

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 TRANSACTION NEW GUARANTEE AGREEMENT

NEW GUARANTEE AGREEMENT

The Company (and its subsidiaries) and Xiwang Group (and the Relevant Subsidiaries) entered into the New Guarantee Agreement on 19 January 2021 (after trading hours of the Stock Exchange). Pursuant to the New Guarantee Agreement, the Group will provide Xiwang Group and the Relevant Subsidiaries with guarantee services for the period from 1 January 2021 to 31 December 2023 subject to the terms and conditions provided therein and the approval from the Independent Shareholders at the EGM.

LISTING RULE IMPLICATIONS

As at the date of this announcement, Xiwang Group is the ultimate holding company of the Company. Therefore, Xiwang Group is a connected person of the Company under Chapter 14A of the Listing Rules and the transactions contemplated under the New Guarantee Agreement constitute continuing connected transaction 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 maximum Guarantee Amount under the New Guarantee Agreement exceeds 25%, the New Guarantee Agreement and the transactions contemplated thereunder constitute a major transaction of the Company under Chapter 14 of the Listing Rules, which is 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 the maximum Guarantee Amount under the New Guarantee Agreement exceeds 5%, the New Guarantee Agreement and the transactions contemplated thereunder constitute non-exempt continuing connected transaction of the Company under Chapter 14A of the Listing Rules, which is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements.

New Guarantee Agreement

References are made to the 2017 Announcement, the 2017 Circular and the 2018 Voting Results Announcement in relation to, among other things, the 2017 Guarantee Agreement entered into between the Company and Xiwang Group on 10 November 2017. The Company and Xiwang Group entered into the New Guarantee Agreement on 19 January 2021 (after trading hours of the Stock Exchange).

NEW GUARANTEE AGREEMENT

Date : 19 January 2021 (after trading hours of the Stock Exchange)

Parties : (i) the Company and its subsidiaries; and
(ii) Xiwang Group and the Relevant Subsidiaries

Term of the agreement : The New Guarantee Agreement is valid for a term of three years commencing from 1 January 2021 to 31 December 2023. Under the New Guarantee Agreement, the Group continues to provide guarantee services to Xiwang Group and the Relevant Subsidiaries, subject to the terms contained in the New Guarantee Agreement and the approval from the Independent Shareholders at the EGM to be convened.

Major Terms

1. The Group shall provide Xiwang Group and the Relevant Subsidiaries with guarantee services under which the Group shall undertake to guarantee and bear any obligations and liabilities of Xiwang Group and the Relevant Subsidiaries under the loan agreements to be entered between the lenders and Xiwang Group and/or the Relevant Subsidiaries, in accordance with the terms of the specific guarantee agreements to be entered between the lenders and the Group.
2. Any loans repaid by the Group for and on behalf of Xiwang Group (and the Relevant Subsidiaries) pursuant to the New Guarantee Agreement shall be deemed to be a repayment of (i) the loans payable by the Group to Xiwang Group or the Relevant Subsidiaries; or (ii) other amounts payable by the Group to Xiwang Group or the Relevant Subsidiaries.
3. The Guarantee Amount shall not exceed the Outstanding Amount during the period from 1 January 2021 to 31 December 2023, and shall be subject to a maximum cap of RMB5.0 billion.
4. If the Guarantee Amount exceeds the Outstanding Amount, (i) the Group reserves the right to unilaterally terminate the specific guarantee(s) for an amount no less than the amount exceeding the Outstanding Amount; and (ii) a guarantee fee of 0.5% per annum on the Outstanding Amount shall be payable by Xiwang Group and/or the Relevant Subsidiaries to the Group for the amount exceeding the Outstanding Amount.
5. Xiwang Group undertakes that it shall always continue to provide guarantees and loans to the Group and cannot unilaterally terminate any one of them without the Group's consent.

Condition precedent

The New Guarantee Agreement should be conditional upon the approval of the Independent Shareholders at the EGM in accordance with the Listing Rules.

Proposed Guarantee Annual Caps

The proposed Guarantee Annual Caps are as follows:

Period	Guarantee Annual Caps <i>RMB' billion</i>
From 1 January 2021 to 31 December 2021	5.0
From 1 January 2022 to 31 December 2022	5.0
From 1 January 2023 to 31 December 2023	5.0

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

1. the anticipated loans amount of Xiwang Group and Relevant Subsidiaries for their operational needs;
2. the Outstanding Amount of approximately RMB3.84 billion, RMB3.18 billion and RMB3.92 billion lent or guaranteed by Xiwang Group in favour of the Group as at 31 December 2018, 2019 and 2020, respectively; and
3. the historical guarantee amounts and historical annual caps under the 2017 Guarantee Agreement.

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

Historical Guarantee Amount

The historical maximum guarantee amounts provided by the Group and historical annual caps under the 2017 Guarantee Agreement were as follows:

Period	Historical maximum guarantee amounts <i>RMB' billion</i>	Historical annual caps <i>RMB' billion</i>
From 1 January 2018 to 31 December 2018	3.9	5.0
From 1 January 2019 to 31 December 2019	4.6	5.0
From 1 January 2020 to 31 December 2020	4.2	5.0

For the years ended 31 December 2018, 2019 and 2020, the highest guarantee amounts historically provided by the Group to Xiwang Group and the Relevant Subsidiaries under the guarantees executed pursuant to the 2017 Guarantee Agreement was approximately RMB3.9 billion, RMB4.6 billion and RMB4.2 billion, respectively. As at 31 December 2020, the Guarantee Amount was approximately RMB4.2 billion, which exceeded the Outstanding Amount (as defined in the 2017 Announcement) of approximately RMB3.9 billion. In light of such shortfall, the Group has strengthened its internal control measures in order to ensure that the transactions are conducted in accordance with the terms of the New Guarantee Agreement. For details, please refer to the paragraphs headed “Internal Control Measures” below.

Internal Control Measures

The Group has established a series of internal control measures to ensure that the terms of the transactions under the New Guarantee Agreement are fair and reasonable, and are conducted on normal commercial terms or better so as to safeguard the interests of the Group and the Shareholders as a whole. Such internal control measures include:

1. the Group will, no less frequent than on a quarterly basis, evaluate the financial performance and position of Xiwang Group and the Relevant Subsidiaries. If the Group is aware of any material adverse change in the financial conditions of Xiwang Group or the Relevant Subsidiaries, the Group will adopt measures immediately, such as not to provide additional guarantee to such entities;
2. each time when there is (i) more than 10% adjustment to the Guarantee Amount or the Outstanding Amount; or (ii) at least at a monthly interval, the Group shall review and ensure that the Guarantee Amount shall be smaller than the Outstanding Amount;
3. In addition, the senior management of the Group will also conduct regular checks at monthly intervals to assess whether individual guarantee transactions contemplated under the continuing connected transaction are conducted in accordance with the terms of the specific guarantee agreement(s); and they will also regularly review whether the terms of specific guarantee agreement(s) are fair and reasonable and in accordance with the terms of the New Guarantee Agreement. The senior management of the Group will also conduct checkings regularly to ensure that the annual caps are not exceeded; and
4. in accordance with the Listing Rules, (i) the independent auditors of the Company will report annually on the guarantee services to confirm, among other matters, whether the guarantee services were entered into in accordance with the New Guarantee Agreement; and (ii) the independent non-executive Directors will continue to report annually on whether the guarantee services are, among other things, on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Reasons for and Benefits of Entering into the New Guarantee Agreement

The Group had obtained a significant amount of loans from Xiwang Group for the business operation of the Group in the past. The Outstanding Amount as at 31 December 2018, 2019 and 2020 were approximately RMB3.84 billion, RMB3.18 billion and RMB3.92 billion, respectively. The Company is of the view that the provision of guarantee services to Xiwang Group will enhance the financing capacity of Xiwang Group which in turn will promote Xiwang Group to provide more financial supports to the Group in the form of loans or financial guarantees.

The Company is of the view that the risks arising from the Guarantee can be controlled, as the Guarantee Amount and the Outstanding Amount shall be monitored regularly by the senior management of the Group; and (i) in the event that the Guarantee Amount exceeds the Outstanding Amount, the Group shall reserve the rights to unilaterally terminate the Group's guarantees for such exceeded amount to Xiwang Group; and (ii) Xiwang Group shall undertake that it shall always provide guarantees and loans to the Group, and cannot unilaterally terminate any one of them without the Group's consent.

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, whilst it is not in the ordinary and usual course of business of the Company to provide the guarantee services, the terms of the New Guarantee Agreement are fair and reasonable and the New Guarantee Agreement is entered into on normal commercial terms, 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.

Xiwan Group is a company incorporated in the PRC with limited liability on 24 April 2001 and the ultimate holding company of the Company and is principally engaged in investment holding. As at the date of this announcement, Xiwan Group is owned as to 26.85% by Mr. WANG Yong, 34.41% by 20 individuals including Mr. WANG Di and the remaining 38.74% by other shareholders.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Xiwan Group is the ultimate holding company of the Company. Therefore, Xiwan Group is a connected person of the Company under Chapter 14A of the Listing Rules and the transactions contemplated under the New Guarantee 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 maximum Guarantee Amount under the New Guarantee Agreement exceeds 25%, the New Guarantee Agreement and the transactions contemplated thereunder constitute a major transaction of the Company under Chapter 14 of the Listing Rules, which is 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 the maximum Guarantee Amount under the New Guarantee Agreement exceeds 5%, the New Guarantee Agreement and the transactions contemplated thereunder constitute non-exempt continuing connected transaction of the Company under Chapter 14A of the Listing Rules, which is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements.

The Company will also disclose the relevant details of the New Guarantee Agreement in its next published annual reports 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 New Guarantee Agreement and the transactions contemplated thereunder; and (ii) the Guarantee Annual Caps.

APPROVAL BY THE BOARD

The proposal in respect of the entering into of the New Guarantee Agreement was approved at the Board meeting held by the Company. As each of Mr. WANG Di and Mr. SUN Xinhui 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 entering into of the New Guarantee Agreement. Save as disclosed above, none of the Directors have a material interest in the transactions under the New Guarantee Agreement.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An independent board committee comprising all the independent non-executive Directors (who have no material interest in the New Guarantee Agreement) has been established to advise the Independent Shareholders on (i) the New Guarantee Agreement and the transactions contemplated thereunder; and (ii) the Guarantee Annual Caps.

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

DESPATCH OF CIRCULAR

A circular containing details of the New Guarantee Agreement, a letter from the Independent Board Committee and a letter from the Independent Financial Adviser, both advising on (i) the New Guarantee Agreement and the transactions contemplated thereunder; and (ii) the Guarantee Annual Caps, and the notice of the EGM will be despatched to the Shareholders in accordance with the Listing Rules on or before 9 February 2021.

DEFINITIONS

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

“2017 Announcement”	an announcement of the Company dated 10 November 2017 in relation to, among other things, the 2017 Guarantee Agreement
“2017 Circular”	a circular of the Company dated 19 December 2017 in relation to, among other things, the 2017 Guarantee Agreement
“2017 Guarantee Agreement”	the guarantee agreement dated 10 November 2017 entered into between the Group and Xiwang Group in relation to provision of guarantee services by the Group to Xiwang Group and the Relevant Subsidiaries
“2018 Voting Results Announcement”	a voting results announcement of the Company dated 9 January 2018 in relation to, among other things, the extraordinary general meeting of the Company for the passing of the resolution in relation to the 2017 Guarantee Agreement
“Board”	the board of Directors of the Company
“Company”	Xiwang Special Steel Company Limited (西王特鋼有限公司) (Stock Code: 1266), a company incorporated in Hong Kong with limited liability on 6 August 2007 and the shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“continuing connected transaction”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be convened and held to approve the provision of guarantee services under the New Guarantee Agreement and the Guarantee Annual Caps
“Group”	the Company and its subsidiaries

“Guarantee Amount”	the guarantee amount to be provided by the Group to Xiwang Group and the Relevant Subsidiaries under the New Guarantee Agreement (including but not limited to the amount that the Group has guaranteed for Xiwang Group and the Relevant Subsidiaries and has not yet expired)
“Guarantee Annual Cap(s)”	the proposed annual caps in respect of the maximum Guarantee Amount under the New Guarantee Agreement for each of the three years ending 31 December 2023
“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 the terms of the New Guarantee Agreement and the Guarantee 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 Securities and Futures Ordinance (Cap. 571 of The Laws of Hong Kong) which has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the New Guarantee Agreement and the Guarantee Annual Caps
“Independent Shareholders”	the Shareholders other than Xiwang Group and its associates (as defined under the Listing Rules)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Guarantee Agreement”	the new guarantee agreement dated 19 January 2021 entered into between the Group and Xiwang Group (and the Relevant Subsidiaries) in relation to the provision of Guarantee by the Group to Xiwang Group and the Relevant Subsidiaries
“Outstanding Amount”	being (i) the aggregate amount due from the Group to Xiwang Group and the Relevant Subsidiaries (including but not limited to the borrowings provided by Xiwang Group and the Relevant Subsidiaries to the Group); plus (ii) the aggregate amount of the Group’s borrowing which is guaranteed, secured or pledged by Xiwang Group and the Relevant Subsidiaries; less (iii) the aggregate amount due from Xiwang Group and the Relevant Subsidiaries to the Group (including but not limited to the deposits placed by the Group with Xiwang Group and the Relevant Subsidiaries)

“PRC”	the People’s Republic of China
“Relevant Subsidiaries”	all of the subsidiaries of Xiwang Group except for the members of the Group
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) in the issued share capital of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“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
“%”	per cent.

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

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

Hong Kong, 19 January 2021

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

Executive Directors

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

Independent non-executive Directors

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

Non-executive Director

Mr. WANG Di