RMB7,996 million, which mainly comprised (a) interest-bearing bank and other borrowings of approximately RMB2,917 million; (b) contract liabilities of approximately RMB2,748 million; and (c) trade and bills payables of approximately RMB1,471 million; and (iv) non-current liabilities of approximately RMB1,434 million, which mainly comprised interest-bearing bank and other borrowings of approximately RMB1,239 million.

**b) *Background of Zouping Power***

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 authorised 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.

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 2. Reasons for and benefits of entering into the Electricity Purchase Agency Agreement

As disclosed in the Letter from the Board, in order to earn a bulk purchase discount, the Group has been purchasing electricity from Binzhou Power through Xiwang Power and/or Zouping Power. 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 the Group any service fee or mark-up on top of the electricity charge by Binzhou Power. 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.

We noted that the Group is an electric arc furnace (“EAF”) based integrated steel manufacturer in Shandong Province. From the discussion with the Management, we understand that the EAF-based steel production process starts with steel scraps, molten iron and pig iron and turns them into steel billets in a flexible and efficient way, which are then processed into various steel products. The EAF uses electricity as the main source of energy for heating the charge, therefore electricity has been one of the major resources in the Group's steel-making production process. Taking into account that the Group has been conducting Electricity Purchase from Binzhou Power through Xiwang Power (and/or its associate(s), which includes Zouping Power) for the production process of its steel products, we concur with the view of the Management that the Electricity Purchase is conducted in the ordinary and usual course of business of the Group.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We have also discussed with the Management in respect of the bulk purchase discount available to the Group on the Electricity Purchase conducted under the Electricity Purchase Agency Agreement and we were advised that, Zouping Power not only acted as an agent of Xiwang Metal (for and on behalf of the Group) but also at the same time acted as an agent of several companies, in particular, Xiwang Group and its affiliated companies (which are also connected persons of the Company) in purchasing electricity from Binzhou Power. By having such arrangement of centralised procurement of electricity from Binzhou Power through Zouping Power by the Group as well as other affiliated companies of Xiwang Group, Zouping Power is able to enjoy a bulk purchase discount from Binzhou Power, whereby allowing the Group to enjoy the same discount to be given by Zouping Power since Zouping Power did not and will not charge the Group any service fee or mark-up on top of the electricity charge by Binzhou Power.

Taking into consideration that (i) the business nature of the Group requires a significant amount of electricity in the production process of its steel products; (ii) the Group has been conducting Electricity Purchase from Binzhou Power through Xiwang Power (and/or its associate(s), which includes Zouping Power); (iii) no additional service fee or mark-up was charged to the Group on top of the electricity charge payable by Zouping Power to Binzhou Power; (iv) Xiwang Group and its affiliated companies are required to settle the electricity bills together according to the requirements of Binzhou Power, which is the monopolistic local electricity supplier in Binzhou City, Shangdong Province, the PRC; (v) bulk purchase discount on Electricity Purchase is made available to the Group under the Electricity Purchase Agency Agreement; (vi) the Electricity Purchase is conducted in the ordinary and usual course of business of the Group; and (vii) the terms of the Electricity Purchase Agency Agreement are fair and reasonable as discussed below, we are of the view that the Electricity Purchase Agency Agreement has been entered into 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.

### **3. Principal terms of the 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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- 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.
- Pre-paid 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.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Pricing terms of the Electricity Purchase*

As discussed above, we understand that Zouping Power did not only act as an agent of Xiwang Metal (for and on behalf of the Group) but also at the same time acted as an agent of several companies, in particular, affiliated companies of Xiwang Group (which are also connected persons of the Company) in purchasing electricity from Binzhou Power. As advised by the Management, save for Xiwang Metal and other affiliated companies of Xiwang Group, Zouping Power also acts as an agent for independent third party companies for the purchase of electricity from Binzhou Power.

In assessing the fairness and reasonableness of the pricing terms of the Electricity Purchase to be conducted under the Electricity Purchase Agency Agreement, we have reviewed the sample documents provided by the Company, including, among other things, (i) three randomly selected samples of sales invoices issued by Binzhou Power to Xiwang Power (and/or its associate(s), which includes Zouping Power) during each of the years ended 31 December 2018 and 2019 and the six months ended 30 June 2020, together with the corresponding/relevant sales invoices issued by Xiwang Power (and/or its associate(s), which includes Zouping Power) to (a) the Group; (b) Xiwang Group and its affiliated companies; and (c) independent third party companies; (ii) two randomly selected samples of sales invoices issued by Binzhou Power to Xiwang Power (and/or its associate(s), which includes Zouping Power) for the two months ended 31 August 2020, together with the corresponding/relevant sales invoices issued by Xiwang Power (and/or its associate(s), which includes Zouping Power) to (a) the Group; (b) Xiwang Group and its affiliated companies; and (c) independent third party companies; and (iii) the Electricity Purchase Agency Agreement and the electricity purchase agency agreement entered into between Xiwang Power (and/or its associate(s), which includes Zouping Power) and Xiwang Group's affiliated company with respect to the purchase of electricity from Binzhou Power, and noted that the pricing terms of the Electricity Purchase under the Electricity Purchase Agency Agreement is no less favourable to the Group than those offered by Zouping Power to Xiwang Group and its affiliated companies and independent third party companies. We also noted that no additional service fee or mark-up was charged by Xiwang Power (and/or its associate(s), which includes Zouping Power) to the Group on top of the electricity charge by Binzhou Power.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Prepaid Electricity Charge*

In assessing the fairness and reasonableness of the Prepaid Electricity Charge under the Electricity Purchase Agency Agreement, we have reviewed the Regulation on Electric Power Supply and Marketing\* (供電營業規則) (the “**Regulation**”) promulgated by the PRC government, and noted that the users shall pay a security deposit to the electricity supply companies in accordance with the Regulation, the nature of which is similar to the prepayment requirement of electricity supply companies for mitigating the risk of bad debts. From the discussion with the Management, we understand that it is not uncommon for electricity users to prepay electricity charge to the electricity supply companies in the PRC, particularly the Group being a large-scale industrial and high electricity consumption user in Binzhou City, Shandong Province, the PRC.

We noted that (i) the historical maximum amount of Prepaid Electricity Charge for the year ended 31 December 2019 and the six months ended 30 June 2020 approximated to 3.5 months of the historical amount of monthly Electricity Purchase for the corresponding year/period; and (ii) the proposed Prepaid Electricity Charge Annual Caps for the years ending 31 December 2020, 2021 and 2022 are around 2.4 to 2.7 months of the average monthly Electricity Purchase as implied by the proposed Electricity Purchase Annual Caps for the corresponding years.

From the discussion with the Management and the correspondence between Xiwang Metal, Xiwang Power (and its associate(s), which includes Zouping Power) and Binzhou Power that we have obtained and reviewed, we noted and understood that (i) Xiwang Power (and its associate(s), which includes Zouping Power) merely acted as an agent to collect the Prepaid Electricity Charge from Xiwang Metal and prepay the same amount of the Prepaid Electricity Charge to Binzhou Power on the Group’s behalf; and (ii) Binzhou Power would from time to time assess the amount of Prepaid Electricity Charge required from the Group as a measure to manage its credit risk. After taking into account that Xiwang Group has been facing a liquidity crisis as mentioned in the Company’s announcements dated 21 February 2020, 31 March 2020 and 16 April 2020 (the “**Settlement Announcements**”), Binzhou Power, through Xiwang Power (and its associate(s), which includes Zouping Power), required higher amount of Prepaid Electricity Charge from the Group, Xiwang Group and its affiliated companies. Based on our review of the Settlement Announcements and discussion with the Management, we noted that the liquidity issue of Xiwang Group appeared to be alleviated as evidenced by the decrease in the proportion of the Prepaid Electricity Charge Annual Caps to the average monthly Electricity Purchase as implied by the proposed Electricity Purchase Annual Caps for each of the years ending 31 December 2020, 2021 and 2022.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Having considered that (i) the amount of Prepaid Electricity Charge is determined and required by Binzhou Power which is an independent third party; (ii) Xiwang Power (and its associate(s), which includes Zouping Power) merely acted as an agent to collect the Prepaid Electricity Charge from Xiwang Metal and prepay the same amount of the Prepaid Electricity Charge to Binzhou Power on the Group's behalf; and (iii) it is not uncommon for electricity users to prepay electricity charge to the electricity supply companies in the PRC, we consider that the requirement of Prepaid Electricity Charge under the Electricity Purchase Agency Agreement is acceptable.

### ***Internal control measures***

We note that 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:

- relevant departments of the Company will (i) 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; (ii) 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;
- 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
- 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 things, 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.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Given that (i) Binzhou Power is the monopolistic local electricity supplier in Binzhou City, Shandong Province, the PRC, and Xiwang Group and its affiliated companies are required to settle the electricity bills together according to the requirements of Binzhou Power; (ii) the pricing and payment terms of the Electricity Purchase under the Electricity Purchase Agency Agreement are and shall be on normal commercial terms and are no less favourable to the Group than those offered by Zouping Power to Xiwang Group and its affiliated companies and independent third party companies; (iii) no additional service fee or mark-up was or will be charged by Zouping Power to the Group on top of the electricity charge by Binzhou Power; and (iv) the internal control measures set out above have been put in place by the Group, we are of the view that the pricing and payment terms of the Electricity Purchase Agency Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

#### 4. Electricity Purchase Annual Caps

The following table sets out the proposed Electricity Purchase Annual Caps for each of the years ending 31 December 2020, 2021 and 2022.

	Year ending 31 December		
	2020	2021	2022
	<i>RMB'</i>	<i>RMB'</i>	<i>RMB'</i>
	<i>million</i>	<i>million</i>	<i>million</i>
Electricity Purchase Annual Caps	1,204	1,467	1,661

We have discussed with the Management regarding the underlying assumptions and bases that have been considered by the Management in determining the Electricity Purchase Annual Caps. We noted that the Management has taken into account (i) the anticipated increase in downstream demand for the Group's products; (ii) the anticipated increase in electricity consumption of the Group; (iii) 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 (iv) the historical amount of electricity purchased by the Group for the years ended 31 December 2018 and 2019 and the six months ended 30 June 2020. The Electricity Purchase Annual Caps are VAT inclusive.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We have assessed the fairness and reasonableness of the Electricity Purchase Annual Caps by taking into consideration the followings:

***Anticipated increase in downstream demand for the Group's products***

We have reviewed the 2019 Annual Report and noted that the Group's ordinary steel products, including rebars and wire rods, are primarily used in construction and infrastructure. The special steel products that the Group currently produces and sells include quality carbon structural steel, alloy structural steel, bearing steel and steel welding wire. The Group has also produced and sold special steel billets (semi-finished steel products), which are hot-rolled steel billets with customised chemical compositions that are not generally available on market. Special steel products are primarily used in the machinery, equipment and automobile industries.

For our due diligence purpose, we have reviewed the list of major customers of the Group for the year ended 31 December 2019 and the six months ended 30 June 2020 and noted that (i) such customers included distributors and state owned enterprises which are principally engaged in construction, infrastructure, machinery, equipment and automobile industries; (ii) the average time of business relationships with the Group is over five to eight years; and (iii) the revenue of the top 10 customers for the six months ended 30 June 2020 approximated to that for the year ended 31 December 2019. We noted that such increase in revenue was primarily attributable to a new customer who is a distributor selling the Group's products to downstream steel producers, real estate developers and construction contractors, etc..

We have also reviewed the 2019 Economic Operation Report of China's Steel Industry\* (2019年中國鋼鐵行業經濟運行報告) issued by the China Iron and Steel Industry Association\* (中國鋼鐵工業協會) in May 2020, and noted that the PRC's steel consumption is estimated to increase, driven by the demand from construction, infrastructure, machinery and equipment sectors. We have also reviewed the market insights of the PRC's steel market issued by S&P Global Platts in June 2020, which is an independent provider of information, benchmark prices and analytics for the energy and commodities markets, which maintains its forecast that the PRC's steel output will continue to increase in 2020 as the downstream infrastructure and construction demand is being aided by looser credit policies in the PRC.

Moreover, we understand that the PRC government has been stepping up infrastructure investments such as launching new rail lines, construction of 5G facilities and rural power grids upgrade according to the State Council of the People's Republic of China (<http://english.www.gov.cn/>), which suggested that there could be strong and stable demand for the Group's steel products in long term given that an infrastructure project usually lasts for three to five years.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Taking into account the above, we concur with the Management that there could be anticipated increase in downstream demand for the Group's products, which could in turn increase the electricity consumption of the Group in the coming years.

### ***Anticipated increase in electricity consumption of the Group***

From the discussion with the Management, we understand that the forecasted electricity consumption of the Group was estimated based on the expected demand for steel products with references to historical production volume and expected business growth. Based on the anticipated increase in downstream demand for the Group's products as discussed above, the electricity consumption of the Group will be increased accordingly.

We have also reviewed the 2019 Annual Report and noted that the Group is developing refined and high-end special steel products with enhanced corporate competitiveness, which usually required higher electricity consumption in production. We have discussed with the Management and understand that the manufacturing process of such refined and high-end special steel products is more complicated which is estimated to require approximately 15% higher electricity consumption, and the trial production is expected to commence in 2021.

Furthermore, we have reviewed the announcement of the Company dated 10 April 2017 in relation to a high speed heavy load high intensity rail steel project set up by the Group in which the Group had invested RMB2.55 billion to establish a new production line which is capable of producing 700,000 tonnes of rail steel, 150,000 tonnes of railway billet and 150,000 tonnes of figured steel per annum. Such development project will be carried out in two phases, with the first phase scheduled to be completed in 2018, and the second phase scheduled to be completed in 2020. As advised by the Management, the first phase has been completed in 2018 in which the production line is capable of producing 300,000 tonnes of rail steel and 150,000 tonnes of railway billet per annum, while the second phase of the new production line is currently on schedule and will be completed in late 2020. We were further advised that, after the second phase is completed, the production capacity of the new production line will be capable of producing additional 400,000 tonnes of rail steel, which represents an increment of approximately 133.3% of the current production capacity of rail steel from the first phase of existing production line, and 150,000 tonnes of figured steel per annum. As such, we concur with the Management's view that the electricity consumption of the Group is expected to increase in the upcoming years.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Historical transaction amount for the years ended 31 December 2018 and 2019 and the six months ended 30 June 2020*

From the discussion with the Management, we understand that the overall operating performance of the Group in the first quarter of 2020 was affected by the unprecedented COVID-19 pandemic. The large-scale domestic lockdown in the first quarter of 2020 led to a significant reduction in the production and demand as some of the Group's customers and suppliers had experienced or were expected to undergo an extended period of disruption or suspension in their business operation and production, which in turn affected the export sales of steel export-oriented enterprises or steel downstream processing and manufacturing enterprises. We have reviewed the schedule of the actual electricity consumption of the Group for the two years ended 31 December 2019 and the six months ended 30 June 2020 provided by the Management, and noted that the production volume of the Group has been gradually picking up since March 2020 and generally resumed to normal capacity in June 2020 with the improving situation of the prevention and effective control of the coronavirus outbreak and the gradual resumption of work and production in the PRC. Taking into account the above and the anticipated increase in downstream demands for the Group's products as discussed above, we concur with the view of the Management that the electricity consumption of the Group during the second quarter of 2020 was more representative of the Group's normal electricity consumption level.

We further noted that, although the actual amount of Electricity Purchase of the Group decreased from approximately RMB820.4 million (VAT inclusive) for 2018 to approximately RMB731.6 million (VAT inclusive) for 2019, the actual monthly average Electricity Purchase of the Group for the six months ended 30 June 2020 of approximately RMB75.7 million (VAT inclusive) was higher than the actual monthly average Electricity Purchase of the Group for each of the two years ended 31 December 2018 and 2019 of approximately RMB68.4 million (VAT inclusive) and RMB61.0 million (VAT inclusive), respectively. In addition, we noted that the actual amount of Electricity Purchase of the Group for the six months ended 30 June 2020 amounted to approximately RMB454.4 million (VAT inclusive), which represented approximately 55.4% and 62.1% of the amount of Electricity Purchase of the Group for the years ended 31 December 2018 and 2019, respectively.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Moreover, we noted that the annualised amount of Electricity Purchase of the Group for the year ending 31 December 2020, which is calculated based on the Group's actual Electricity Purchase in the second quarter of 2020 of approximately RMB278.1 million (VAT inclusive) during which the electricity consumption of the Group was more representative of the Group's normal electricity consumption level due to alleviation of COVID-19, amounted to approximately RMB1,112.4 million (VAT inclusive), which represented an increase of approximately RMB380.8 million or 52.1% as compared to the actual amount of Electricity Purchase of the Group for the year ended 31 December 2019. Notwithstanding the aforesaid annualised amount of Electricity Purchase of the Group of approximately RMB1,112.4 million (VAT inclusive) only represents approximately 92.4% of the Electricity Purchase Annual Cap for the year ending 31 December 2020, having considered that the Group had only resumed its production to normal capacity since June 2020, we consider that it is justifiable and not excessive.

Taking into account the above, in particular, (i) the anticipated increase in downstream demand for the Group's steel products backed by the growth in the steel industry in the PRC is positive and the investment in infrastructure projects is expected to increase by the PRC government; (ii) the anticipated increase in electricity consumption by the Group which is driven by the anticipated increase in the Group's steel products as mentioned above as well as the commencement of the second phase of the new production line which is scheduled in late 2020; and (iii) additional buffer to ensure stable and sufficient supply of electricity, we consider that the Electricity Purchase Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned..

### 5. Prepaid Electricity Charge Annual Caps

The following table sets out the proposed Prepaid Electricity Charge Annual Caps for each of the years ending 31 December 2020, 2021 and 2022.

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We have discussed with the Management regarding the underlying assumptions and bases that have been considered by the Management in determining the Prepaid Electricity Charge Annual Caps. We noted that the Management has taken into account (i) the anticipated increase in downstream demand for the Group's products; (ii) the anticipated increase in electricity consumption of the Group; (iii) 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 (iv) the historical maximum amount of Prepaid Electricity Charge for the years ended 31 December 2018 and 2019 and the six months ended 30 June 2020.

We noted that the abovementioned assumptions and bases in relation to the Prepaid Electricity Charge Annual Caps are substantially the same as those mentioned in Electricity Purchase Annual Caps, in particular, the anticipated increase in downstream demand for the Group's products, the anticipated increase in electricity consumption of the Group and the actual electricity consumption of the Group in the second quarter of 2020. As mentioned in the paragraph headed "2. Reasons for and benefits of entering into the Electricity Purchase Agency Agreement" above, to facilitate the Electricity Purchase, the Group, 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, and it is required under the Electricity Purchase Agency Agreement that the amount of Prepaid Electricity Charge to be made by Xiwang Metal to Zouping Power should be no less than one month of the expected electricity charge. Hence, the expected amount of Prepaid Electricity Charge to be made by the Group is mainly driven by the expected amount of Electricity Purchase of the Group. As such, we consider that the assumptions and bases of determining the Prepaid Electricity Charge Annual Caps are reasonable.

Taking into account (i) the expected increase in Electricity Purchase as discussed above; (ii) that the historical maximum amount of Prepaid Electricity Charge for the six months ended 30 June 2020 of approximately RMB264.2 million represented approximately 98.6% of the Prepaid Electricity Charge Annual Cap for the year ending 31 December 2020; (iii) that the amount of Prepaid Electricity Charge and the Electricity Purchase are positively correlated, and the Prepaid Electricity Charge Annual Caps for each of the years ending 31 December 2020, 2021 and 2022 represent a relatively stable proportion of approximately 22.3%, 20.3% and 19.7% to the Electricity Purchase Annual Caps for the corresponding years, respectively; and (iv) additional buffer to ensure stable and sufficient supply of electricity, we consider that the Prepaid Electricity Charge Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### RECOMMENDATIONS

Having considered the principal factors and reasons as discussed above, we consider that (i) the Electricity Purchase Agency Agreement has 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 Electricity Purchase Agency Agreement and the transaction contemplated thereunder, as well as the Electricity Purchase Annual Caps and the Prepaid Electricity Charge Annual Caps, are fair and reasonable so far as the Company and 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 ordinary resolutions to approve the Electricity Purchase Agency Agreement and the transactions contemplated thereunder, the Electricity Purchase Annual Caps and the Prepaid Electricity Charge Annual Caps at the EGM.

Yours faithfully,

For and on behalf of

**Lego Corporate Finance Limited**

**Stanley Ng**

*Managing Director*

**Andrew Lau**

*Executive 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.*

*Mr. Andrew Lau 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 12 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 2017, 2018 and 2019 and the six months ended 30 June 2020 are disclosed in the following documents which have been published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company ([www.xiwangsteel.com](http://www.xiwangsteel.com)):

- annual report of the Company for the year ended 31 December 2017 published on 26 April 2018 (pages 70 to 147);
- 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
- interim report of the Company for the six months ended 30 June 2019 published on 31 August 2020 (pages 27 to 54).

**2. STATEMENT OF INDEBTEDNESS**

At the close of business on 31 August 2020 for the purpose of ascertaining information contained in this statement of indebtedness prior to the printing of this circular (the “**Circular**”), the details of Xiwang Special Steel Company Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) indebtedness are as follows:

- unsecured and guaranteed interest-bearing loans from Xiwang Group Finance Company Limited of approximately RMB160,565,000;
- unsecured and guaranteed bills payable from Xiwang Group Finance Company Limited of approximately RMB310,000,000;
- unsecured and guaranteed interest-bearing bank loans and other borrowings of approximately RMB38,218,000;
- secured and guaranteed interest-bearing bank loans and other borrowings of approximately RMB3,403,233,000;
- secured and guaranteed bonds of approximately RMB205,809,000;
- guarantees of approximately RMB4,097,271,000 for secured bank loans granted to related parties; and
- lease liabilities (comprising both current and non-current liabilities) of approximately RMB787,000.

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 at the close of business on 31 August 2020.

### **3. WORKING CAPITAL SUFFICIENCY**

The Directors, after due and careful enquiry, are of the opinion that, taking into consideration the electricity purchase agency agreement and the respective transaction contemplated thereunder and the present financial resources available to the Group, including internally generated funds, and other available banking facilities 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 in the absence of unforeseen circumstances.

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

The Board is of the view that the Electricity Purchase under the Electricity Purchase Agency Agreement will reduce the cost of electricity consumed in the production process of its steel products, which in turn will enhance the overall profitability and enable the Group to focus its efforts in improving the production efficiency. 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. 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.

#### **Business Outlook**

The PRC government is expected to continue to strengthen its structural reform with more specific and powerful policy. 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. On the demand side, the growth in steel demand is expected to remain steady, as the infrastructure sector is expected to remain active. 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. Looking forward, the demand for ordinary steel is expected to remain strong with great market potential.



For ordinary steel products, the PRC Government is expected to increase investment in infrastructural projects in order to stabilize the economy and 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 demand. With the objective of producing specialized hot rolled ribbed bars, steel enterprises are expected to strive for improvement in the quality of construction materials to meet the needs of government investment in railways, roads and water resources and capitalise on such 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, demand in the sector remains relatively inelastic. Real estate is expected to grow in the future and bring about demand for the ordinary steel. The Group is expected to continue to follow the market trend, use steel price as guidance, and capitalize on its production capability to switch between production of ordinary steel and special steel to maximize revenue.

For special steel products, the Group is expected to develop high end special steel products, by focusing on development of the special steel new products (high end bearing steel, steel for marine engineering, mould steel, spring steel and steel for special use), utilising the national science and innovation platform to reach a market-leading status in industry technology research and development, increasing the proportion of special steel production, utilizing the Group's competitive advantage, and enhancing the long-term profitability of the Group. The Group is expected to deepen the strategic co-operation with the Chinese Academy of Science, quickly capitalise 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 and 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 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, providing strong technical support to the research and development of the six sectors of special steel new products. Through specialized 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.

## 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 contained 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, save as disclosed below, to the best knowledge of the Directors and chief executive of the Company, none of the 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 shares (L)	0.39%
	Company	Beneficial owner	1,666,667 (L) share options	0.07%
	Xiwang Holdings	Beneficial owner	177 shares (L)	0.09%
	Xiwang Group	Beneficial owner	RMB35,460,000 (L)	1.77%
	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 Xinqu	Company	Beneficial owner	1,602,000 shares (L)	0.07%
	Company	Beneficial owner	500,000 (L) share options	0.02%
	Xiwang Holdings	Beneficial owner	89 shares (L)	0.04%
	Xiwang Group	Beneficial owner	RMB35,460,000 (L)	1.77%
	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.

### 3. INTEREST IN ASSETS OR CONTRACTS

As at the Latest Practicable Date, none of the Directors of the Company had any interest, direct or indirect, in any asset which have been since 31 December 2019, 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 Electricity Purchase Agency Agreement, none of the Directors of the Company was materially interested in any contract or arrangement entered into by any member of the Group since 31 December 2019, 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, save as disclosed above and to the best knowledge of the Directors and chief executive of the Company, no 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 9)
Xiwang Investment	Beneficial owner	1,347,550,000 (L) ordinary shares	56.89%
Xiwang Holdings	Interest of a controlled corporation (Note 2)	1,347,550,000 (L) ordinary shares	56.89%
Xiwang Hong Kong	Interest of controlled corporations (Notes 2, 3)	1,347,550,000 (L) ordinary shares	56.89%
Xiwang Group	Interest of controlled corporations (Notes 2, 3)	1,347,550,000 (L) ordinary shares	56.89%
Wang Yong	Interest of controlled corporations (Notes 4, 5)	1,347,550,000 (L) ordinary shares	56.89%
ZHANG Shufang	Interest of spouse (Note 6)	1,347,550,000 (L) ordinary shares	56.89%
Haitong International Investment Solutions Limited	Person having a security interest in shares (Note 7)	1,329,637,000	56.12%
Haitong International Financial Solutions Limited	Interest of a controlled corporation (Note 8)	1,329,637,000	56.12%

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 9)
Haitong International Finance Company Limited	Interest of a controlled corporation (Note 8)	1,329,637,000	56.12%
Haitong International (BVI) Limited	Interest of a controlled corporation (Note 8)	1,329,637,000	56.12%
Haitong International Securities Group Limited	Interest of a controlled corporation (Note 8)	1,329,637,000	56.12%
Haitong International Holdings Limited	Interest of a controlled corporation (Note 8)	1,329,637,000	56.12%
Haitong Securities Co., Ltd.	Interest of a controlled corporation (Note 8)	1,329,637,000	56.12%

## 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. Therefore, Xiwang Hong Kong and Xiwang Group are deemed to be interested in the number of shares of the Company held by Xiwang Investment.
- As at the Latest Practicable Date, Xiwang Group is the ultimate holding company of the Company. Xiwang Group is owned as to 26.85% by Mr. WANG Yong, 34.42% by 20 individuals (including WANG Di) and the remaining 38.73% by other shareholders. The 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. Accordingly, Mr. WANG Yong is deemed to be interested in 61.27% of the shares in Xiwang Group and the shares of the Company in which Xiwang Group is interested.

Xiwang Hong Kong is a wholly-owned subsidiary of Xiwang Group. 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 are deemed to be interested in the number of shares of the Company held by Xiwang Investment.

5. 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.
6. 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.
7. 1,329,637,000 shares of the Company were held by way of security by Haitong International Investment Solutions Limited as at the Latest Practicable Date.
8. 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.
9. These percentages are calculated based on 2,369,110,999 listed shares in issue as at the Latest Practicable Date.

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

As at the Latest Practicable Date, each of the executive Directors, non-executive Directors, and independent non-executive Directors has 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 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 save as the matters set out in 2019 annual report of the Company published on 9 June 2020, the 2020 interim report of the Company published on 31 August 2020, the announcements of the Company dated 10 January 2020, 29 March 2020, 9 June 2020, 26 June 2020 and 29 July 2020 and in this circular that there was no material adverse change in the financial or trading position of the Company since 31 December 2019, 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).

## 8. QUALIFICATION AND CONSENT OF EXPERT

The following sets out the qualification of the expert which has given its opinion or advice as contained in this circular:

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

As at the Latest Practicable Date, Lego Corporate Finance Limited did not have any direct or indirect interest in any asset which had been acquired, disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group, since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Group was made up; and was not beneficially interested in the share capital of any member of the Group and had any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the date of this circular, Lego Corporate Finance Limited has given and has 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 it appears. The letter and recommendation given by Lego Corporate Finance Limited is given as of the date of this circular for incorporation herein.

## 9. PENDING LITIGATION OR CLAIMS

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 finance lease agreement dated 22 November 2018 entered into between Xiwang Special Steel Limited\* (西王特鋼有限公司) and Xiwang Metal, each of which is a wholly-owned subsidiary of the Company in relation to certain finance lease arrangements;
- (b) the loan agreement dated 2 February 2019 in an amount of RMB50 million to Xiwang International Trade (Qingdao) Company Limited (西王國際貿易(青島)有限公司), which is a wholly-owned subsidiary of the Company;
- (c) the conditional placing agreement dated 24 May 2019 and entered into between the Company as issuer and Run Investment Services Limited as placing agent in relation to a conditional placing;
- (d) the supplemental agreement dated 16 September 2019 to the agreement dated 5 January 2015 entered into among the Company, the Institute of Metal Research, Chinese Academy of Sciences (中國科學院金屬研究所)(“**IMR**”) and its 25 researchers in relation to, *inter alia*, the license and the provision of technological services and support to the Group concerning certain steel production technologies;
- (e) the bond subscription agreement dated 22 November 2019 entered into among Haitong Global Investment SPC III acting on behalf of and for the account of Haitong Dynamic Multi-Tranche Investment Fund II S.P and Merlion Macro Fund (the “**Subscribers**”) pursuant to which the Subscribers agreed to subscribe, and the Company agreed to issue the convertible bond in an aggregate principal amount of US\$30,000,000;
- (f) the steam supply agreement dated 16 December 2019 entered into between Xiwang Metal and Shandong Xiwang Sugar Industry Company Limited (山東西王糖業有限公司)(“**Shandong Xiwang Sugar**”) in relation to the supply of steam from Xiwang Metal to Shandong Xiwang Sugar (the “**New Steam Supply Agreement**”);



- (g) the cancellation agreement dated 31 December 2019 entered into between Shandong Xiwang Sugar and Xiwang Metal pursuant to which the New Steam Supply Agreement was cancelled;
- (h) the steam supply agreement dated 31 December 2019 entered into between Zouping Power and Xiwang Metal in relation to the supply of steam from Xiwang Metal to Zouping Power;
- (i) the memorandum of understanding dated 26 June 2020 entered into between (i) Xiwang Special Steel Company Limited (西王特鋼有限公司), a subsidiary of the Company incorporated in the PRC, (ii) IMR and (iii) 10 individuals in relation to the proposed formation of a joint venture company between the parties for, among others, the production and sale of rare earth special steel, various types of steel and steel products; and
- (j) the Electricity Purchase Agency Agreement.

#### **11. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection 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 from the date of this circular up to and including the date of the EGM:

- (a) the memorandum and articles of association of the Company;
- (b) the annual report of the Company for the three financial years ended 31 December 2017, 2018 and 2019;
- (c) the interim report of the Company for the six months ended 30 June 2020;
- (d) the letter from the Board, the text of which is set out on pages 5 to 15 of this circular;
- (e) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 16 to 17 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 18 to 36 of this circular;
- (g) the written consent from the Lego Corporate Finance Limited referred to in the section headed “8. Qualification and consent of Expert” in the Appendix I;
- (h) the material contracts as referred to in the section headed “Material Contracts” in this appendix;

- (i) the Electricity Purchase Agency Agreement; and
- (j) 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, Room 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.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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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)**

## 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 Friday, 20 November 2020 (or any adjournment thereof) for the purposes of considering and, if thought fit, passing the following resolution as an 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 23 October 2020.

### ORDINARY RESOLUTION

1. **“THAT:**
  - (a) the Electricity Purchase Agency Agreement, a copy of which will be tabled at the EGM and marked “A” and initialled by the chairman of the EGM (the “**Chairman**”) for identification purpose, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
  - (b) the proposed Electricity Purchase Annual Caps and Prepaid Electricity Charge Annual Caps be and are hereby approved, confirmed and ratified; and

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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- (c) any one Director of the Company, or any two Directors (or any one Director and any one secretary) of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts and things as they consider necessary, desirable or expedient for the implementation of and giving effect to the Electricity Purchase Agency Agreement and the transactions contemplated thereunder and the related annual caps and all such acts and things the Directors have done are hereby approved, confirmed and ratified.”

By Order of the Board  
**WANG Di**  
*Chairman*

Hong Kong, 23 October 2020

*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

*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 EGM 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, any one such persons may vote at the EGM, 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.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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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, Room 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 17 November 2020 to 20 November 2020 (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 Room 2103B, 21/F, 148 Electric Road, North Point, Hong Kong for registration by not later than 4:30 p.m. on 16 November 2020.
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](http://www.xiwangsteel.com)) and the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) to notify the Shareholders of the date, time and place of the rescheduled meeting.
8. Precautionary measures for the EGM:

Please see cover page of the circular of the Company dated 23 October 2020 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 resolutions 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.*