
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, 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 circular.



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 AND NOTICE OF EXTRAORDINARY GENERAL MEETING

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



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 2:30 p.m. on Friday, 19 March 2021 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 annual general meeting (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) and the Company (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, 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.

CONTENTS

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

DEFINITIONS

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

“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 the 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
“Announcement”	the announcement dated 19 January 2021 issued by the Company in relation to the New Guarantee Agreement entered into between the Group and Xiwang Group (and the Relevant Subsidiaries) in relation to provision of guarantee services by the Group to Xiwang Group and the Relevant Subsidiaries
“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

DEFINITIONS

“EGM”	an extraordinary general meeting of the Company to be convened and held at 2:30 p.m. on Friday, 19 March 2021 at Boardroom 3-4, Mezzanine Floor, Renaissance Hong Kong Harbour View Hotel, No.1 Harbour Road, Wanchai, Hong Kong 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 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 activities 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 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)
“Latest Practicable Date”	18 February 2021, 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

DEFINITIONS

“Mr. WANG”	Mr. WANG Yong, a substantial shareholder of the Company and Xiwang Group as at the Latest Practicable Date
“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 services 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)
“Parties”	the Group and Xiwang Group (and the Relevant Subsidiaries), and “Party” means any one of them
“PRC”	the People’s Republic of China
“Relevant Subsidiaries”	all the subsidiaries of Xiwang Group except for the members of the Group
“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

DEFINITIONS

“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
“Xiwang Investment”	Xiwang Investment Company Limited, the controlling shareholder of the Company and a wholly-owned subsidiary of Xiwang Holdings
“%”	per cent

* *For identification purpose only*

LETTER FROM THE BOARD



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

26 February 2021

To the Shareholders

Dear Sir or Madam,

**MAJOR TRANSACTION AND
CONTINUING CONNECTED TRANSACTION
NEW GUARANTEE AGREEMENT
AND**

NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the Announcement.

References are also 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 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).

LETTER FROM THE BOARD

The followings are the principal terms of the New Guarantee Agreement. While the New Guarantee Agreement was not concluded in the ordinary and usual course of business of the Company, the Directors (excluding the independent non-executive Directors, whose view are contained in the letter from the Independent Board Committee as set out in this circular after considering the advice from the Independent Financial Adviser) are of the view that the terms therein are fair and reasonable and the New Guarantee Agreement was 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.

NEW GUARANTEE AGREEMENT

Date

19 January 2021

Parties

- (a) the Company and its subsidiaries; and
- (b) Xiwang Company and the Relevant Subsidiaries

Term

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.

LETTER FROM THE BOARD

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 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 RMB' billion
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.

LETTER FROM THE BOARD

The Directors (excluding the independent non-executive Directors, whose view are contained in the letter from the Independent Board Committee as set out in this 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 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 the 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 due from the Group to Xiwang Group and the Relevant Subsidiaries. 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.

The reasons for the Guarantee Amount exceeded the Outstanding Amount were as follows:

1. The Guarantee Amount remained between approximately RMB3.9 billion to RMB4.6 billion during the period from 2018 to 2020 and the Guarantee Amount was approximately RMB4.2 billion as at 31 December 2020. During the period from 2018 to 2020, banks and financial institutions that provided credit to Xiwang Group required additional comfort to them as credit enhancement facilities. As a result, the Company continued to provide corporate guarantee to such banks and financial institutions, in order for those banks and financial institutions to continue to provide financing to Xiwang Group; and

LETTER FROM THE BOARD

2. Xiwang Group had provided a counter-guarantee (the “**Counter-Guarantee**”) to the Group in respect of the financial guarantee provided by the Group to Xiwang Group and the Relevant Subsidiaries. Under the Counter-Guarantee, all the assets of Xiwang Group and Relevant Subsidiaries have been used as collateral to counter-guarantee the financial guarantee provided by the Group to Xiwang Group and Relevant Subsidiaries. Given the existence of the Counter-Guarantee, the Directors are of the view that, in case the Guarantee Amount is greater than the Outstanding Amount, the amount in excess of the Outstanding Amount will be covered by the collateral provided under the Counter-Guarantee.

The Directors have performed detailed risk assessments for the situation, and considered that the risk of default by Xiwang Group and/or the Relevant Subsidiaries is manageable, as follows:

1. Each time before the approval of the financial guarantees to be provided to the banks and financial institutions, the Directors had reviewed the financial position and the financial performance of Xiwang Group and the Relevant Subsidiaries, including but not limited to its/their cash level, etc. in order to assess the financial conditions of Xiwang Group and the Relevant Subsidiaries, so that the Directors could conclude that the financial conditions of Xiwang Group and the Relevant Subsidiaries remained healthy; and
2. The Directors had reviewed the Counter-Guarantee provided by Xiwang Group to the Group in respect of the financial guarantee provided by the Group to Xiwang Group and the Relevant Subsidiaries. The Directors concluded that in case the Guarantee Amount is greater than the Outstanding Amount, the amount in excess of the Outstanding Amount will be covered by the collateral provided under such Counter-Guarantee.

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 New Guarantee Agreement are fair and reasonable, are conducted on normal commercial terms or better so as to safeguard the interests of the Group and the Shareholders as a whole and that the terms and relevant Guarantee Annual Cap(s) under the New Guarantee Agreement will not be breached. 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;

LETTER FROM THE BOARD

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;
4. the senior management of the Group will report to the Directors every month on the Guarantee Amount and the Outstanding Amount;
5. 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;
6. The Company will hire internal auditors/external internal control consultant/independent financial advisors, as and when appropriate, to monitor and report to the management on the Guarantee Amount and Outstanding Amount regularly; and
7. If the Guarantee Amount exceeds the Outstanding Amount, the Directors will, on a regular basis, ensure that the guarantee fee of 0.5% on the amount in excess of the Outstanding Amount will be collected from Xiwang Group and/or the Relevant Subsidiaries.

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 of loans from Xiwang Group and the Relevant Subsidiaries to the Group as at 31 December 2018, 2019 and 2020 were approximately RMB3.84 billion, approximately RMB3.18 billion and approximately 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.

LETTER FROM THE BOARD

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 are contained in the letter from the Independent Board Committee as set out in this 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 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.

Final Dividend for the year ended 31 December 2018

The Company has been delaying the payment of its dividend declared for the year ended 31 December 2018 (the "**Final Dividend**"). For details, please refer to the announcements of the Company dated 16 August 2019, 11 October 2019, 10 January 2020, 10 March 2020, 26 June 2020, 29 July 2020, 26 November 2020 and 8 January 2021. The Directors are of the view that the entering into the New Guarantee Agreement and the provision of guarantee to Xiwang Group and the Relevant Subsidiaries will not have any impact on the Company's plan in paying the Final Dividend in June 2021 (as previously disclosed), because:

1. the financial guarantees, which are required by banks and financial institutions to provide additional comfort, are contingent liabilities in nature. By providing financial guarantees, the Group is not required to pay cash immediately;

LETTER FROM THE BOARD

2. in respect of the financial position of Xiwang Group, the Directors have reviewed the management accounts of Xiwang Group for the nine months ended 30 September 2020 provided by Xiwang Group and noted that: (i) Xiwang Group had total assets and total owner's equity of approximately RMB50,383 million and RMB16,344.4 million respectively as at 30 September 2020; (ii) Xiwang Group had consolidated cash level of approximately RMB1,658.5 million as at 30 September 2020; (iii) Xiwang Group had generated consolidated revenue and net profit attributable to its shareholders of approximately RMB17,572.6 million and RMB318.1 million respectively for the nine months ended 30 September 2020; and (iv) Xiwang Group had generated consolidated gross cash inflow from operating activities and consolidated net cash flow from operating activities of approximately RMB22,665.1 million and RMB1,912.2 million respectively for the nine months ended 30 September 2020. After reviewing the latest financial conditions of Xiwang Group, the Directors are of the view that the likelihood of default by Xiwang Group is minimal; and
3. the Directors have confirmed that the Final Dividend will be financed by operating cashflow of the Group. The Directors are of the view that the New Guarantee Agreement, being a financing activity, will not have any impact on the operating cashflow.

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 and is principally engaged in investment holding. As at the Latest Practicable Date, Xiwang Group is owned as to 26.85% by Mr. WANG Yong, 34.41% by 20 individuals (including WANG Di) and the remaining 38.74% by other shareholders.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, 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 under the New Guarantee Agreement constitute continuing connected transactions of the Company.

LETTER FROM THE BOARD

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 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 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 are 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 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 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

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 New Guarantee Agreement and the transactions contemplated thereunder as well as the Guarantee 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 New Guarantee Agreement and the transactions contemplated thereunder as well as the Guarantee Annual Caps. Having considered the appropriate internal control procedures in place with respect to New Guarantee Agreement, the methods and procedures established by the Company to ensure that the transactions contemplated under the New Guarantee Agreement will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders, the Independent Board Committee is of the view that the New Guarantee Agreement, the continuing connected transactions thereunder and the Guarantee Annual Caps are fair and reasonable to the Independent Shareholders and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

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 New Guarantee Agreement and the transactions contemplated thereunder as well as the Guarantee 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 New Guarantee Agreement and the transactions contemplated thereunder as well as the Guarantee 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

In view of the interests of Xiwang Group in the transactions contemplated under the New Guarantee Agreement, Xiwang Group and its associates will abstain from voting in respect of the relevant resolution to be proposed at the EGM to approve the entering into and the terms of the New Guarantee Agreement and the Guarantee Annual Caps. As at the Latest Practicable Date, Xiwang Group and its associates together held 1,333,555,000 Shares, representing approximately 56.29% of the total issued share capital of the Company.

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.

LETTER FROM THE BOARD

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) and the Company (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, 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

Taking into account the letter from the Independent Board Committee and all factors stated above as a whole, 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,
For and on behalf of the Board
WANG Di
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



XIWANG SPECIAL STEEL COMPANY LIMITED

西王特鋼有限公司

(incorporated in Hong Kong with limited liability)

(Stock code: 1266)

26 February 2021

To the Independent Shareholders

Dear Sir or Madam,

**MAJOR TRANSACTION AND
CONTINUING CONNECTED TRANSACTION
NEW GUARANTEE AGREEMENT**

We refer to the circular issued by the Company to the Shareholders of the company dated 26 February 2021 (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 New Guarantee Agreement and the Guarantee 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 the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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 though the entering into of the New Guarantee Agreement is not in the ordinary and usual course of business of the Company, the terms and conditions of the New Guarantee Agreement and the Guarantee 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 New Guarantee Agreement and the Guarantee 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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 terms of the New Guarantee Agreement and the transactions contemplated thereunder (including the Guarantee Annual Caps).



26 February 2021

To the Independent Board Committee and the Independent Shareholders

Dear Sirs or Madams,

MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTION NEW GUARANTEE 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 terms of the New Guarantee Agreement and the transactions contemplated thereunder (including the Guarantee 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 26 February 2021 (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.

References are made to (i) the Announcement in relation to, among other things, New Guarantee Agreement and the Guarantee Annual Caps; and (ii) 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 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 which the Company continues to 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 to be obtained.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, Xiwang Group indirectly through Xiwang Investment owned a total of 1,333,555,000 Shares, representing approximately 56.29% of the total issued share capital of the Company. Accordingly, Xiwang Group is the ultimate holding company and a controlling Shareholder of the Company. Therefore, Xiwang Group is a connected person of the Company under Chapter 14A of the Listing Rules and the transaction contemplated under the New Guarantee Agreement constitute continuing connected transaction of the Company.

As the highest ratio of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the guarantee services under the New Guarantee Agreement exceeds 25%, that constitutes a major transaction and non-exempt continuing connected transaction of the Company, which are subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14 and 14A of the Listing Rules.

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 whether the terms of the New Guarantee Agreement were entered into on normal commercial terms, whether the terms of the New Guarantee Agreement and the transactions contemplated thereunder (including the Guarantee Annual Caps) are fair and reasonable so far as the Independent Shareholder are concerned and whether such terms 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 resolution to be proposed at the EGM to approve the New Guarantee Agreement and the transactions contemplated thereunder (including the Guarantee 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 appointment as the independent financial adviser to the independent board committee and the independent shareholders of the Company in respect of the electricity purchase agency agreement and the transactions contemplated of which the letter of advice was published on 23 October 2020 together with the circular, there was no other engagement between the Company 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 New Guarantee Agreement and the transactions contemplated thereunder (including the Guarantee Annual Caps).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 Company and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Company (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, Xiwang Group or any of their respective subsidiaries or associates.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation, we have taken into consideration the following principal factors and reasons.

1. Background of and reasons for and benefits of entering into the New Guarantee Agreement

a) Background of the Company

The Company is a leading high-end special steel manufacturer located in Shandong Province of the PRC. The Company's 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. The following table sets out a summary of the recent financial performance of the Company 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**"), respectively.

	Year ended 31 December		Six months ended 30 June	
	2018	2019	2019	2020
	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>
	(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)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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; (ii) the decrease in the average selling prices of ordinary and special steel products of the Group in 2019 as compared to 2018; and (iii) 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

	As at 31 December 2019	As at 30 June 2020
	<i>RMB' million</i> (audited)	<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 Xiwang Group

Xiwang 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 Latest Practicable Date, Xiwang 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

c) Reasons for and benefits of entering into the New Guarantee Agreement

As stated in the Letter from the Board, the guarantee services involve the provision of guarantee services by the Company to Xiwang Group and the Relevant Subsidiaries under the New Guarantee Agreement. We have reviewed the 2020 Interim Report and noted that the Company has been providing guarantee services to Xiwang Group and the Relevant Subsidiaries since 4 January 2016.

We have discussed with the Management and noted that Xiwang Group and the Relevant Subsidiaries have been providing financial support to the Company. We have obtained and reviewed the breakdown of such financial support provided by Xiwang Group and the Relevant Subsidiaries to the Company, as at 31 December 2020:

- the Company had interest-bearing borrowings from Xiwang Finance Company of approximately RMB82.8 million;
- the Company had an amount due to the Relevant Subsidiaries included in trade payables of approximately RMB9.3 million, which are non-interest bearing and repayable on demand;
- the Company had an amount due to the Relevant Subsidiaries included in other payables of approximately RMB24.1 million, which are non-interest bearing and repayable on demand;
- Xiwang Group, together with Mr. Wang Yong, who was the non-executive Director and resigned on 5 July 2019, and Mr. Wang Di, who is the non-executive Director, jointly and severally guaranteed certain bills payable of the Company of approximately RMB77.9 million; and
- Xiwang Group and the Relevant Subsidiaries, together with Mr. Wang Yong, who was the non-executive Director and resigned on 5 July 2019, Ms. Zhang Shufang (spouse of Mr. Wang Yong), Mr. Wang Di, who is the non-executive Director, and Ms. Su Xin (spouse of Mr. Wang Di), jointly and severally guaranteed certain interest-bearing borrowings of the Company of approximately RMB4,089 million.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We noted that the Company has also been providing financial support to Xiwang Group and the Relevant Subsidiaries. We have obtained and reviewed the breakdown of such financial support provided by the Company to Xiwang Group and the Relevant Subsidiaries, as at 31 December 2020:

- the Company had certain deposits placed with Xiwang Finance Company of approximately RMB370.8 million;
- the Company had an amount due from the Relevant Subsidiaries included in trade receivables of approximately RMB11.2 million, which are repayable on credit terms similar to those offered to the major customers of the Company;
- the Company had an amount due from the Relevant Subsidiaries included in prepayments, deposits and other receivables of approximately RMB74.2 million; and
- the banking facilities guaranteed by the Company to Xiwang Group and the Relevant Subsidiaries were approximately RMB1,400.0 million and RMB2,874.5 million, respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The table below sets out the reconciliation of the Outstanding Amount and Guarantee Amount. Any discrepancies in the table or elsewhere in this letter between totals and sums of amounts listed herein may be due to rounding.

As at 31 December 2020

RMB million

**Financial support provided by Xiwang Group
and the Relevant Subsidiaries to the Company**

the Company had interest-bearing borrowings from Xiwang Finance Company	82.8
the Company had an amount due to the Relevant Subsidiaries included in trade payables	9.3
the Company had an amount due to the Relevant Subsidiaries included in other payables	24.1
Xiwang Group, together with Mr. Wang Yong, who was the non-executive Director and resigned on 5 July 2019, and Mr. Wang Di, who is the non-executive Director, jointly and severally guaranteed certain bills payable of the Company	77.9
Xiwang Group and the Relevant Subsidiaries, together with Mr. Wang Yong, who was the non-executive Director and resigned on 5 July 2019, Ms. Zhang Shufang (spouse of Mr. Wang Yong), Mr. Wang Di, who is the non-executive Director, and Ms. Su Xin (spouse of Mr. Wang Di), jointly and severally guaranteed certain interest-bearing borrowings of the Company	<u>4,089.0</u>
	<u>4,283.1</u>

minus the following items:

the Company had certain deposits placed with Xiwang Finance Company	(370.8)
the Company had an amount due from the Relevant Subsidiaries included in trade receivables	(11.2)
the Company had an amount due from the Relevant Subsidiaries included in prepayments, deposits and other receivables	<u>(74.2)</u>
Outstanding Amount	<u>3,826.9</u>

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at 31 December 2020

RMB'000

Financial support provided by the Company to Xiwang Group and the Relevant Subsidiaries

the Company had certain deposits placed with Xiwang Finance Company	370.8
the Company had an amount due from the Relevant Subsidiaries included in trade receivables	11.2
the Company had an amount due from the Relevant Subsidiaries included in prepayments, deposits and other receivables	74.2
the banking facilities guaranteed by the Company to Xiwang Group and the Relevant Subsidiaries	<u>4,274.5</u>
	<u><u>4,730.7</u></u>

minus the following items:

the Company had certain deposits placed with Xiwang Finance Company	(370.8)
the Company had an amount due from the Relevant Subsidiaries included in trade receivables	(11.2)
the Company had an amount due from the Relevant Subsidiaries included in prepayments, deposits and other receivables	<u>(74.2)</u>
Guarantee Amount	<u><u>4,274.5</u></u>

In respect of the financial position of Xiwang Group, we have reviewed the management accounts of Xiwang Group for the nine months ended 30 September 2020 (the “**Xiwang Group Management Accounts**”) provided by the Management and noted that:

- Xiwang Group had net assets attributable to shareholders of approximately RMB10,312.6 million as at 30 September 2020;
- Xiwang Group had consolidated cash and cash equivalents of approximately RMB1,658.5 million as at 30 September 2020; and
- Xiwang Group had generated consolidated net profit attributable to its shareholders of approximately RMB318.1 million and consolidated net operating cash inflow of approximately RMB1,912.2 million for the nine months ended 30 September 2020.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Notwithstanding that (i) the Company recorded a net current liability of approximately RMB3.5 billion as at 30 June 2020; and (ii) Xiwang Group has been facing a liquidity issue as mentioned in the Company's announcements dated 21 February 2020, 31 March 2020 and 16 April 2020 (the "**Settlement Announcements**"), we have reviewed the announcement of the Company dated 8 January 2021 and noted that the Company has taken the following measures in order to improve the Group's short-term liquidity, including but not limited to, (a) obtained a new and secured credit line of approximately RMB680 million from a bank; (b) renewed all credit lines from PRC banks and financial institutions; and (c) implemented rigorous cost control measures over its production. We have also reviewed Xiwang Group's announcement dated 16 April 2020 setting out the settlement plan, which had been approved by the Zouping Municipal People's Court of Shandong Province (the "**Court**"), and noted that (i) Xiwang Group would settle the debt below RMB200,000 within six months from the date of civil ruling issued by the Court; and (ii) Xiwang Group will settle the debt exceeding RMB200,000 by way of cash and equity within six or 10 years. As advised by the Management, the debt below RMB200,000 had been settled by Xiwang Group in December 2020. Based on our review of the settlement plan, Settlement Announcements as well as the Xiwang Group Management Accounts and discussion with the Management, we noted that the liquidity issue of Xiwang Group appeared to be alleviated as evidenced by the improvement in current liabilities of Xiwang Group from approximately RMB32.3 billion as at 31 December 2019 to approximately RMB20.9 billion as at 30 September 2020. In addition, the financial guarantee is contingent liability in nature, which is required by the banks and financial institutions to provide additional comfort, and do not imply any immediate cash outflow from the Group. In light of the above and taking into account the aforementioned financial position of Xiwang Group which the Management is of the view that the likelihood of default by Xiang Group is minimal, we concur with the Management's view that the entering into the New Guarantee Agreement will not impose liquidity pressure on the Company's financial positions and is still in the interests of the Company and the Shareholders as a whole.

From the discussion with the Management, we understand that the lenders of Xiwang Group might specifically request guarantee services from the Company, which is a listed subsidiary of Xiwang Group, to Xiwang Group as a pre-requisite requested by the lenders in order to grant the loan facilities to Xiwang Group, which can then have financial resources to provide additional financial support to the Company. We also understand that similar guarantee and indemnity have been provided by the Relevant Subsidiaries to Xiwang Group and thus we concur with the view of the Management that (i) such terms are normal commercial terms; and (ii) the provision of guarantee services by the Company under the New Guarantee Agreement allows the Company to better maintain the mutual support relationship between Xiwang Group and the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Despite the provision of the guarantee services is not in the ordinary and usual course of business of the Company, taking into account the above and in particular (i) the financial position and the financial performance of Xiwang Group; (ii) the financial support provided by Xiwang Group and the Relevant Subsidiaries to the Company; (iii) the maintenance of the mutual support relationship between Xiwang Group and the Company given the Company has been providing guarantee services to Xiwang Group and the Relevant Subsidiaries since 4 January 2016; (iv) it is a common commercial practice in the PRC for lenders to require guarantees as collateral for granting loans to borrowers. For privately held companies, Chinese banks usually require guarantees, especially the Company is a listed subsidiary of Xiwang Group which is more credible, before granting loans; and (v) the terms of the guarantee services under the New Guarantee Agreement are fair and reasonable as discussed below, we are of the view that the provision of the guarantee services under the New Guarantee Agreement is in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the New Guarantee Agreement

The New Guarantee Agreement was entered into on 19 January 2021 between the Company (and its subsidiaries) and Xiwang Group (and the Relevant Subsidiaries), pursuant to which the Company continues to 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 to be obtained.

As disclosed in the Letter from the Board:

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 agreement 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 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.

Having considered that, in the event that the Guarantee Amount exceeds the Outstanding Amount, the Group has the authority to implement the rectification and compensation measures (the “**Rectification and Compensation Measures**”), including (i) reserve the right to unilaterally terminate the specific guarantee(s) for an amount no less than the amount exceeding the Outstanding Amount; and (ii) charge Xiwang Group and/or the Relevant Subsidiaries a guarantee fee of 0.5% per annum for the amount exceeding the Outstanding Amount, so as to compensate and minimise the impact of the potential risk of default by Xiwang Group and/or the Relevant Subsidiaries and to maintain the financial support from Xiwang Group and/or the Relevant Subsidiaries to the Group, we concur with the Management that the terms of the New Guarantee Agreement are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

From the discussion with the Management, we understand that the guarantee fee of 0.5% per annum (the “**Guarantee Fee**”) is determined and agreed with reference to the prevailing market rate of the commission charged by guarantee service providers, after taking into account it is a reciprocal arrangement but not a one-sided guarantee provision.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For our due diligence purpose to assess the fairness and reasonableness of the Guarantee Fee, we have conducted a research on the website of the Stock Exchange on a best effort basis, on the continuing connected transaction involving the provision of guarantee services provided by companies listed on the Stock Exchange to their respective connected persons as announced within approximately one year prior to 19 January 2021, being the date of the New Guarantee Agreement (the “**Comparable Companies**”) and to compare against the Guarantee Fee. Based on our best endeavour and as far as we are aware, we have identified an exhaustive and complete list of 10 companies (excluding the Company). On a separate note, the Shareholders should note that the businesses, operations and prospects of the Group are not the same as the Comparable Companies, therefore the Comparable Companies are only used to provide a general reference for the common market practice in similar guarantee service arrangements in the PRC entered into by those listed companies with their connected parties. Details of the respective transactions of the Comparable Companies are summarised as follows:

Date of Announcement	Stock Code	Company name	Mutual guarantee	Guarantee fee
29 December 2020	358	Jiangxi Copper Company Limited	Yes	Nil
18 December 2020	3993	China Molybdenum Co., Ltd.	Yes	Nil
11 December 2020	6839	Yunnan Water Investment Co., Limited	Yes	1.0% per annum based on the actual drawdown amount of the loan for the relevant year
16 November 2020	1513	Livzon Pharmaceutical Group Inc.	Yes	Nil
6 November 2020	902	Huaneng Power International, Inc.	No	Nil
24 August 2020	1543	Guangdong Join-Share Financing Guarantee Investment Co., Ltd.*	Yes	2% of the total amount of the loan
8 May 2020	908	Zhuhai Holdings Investment Group Limited	No	Nil
8 May 2020	95	LVGEM (China) Real Estate Investment Company Limited	Yes	1.0% per annum based on the actual drawdown amount of the loan for the relevant year and the number of days providing the guarantee services

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Date of Announcement	Stock Code	Company name	Mutual guarantee	Guarantee fee
3 April 2020	3396	Legend Holdings Corporation	No	Nil
30 March 2020	1635	Shanghai Dazhong Public Utilities (Group) Co., Ltd.*	Yes	Guarantee amount x (days of effective guarantee during the year/365) x the guarantee commission fee rates, which is expected ranging from 0.3% to 0.8%

* *The English translation of Chinese name(s) in this circular, where indicated, is included for information only, and should not be regarded as the official English name(s) of such Chinese name(s).*

As shown in the table above, we noted that the Guarantee Fee charged by the Comparable Companies ranged from nil to approximately 2% per annum and the Guarantee Fee falls within such range (the “**Range**”). Among 10 Comparable Companies, six of which have no guarantee fee being charged, including three are one-sided guarantee provision.

Having taken into account that (i) the Guarantee Fee is determined and agreed with reference to the prevailing market rate and falls with the Range; (ii) the Guarantee Fee will only be charged if the Guarantee Amount exceeds the Outstanding Amount; and (iii) the provision of guarantee services is a reciprocal arrangement, we consider the Guarantee Fee of 0.5% per annum for the provision of the guarantee services is fair and reasonable, on normal commercial terms and in the interest of the Company and the Shareholders as a whole.

In respect of the internal control measures for the guarantee services, as set out in the Letter from the Board:

- 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;
- 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 the Guarantee Amount (after deducting the market value of the Land Use Rights) shall be less than the Outstanding Amount;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- 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;
- the senior management of the Group will report to the Directors every month on the Guarantee Amount and the Outstanding Amount;
- 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;
- The Company will hire internal auditors/external internal control consultant/independent financial advisors, as and when appropriate, to monitor and report to the management on the Guarantee Amount and Outstanding Amount regularly; and
- If the Guarantee Amount exceeds the Outstanding Amount, the Directors will, on a regular basis, ensure that the guarantee fee of 0.5% on the amount in excess of the Outstanding Amount will be collected from Xiwang Group and/or the Relevant Subsidiaries.

We have reviewed the 2019 Annual Report and the 2020 Interim Report and noted that the Outstanding Amount was lower than the Guarantee Amount as at 31 December 2018 and 2019 and 30 June 2020 (the “**Shortfall**”). As disclosed in the Letter from the Board, the Group has strengthened its internal control measures in order to ensure that the transactions are conducted on normal commercial terms or better so as to safeguard the interests of the Group and the Shareholders as a whole and that the terms and relevant Guarantee Annual Cap(s) under the New Guarantee Agreement will not be breached.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Notwithstanding the Shortfall, taking into account, in particular, (i) the financial position and the financial performance of Xiwang Group; (ii) the financial support provided by Xiwang Group and the Relevant Subsidiaries to the Company; (iii) the maintenance of the mutual support relationship with Xiwang Group; (iv) the Group has the authority to implement the Rectification and Compensation Measures pursuant to the terms of the New Guarantee Agreement to limit the liability exposure of the Group; (v) Xiwang Group had provided a counter-guarantee to the Group in respect of the financial guarantee provided by the Group to Xiwang Group and the Relevant Subsidiaries, which in case the Guarantee Amount is greater than the Outstanding Amount, the amount in excess of the Outstanding Amount will be covered by the collateral provided under such counter-guarantee; (vi) the Directors have performed detailed risk assessments for the situation, and considered that the risk of default by Xiwang Group and/or the Relevant Subsidiaries is manageable; and (vii) the internal control measures set out above have been in place by the Group, we are of the view that the internal control measures for the guarantee services are appropriate and effective to rectify the Shortfall and the terms of the guarantee services are fair and reasonable so far as the Independent Shareholders are concerned.

3. Guarantee Annual Caps

(a) *Historical maximum guarantee amount and historical annual caps under the 2017 Guarantee Agreement*

The table below sets out (i) the historical annual caps under the 2017 Guarantee Agreement (the “**Historical Annual Caps**”); and (ii) the historical maximum guarantee amount for the financial years ended 31 December 2018, 2019 and 2020.

	Year ended 31 December		
	2018	2019	2020
	RMB' billion	RMB' billion	RMB' billion
Historical Annual Caps	5.0	5.0	5.0
Historical maximum guarantee amount	3.9	4.6	4.2
Utilisation rate	78%	92%	84%

With reference to the utilisation rates as tabulated above, we noted that the Group has utilised the Historical Annual Caps for the years ended 31 December 2018, 2019 and 2020 with the utilisation rates reaching approximately 78%, 92% and 84%, respectively. We noted that the utilisation rate increased from approximately 78% to 92% from the year ended 31 December 2018 to the year ended 31 December 2019 and maintained at above 78% during the years ended 31 December 2018, 2019 and 2020.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(b) Basis and assessment of the Guarantee Annual Caps

The following table sets out the Guarantee Annual Caps for each of the years ending 31 December 2021, 2022 and 2023.

	Year ending 31 December		
	2021	2022	2023
	<i>RMB' billion</i>	<i>RMB' billion</i>	<i>RMB' billion</i>
Guarantee Annual Caps	5.0	5.0	5.0

As disclosed in the Letter from the Board, the above proposed Guarantee Annual Caps were determined after taking into account of the following:

- (i) the anticipated loans amount of Xiwang Group and Relevant Subsidiaries for their operational needs;
- (ii) 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
- (iii) the historical guarantee amounts and historical annual caps of the 2017 Guarantee Agreement.

Taking into account that (i) the historical maximum guarantee amount for the financial years ended 31 December 2018, 2019 and 2020 have been substantially utilised; (ii) the Outstanding Amount represents the financial support provided by Xiwang Group and the Relevant Subsidiaries to the Company from time to time; (iii) the lenders of Xiwang Group and the Relevant Subsidiaries may request specific guarantee service from the Company in order to grant the loan facilities to Xiwang Group and/or the Relevant Subsidiaries, which can then have financial resources to provide additional financial support to the Company; (iv) the Group has the authority to implement the Rectification and Compensation Measures pursuant to the terms of the New Guarantee Agreement to limit the liability exposure of the Group; and (v) the internal control measures set out above have been in place by the Group, we consider the Guarantee Annual Caps to be fair and reasonable so far as the Independent Shareholders are concerned in this regard.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having considered the principal factors and reasons as discussed above, we are of the view that whilst the entering into of the New Guarantee Agreement is not in the ordinary and usual course of the business of the Company to provide the guarantee services, the terms of the New Guarantee Agreement are fair and reasonable so far as the Company and the Independent Shareholders are concerned 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. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution to approve the New Guarantee Agreement, the transactions contemplated thereunder (including the Guarantee Annual Caps) at the EGM.

Yours faithfully,

For and on behalf of

Lego Corporate Finance Limited

Stanley Ng

Managing 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.

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 website of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (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 December 2020 for the purpose of ascertaining information contained in this statement of indebtedness prior to the printing of the circular dated 26 February 2021 (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 RMB82,768,000;
- unsecured and guaranteed bills payable from Xiwang Group Finance Company Limited of approximately RMB491,000,000;
- 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 RMB3,912,624,000;
- secured and guaranteed bonds of approximately RMB195,681,000;
- guarantees of approximately RMB4,154,960,000 for secured bank loans granted to related parties; and
- lease liabilities (comprising both current and non-current liabilities) of approximately RMB1,075,000.

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 December 2020.

3. WORKING CAPITAL SUFFICIENCY

The Directors, after due and careful enquiry, are of the opinion that, taking into consideration the financial resources and banking facilities available 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 provision of guarantee services under the New Guarantee Agreement to Xiwang Group will enhance the financing capacity of Xiwang Group which in turn will promote Xiwang Group to provide more financial supports in the form of loans to the Group to meet its capital needs and reduce its finance costs. In the future, Xiwang Group may also provide guarantee for the Group's external financing which will enhance the Group's financing capability and broaden its financing channels so as to meet the capital needs in its daily operation and long-term strategic development. 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 infrastructure 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, utilising 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, which provides 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.

Impact of COVID-19 on the Group's businesses

References are made to announcements of the Company dated 26 November 2020 and 8 January 2021. As disclosed in the announcements, the extent and duration of the COVID-19 outbreak went beyond the Company's assessment and have taken a toll on the Company's businesses. For instance, the reduction of steel demands has led to a drop in sales and slow reduction of inventory, the higher iron ore prices as well as the lower price for finished goods compared with the Board's expectation. The coke market has been in a state of tight supply as a result of the implementation of the elimination of excess production capacity, which has led to an increase in coke price and greatly pushed up our production costs. For further details, on the impact of COVID-19 on the Group's businesses, please refer to the announcements of the Company dated 26 November 2020 and 8 January 2021.

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 Xihu	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. DIRECTORS’ INTERESTS 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 New Guarantee Agreement and the agency services agreement dated 21 August 2020 (as further described under the paragraph headed “10. Material Contracts – (h)” of this appendix), 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 below 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	1,333,555,000 (L) ordinary shares	56.29%
Xiwang Holdings	Interest of a controlled corporation (Note 2)	1,333,555,000 (L) ordinary shares	56.29%
Xiwang Hong Kong	Interest of controlled corporations (Notes 2, 3)	1,333,555,000 (L) ordinary shares	56.29%
Xiwang Group	Interest of controlled corporations (Notes 2, 3)	1,333,555,000 (L) ordinary shares	56.29%
Wang Yong	Interest of controlled corporations (Notes 4, 5)	1,333,555,000 (L) ordinary shares	56.29%
ZHANG Shufang	Interest of spouse (Note 6)	1,333,555,000 (L) ordinary shares	56.29%
Haitong International Investment Solutions Limited	Person having a security interest in shares (Note 7)	1,315,337,000	55.52%
Haitong International Financial Solutions Limited	Interest of a controlled corporation (Note 8)	1,315,337,000	55.52%

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)	1,315,337,000	55.52%
Haitong International (BVI) Limited	Interest of a controlled corporation (Note 8)	1,315,337,000	55.52%
Haitong International Securities Group Limited	Interest of a controlled corporation (Note 8)	1,315,337,000	55.52%
Haitong International Holdings Limited	Interest of a controlled corporation (Note 8)	1,315,337,000	55.52%
Haitong Securities Co., Ltd.	Interest of a controlled corporation (Note 8)	1,315,337,000	55.52%

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% in 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, 34.41% by 20 individuals (including WANG Di) and the remaining 38.74% by other shareholders. Further, 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 61.26% of 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. 1,315,337,000 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 to 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 the 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, 29 July 2020, 26 November 2020 and 8 January 2021 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. DIRECTORS' 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 in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with the business of the Group).

8. EXPERT

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

Name	Qualifications
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 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;
- (b) 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;
- (c) 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 bond in an aggregate principal amount of US\$30,000,000;
- (d) 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**”);
- (e) the supplementary agreement dated 31 December 2019 entered into between Shandong Xiwang Sugar and Xiwang Metal pursuant to which the New Steam Supply Agreement was cancelled;
- (f) 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;

- (g) 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;
- (h) the agency services agreement dated 21 August 2020 entered into between the Group and Xiwang Group Company Limited Zouping Power Branch* (西王集團有限公司鄒平動力分公司) in connection with provision of agency services in relation to electricity purchase and the payment of prepaid electricity charge to Xiwang Group Company Limited Zouping Power Branch* (西王集團有限公司鄒平動力分公司) by the Group; and
- (i) the New Guarantee 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. Expert” in this appendix;

- (h) the material contracts as referred to in the section headed “Material Contracts” in this appendix; and
- (i) 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, 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.

NOTICE OF EXTRAORDINARY GENERAL MEETING

Hong Kong Exchanges and Clearing Limited and the Stock Exchange of Hong Kong Limited take no responsibility for the contents of this notice, 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 notice.



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 2:30 p.m. on Friday, 19 March 2021 (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 26 February 2021.

ORDINARY RESOLUTION

1. “**THAT:**

- (a) the New Guarantee 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 Guarantee Annual Caps be and are hereby approved, confirmed and ratified; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (c) any one Director of the Company, or any two Directors (or any one Director and the company 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 New Guarantee 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, 26 February 2021

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.

NOTICE OF EXTRAORDINARY GENERAL MEETING

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, 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 16 March 2021 to 19 March 2021 (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 2103B, 21/F, 148 Electric Road, North Point, Hong Kong for registration by not later than 4:30 p.m. on 15 March 2021.
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) and the website of the Stock Exchange (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 26 February 2021 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 Xinhua 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.