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XIWANG SPECIAL STEEL COMPANY LIMITED
西王特鋼有限公司

(incorporated in Hong Kong with limited liability)

(Stock code: 1266)

**MAJOR TRANSACTION IN RELATION TO
CAPITAL CONTRIBUTION AGREEMENT**

Financial Adviser to the Company



SOMERLEY CAPITAL LIMITED

THE CAPITAL CONTRIBUTION AGREEMENT

The Board is pleased to announce that, on 16 August 2021 (after trading hours), the PRC Subsidiary (an indirect non-wholly owned subsidiary of the Company) entered into the Capital Contribution Agreement with IMR and the Technical Personnel in relation to the capital injection into the JV Company, pursuant to which (i) the PRC Subsidiary agreed to provide a capital commitment by injecting certain machinery, equipment and facilities (including construction-in-progress) with a fair value of approximately RMB656 million (based on a preliminary value appraised by an independent valuer as at 31 May 2021) to the JV Company; and (ii) IMR and the Technical Personnel together agreed to provide a capital commitment by injecting certain intellectual properties with a fair value of RMB353 million (based on a preliminary value appraised by an independent valuer as at 31 May 2021) to the JV Company.

LISTING RULES IMPLICATIONS

As one of the applicable percentage ratios (as calculated under Rule 14.07 of the Listing Rules) in respect of the transactions contemplated under the Capital Contribution Agreement exceeds 25% but less than 100%, the entering into of the Capital Contribution Agreement constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

A circular to Shareholders containing, among other things, further information in respect of the transactions contemplated under the Capital Contribution Agreement and the notice of the EGM are expected to be despatched to the Shareholders within fifteen (15) business days (i.e. on or before 6 September 2021) after the publication of this announcement.

INTRODUCTION

References are made to the announcements of the Company dated 26 June 2020 and 31 March 2021, respectively. The Board is pleased to announce that, on 16 August 2021 (after trading hours), the PRC Subsidiary (an indirect non-wholly owned subsidiary of the Company) entered into the Capital Contribution Agreement with IMR and the Technical Personnel, the principal terms of which are set out below:

THE CAPITAL CONTRIBUTION AGREEMENT

Date: 16 August 2021

Parties: (1) the PRC Subsidiary;
(2) IMR; and
(3) the Technical Personnel.

Scope of business: Research and development, production, and sales of high-performance special steels and their parts and accessories (encouraged steel products listed in the national industrial structure adjustment guidance catalog, excluding new steel production capacity); special steels, new steel grades, new processes, and new equipment technology research and development, technical consulting services; import and export business within the scope of the record (business activities in relation to projects that are subject to approval in accordance with the law can only be carried out after being approved by relevant departments).

Registered capital and shareholding: The registered capital of the JV Company is RMB1 billion, of which RMB650 million and RMB350 million will be contributed by (i) the PRC Subsidiary; and (ii) IMR and the Technical Personnel, respectively.

The registered capital of the JV Company will be owned as to 65% by the PRC Subsidiary, and as to 35% by IMR and the Technical Personnel in aggregate (approximately 16.6% and 18.4% attributable to IMR and the Technical Personnel, respectively).

Following completion of the Capital Contribution Agreement, the JV Company will continue to be a subsidiary of the PRC Subsidiary and its operating results, assets and liabilities will continue to be consolidated in the financial statements of the Group.

Capital contribution:

The PRC Subsidiary agreed to provide a capital commitment by injecting certain machinery, equipment and facilities (including construction-in-progress) for the production of high-quality rare earth special steel and its parts and accessories with a fair value of approximately RMB656 million (based on a preliminary value appraised by an independent valuer as at 31 May 2021 using the market approach and cost approach) to the JV Company. The book value of such machinery, equipment and facilities (including construction-in-progress) was approximately RMB656 million as at 31 May 2021.

IMR and the Technical Personnel together, agreed to provide a capital commitment by injecting certain intellectual properties in respect of the technologies to industrialise the production of high-quality rare earth special steel by IMR with a fair value of RMB353 million (based on a preliminary value appraised by an independent valuer as at 31 May 2021 using the cost approach) to the JV Company. The book value of such intellectual properties was nil as at 31 May 2021.

The parties to the Capital Contribution Agreement shall settle the capital commitment by 30 May 2022.

The amount of capital contribution was determined by the parties to the Capital Contribution Agreement through arm's length negotiations after taking into consideration the expected operational and capital requirement for the JV Company. Total capital contribution to be made by the parties to the Capital Contribution Agreement in excess to the JV Company's registered capital of RMB1 billion will be classified as capital reserve of the JV Company. On this basis, the Board considers that the capital contribution to be made by the PRC Subsidiary under the Capital Contribution Agreement is fair and reasonable.

Management of the
JV Company:

The board of directors of the JV Company will consist of five directors, among whom three of them will be appointed by the PRC subsidiary and two of them will be appointed by IMR.

Effectiveness of the
Capital Contribution
Agreement:

The Capital Contribution Agreement will become effective upon obtaining approval from the Shareholders according to the requirements of the Listing Rules.

According to the JV Company's articles of association, the dividends of the JV Company will be distributed to the parties to the Capital Contribution Agreement on a pro rata basis in accordance with their respective interests in the JV Company.

INFORMATION ON THE PARTIES

The PRC Subsidiary is a non-wholly owned subsidiary of the Company incorporated in the PRC with limited liability. The principal business of the PRC Subsidiary is the production and sales of steel products in the PRC. As at the date of this announcement, the Company and CDB Fund are beneficially interested in 96.44% and 3.56% equity interests of the PRC Subsidiary, respectively.

IMR was founded in 1953 and is one of the first institutes set up by the CAS. Researches at IMR focus mainly on high performance metallic materials, new types of inorganic non-metallic materials, and advanced composite materials. Now, it has been developed as a domestic top-notch research institute in the field of materials science and engineering with international influence, and is an important base for research and development of high performance materials in the PRC.

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

As at the date of this announcement, Shenyang CAS and the Technical Personnel are interested in approximately 2.07% and 2.12% of the issued share capital of the Company, respectively. Save as disclosed above, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, IMR, its ultimate beneficial owner and the Technical Personnel are third parties independent of the Company and its connected persons (as defined in the Listing Rules).

REASONS FOR AND BENEFITS OF THE CAPITAL CONTRIBUTION AGREEMENT

The Group is a leading high-end special steel manufacturer located in Shandong Province of the PRC. The Group has a complete industrial chain, mainly producing special steel ingots, forged billets/forged parts, high-quality bearing steel, gear steel, steel for construction machinery, steel for railways and other special steels as well as high-strength corrosion-resistant building materials. The Group also engages in commodities trading business, mainly iron ore trading.

The Directors believe that the benefits for the PRC Subsidiary to enter into the Capital Contribution Agreement are as follows:

(1) *National industrial policy encouragement*

High-quality special steel is a necessary material for equipment manufacturing, engineering construction, strategic emerging industries and national defense. It is widely used in transportation, marine engineering, energy and environmental protection, petrochemicals, aerospace, weaponry and other fields. China's steel production ranks first in the world. In order to promote the development of the high-end equipment manufacturing industry, high-quality special steel is included in the key development direction of the transformation and equipment manufacturing upgrade of the steel industry, as well as the new material industry and strategic emerging industry and many other strategic plans.

(2) *Development of high-end equipment*

High-quality special steel is the basic material for high-end equipment manufacturing, and its inherent quality determines the manufacturing level of high-end equipment. Developing high-quality special steel varieties for high-end equipment, breaking through bottlenecks such as purity and homogeneity of materials from the "source point of view", and realising stable mass production of high-quality special steel for high-end equipment will help improve China's high-end equipment manufacturing level.

It has been the business strategy of the Group to consider promising business and investment opportunities from time to time in order to increase the value of the Company. The JV Company will leverage the machinery, equipment and facilities to be provided by the PRC Subsidiary and the technologies to be provided by IMR to industrialise the production of high-quality special steel. In view of the pressing needs of key construction projects and major equipment in the PRC, the JV Company shall systematically transform the complete preparation technology for high-quality special steel and develop eight basic categories of product, including high-end bearing steel, die steel, gear steel, spring steel, shaft steel, high-strength steel and welding steel, for the purpose of realising the industrialisation of high-quality special steel and providing robust support to the independent and controlled manufacture of high-end equipment and their basic components such as bearings, gears, moulds and spindles in the PRC. The Board believes that, given the respective strength, resources and expertise of IMR and the Group, the JV Company will create synergies and allow the Company to accelerate its development in its special steel business and further strengthen the Group's position in the special steel market.

In view of the above, the Board considers that the terms of the Capital Contribution Agreement are fair and reasonable, and in the interests of the Company and its Shareholders as a whole.

LISTING RULES IMPLICATIONS

As one of the applicable percentage ratios (as calculated under Rule 14.07 of the Listing Rules) in respect of the transactions contemplated under the Capital Contribution Agreement exceeds 25% but less than 100%, the entering into of the Capital Contribution Agreement constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

A circular to Shareholders containing, among other things, further information in respect of the transactions contemplated under the Capital Contribution Agreement and the notice of the EGM are expected to be despatched to the Shareholders within fifteen (15) business days (i.e. on or before 6 September 2021) after the publication of this announcement.

DEFINITIONS

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

“Board”	the board of Directors
“Capital Contribution Agreement”	the capital contribution agreement entered into among the PRC Subsidiary, IMR and the Technical Personnel on 16 August 2021 in relation to the capital contribution to the JV Company
“CAS”	the Chinese Academy of Sciences (中國科學院)
“CDB Fund”	CDB Development Fund Company Limited* (國開發展基金有限公司)
“Company”	Xiwang Special Steel Company Limited (西王特鋼有限公司), a company incorporated with limited liability under the laws of Hong Kong, the shares of which are listed on the Main Board of the Stock Exchange
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be convened and held to approve the transactions contemplated under the Capital Contribution Agreement
“Group”	the Company together with its subsidiaries

“IMR”	The Institute of Metal Research, CAS (中國科學院金屬研究所)
“JV Company”	中科西王特鋼有限公司, a limited liability company established under the laws of the PRC on 29 June 2020
“Listing Rules”	means the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China
“PRC Subsidiary”	Xiwang Special Steel Company Limited* (西王特鋼有限公司), a company incorporated in the PRC with limited liability and an indirectly non-wholly owned subsidiary of the Company
“RMB”	Reminbi, the lawful currency of the PRC
“Share(s)”	ordinary shares in the issued share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Shenyang CAS”	Shenyang China Research and Technologies Co., Ltd.* (沈陽中科金研科技有限公司), a company incorporated in the PRC and a wholly-owned subsidiary of IMR
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Technical Personnel”	10 PRC individuals in total, namely Li Yiyi (李依依), Li Dianzhong (李殿中), Xia Lijun (夏立軍), Hu Xiaoqiang (胡小強), Fu Paixian (傅排先), Liu Hongwei (劉宏偉), Luan Yikun (欒義坤), Wang Pei (王培), Kang Xiuhong (康秀紅) and Lu Shanping (陸善平)
“%”	per cent

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

Hong Kong, 16 August 2021

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

Executive Directors

Mr. ZHANG Jian

Mr. SUN Xihu

Ms. LI Hai Xia

Independent non-executive Directors

Mr. LEUNG Shu Sun Sunny

Mr. LI Bangguang

Mr. YU Kou

Non-executive Director

Mr. WANG Di

* for identification purpose only