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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, 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 and the accompanying form of proxy to the purchaser(s) or transferee(s) 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(s) or transferee(s).

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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 THE
CAPITAL CONTRIBUTION AGREEMENT
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

Financial Adviser to the Company



SOMERLEY CAPITAL LIMITED

A letter from the Board is set out on pages 4 to 11 of this circular.

A notice convening the EGM to be held at Boardroom 3-4, Mezzanine Floor, Renaissance Hong Kong Harbour View Hotel, No. 1 Harbour Road, Wanchai, Hong Kong at 2:00 p.m. on 17 September 2021 is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for use at the EGM (or at any adjournment thereof) is also enclosed. Such form of proxy is also published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkex.com.hk) 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, Room 2103B, 21/F, 148 Electric Road, North Point, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending the EGM and voting in person if you so wish.

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

PRECAUTIONARY MEASURES FOR THE EGM

To safeguard the health and safety of Shareholders and to prevent and control the spreading of the coronavirus disease 2019 (COVID-19), the following precautionary measures will be implemented at the EGM of the Company:

1. Compulsory temperature screening/checks;
2. Submission of Health and Travel Declaration Form;
3. Wearing of surgical face mask;
4. No provision of refreshments or drinks; and
5. No provision of corporate gifts.

Attendees who do not comply with the precautionary measures referred to in (1) to (5) above may be denied entry to the EGM venue, at the absolute discretion of the Company as permitted by law. For the health and safety of Shareholders, the Company would like to encourage Shareholders to exercise their right to vote at the EGM by appointing the chairman of the EGM as their proxy and to return their proxy forms by the time specified above, instead of attending the EGM in person.

25 August 2021

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DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“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
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“DeveChina”	DeveChina International Appraisals Co., Ltd., an independent valuer
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be convened and held at Boardroom 3-4, Mezzanine Floor, Renaissance Hong Kong Harbour View Hotel, No. 1 Harbour Road, Wanchai, Hong Kong at 2:00 p.m. on 17 September 2021 to approve the transactions contemplated under the Capital Contribution Agreement

DEFINITIONS

“Group”	the Company and its subsidiaries
“IMR”	The Institute of Metal Research, CAS (中國科學院金屬研究所)
“JV Company”	Zhongke Xiwang Special Steel Company Limited* (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
“Latest Practicable Date”	20 August 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
“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”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“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
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“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 (樂義坤), Wang Pei (王培), Kang Xiuhong (康秀紅) and Lu Shanping (陸善平)

DEFINITIONS

“Vincorn” Vincorn Consulting and Appraisal Limited, an independent valuer

“%” per cent

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

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

Mr. SUN Xihu

Ms. LI Hai Xia

Registered office:

Unit 2110, 21/F Harbour Centre

25 Harbour Road

Wanchai, Hong Kong

Non-executive Director:

Mr. WANG Di

*Head office and principal place
of business in the PRC:*

Xi Wang Industrial Area

Zouping

Shandong Province

China

256209

Independent Non-executive Directors:

Mr. LEUNG Shu Sun Sunny

Mr. LI Bangguang

Mr. YU Kou

25 August 2021

To the Shareholders

Dear Sir or Madam,

**MAJOR TRANSACTION IN RELATION TO THE
CAPITAL CONTRIBUTION AGREEMENT
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

1. INTRODUCTION

Reference is made to the announcement of the Company dated 16 August 2021 in relation to the Capital Contribution Agreement.

LETTER FROM THE BOARD

On 16 August 2021 (after trading hours), the Board announced that the PRC Subsidiary entered into the Capital Contribution Agreement with IMR and the Technical Personnel, 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 the value appraised by Vincorn 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 the value appraised by DeveChina as at 31 May 2021) to the JV Company.

The purpose of this circular is to provide you with, among others, (i) further details of the Capital Contribution Agreement and the transactions contemplated thereunder; (ii) the valuation reports; (iii) other information as required under the Listing Rules; and (iv) to give you notice of EGM at which resolution will be proposed for the Shareholders to consider and, if though fit, approve, among other matters, the transactions contemplated under the Capital Contribution Agreement.

2. THE CAPITAL CONTRIBUTION AGREEMENT

Date	:	16 August 2021 (after trading hours)
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.

LETTER FROM THE BOARD

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 value appraised as at 31 May 2021 by Vincorn 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 value appraised by DeveChina 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.

Further details regarding the valuations set out above are contained in Appendix II and III to this circular.

The parties to the Capital Contribution Agreement shall settle the capital commitment (i.e transfer of the machinery, equipment and facilities and intellectual properties, under the Capital Contribution Agreement) by 30 May 2022.

LETTER FROM THE BOARD

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 of the registered capital of RMB1 billion will be classified as the 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 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.

As at the Latest Practicable Date, the JV Company was not yet in operation. Upon completion of the capital contribution by the parties to the Capital Contribution Agreement which is expected to be in October 2021, the JV Company will commence operation.

3. INFORMATION ON THE PARTIES TO THE CAPITAL CONTRIBUTION AGREEMENT

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 sale of steel products in the PRC. As at the Latest Practicable Date, the machinery, equipment and facilities (including construction-in-progress) to be injected into the JV Company were in the PRC Subsidiary's possession. As at the Latest Practicable Date, the Company and CDB Fund were beneficially interested in 96.44% and 3.56% equity interests of the PRC Subsidiary, respectively.

LETTER FROM THE BOARD

IMR was founded in 1953 and is one of the first institutes set up by the Chinese Academy of Sciences (中國科學院). Researches at IMR focus mainly on high performance metallic materials, new types of inorganic non-metallic materials, and advanced composite materials. Now, it has developed itself 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.

According to the official website of the CAS (<http://english.cas.cn/>), the CAS was established in 1949 with its headquarter located in Beijing, the capital city of the PRC. The CAS comprises 104 research institutes, twelve branch academies, three universities and eleven supporting organisations in 23 provincial-level areas throughout the PRC. These institutions are home to more than 100 national key labs and engineering centres as well as nearly 200 key labs of the CAS and engineering centres. Altogether, it comprises 1,000 sites and stations across the PRC with approximately 67,900 staffs and 56,000 of them are professional researchers. The aim of the CAS is to explore and harness high technology and the natural sciences for the benefit of China and the world.

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 Latest Practicable Date, Shenyang CAS and the Technical Personnel were 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).

4. 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 engaged in commodities trading business, mainly iron ore trading.

LETTER FROM THE BOARD

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 businesses 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 rare earth 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 rare earth 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 rare earth 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 the entering into of the Capital Contribution Agreement is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

5. FINANCIAL EFFECTS ON THE GROUP

As at the Latest Practicable Date, the JV Company is an indirect non-wholly owned subsidiary of the Group. Upon completion of the capital contribution contemplated under the Capital Contribution Agreement, the JV Company will continue to be accounted for as a subsidiary of the Group and its operating results, assets and liabilities will continue to be consolidated in the financial statements of the Group. It is expected that the JV Company will enhance the revenue stream and broaden the earnings base of the Group going forward. The expected increment in the total assets of the Group of approximately RMB353 million is attributable to the value of the intellectual properties to be injected into the JV Company by IMR of approximately RMB353 million which will be consolidated into the financial statements of the Company upon completion of the capital contribution contemplated under the Capital Contribution Agreement.

6. LISTING RULE 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.

At the Latest Practicable Date, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, none of the Shareholders have any material interest in the Capital Contribution Agreement, and therefore no Shareholder is required to abstain from voting at the EGM for the approval of the transactions contemplated under the Capital Contribution Agreement.

7. 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 of association of the Company, 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.

8. RECOMMENDATION

The Directors are of the opinion that the terms of the Capital Contribution Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board would recommend the Shareholders to vote in favour of the resolution to be proposed to approve the Capital Contribution Agreement and the transactions contemplated thereunder at the EGM.

9. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information as set out in the appendices to this circular

Yours faithfully,
For and on behalf of Board
WANG Di
Chairman

1. SUMMARY OF FINANCIAL INFORMATION

Financial information of the Group for each of the three financial years ended 31 December 2018, 2019 and 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 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
- annual report of the Company for the year ended 31 December 2020 published on 28 April 2021 (pages 63 to 153).

2. STATEMENT OF INDEBTEDNESS

At the close of business on 30 June 2021 for the purpose of ascertaining information contained in this statement of indebtedness prior to the printing of the circular dated 25 August 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 RMB34,239,000;
- unsecured and guaranteed bills payable from Xiwang Group Finance Company Limited of approximately RMB398,000,000;
- secured and guaranteed interest-bearing bank loans and other borrowings of approximately RMB3,421,566,000;
- secured and guaranteed bonds of approximately RMB193,459,000;
- guarantees of approximately RMB4,197,230,000 for secured bank loans granted to related parties; and
- lease liabilities (comprising both current and non-current liabilities) of approximately RMB1,189,000.

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 30 June 2021.

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.

The Company has obtained the working capital sufficiency confirmation letter from the auditors as required under Rule 14.66(12) of the Listing Rules.

4. 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.

The following is the text of a valuation report prepared for the purpose of incorporation in this circular received from Vincorn Consulting and Appraisal Limited, an independent valuer.

Vincorn Consulting and Appraisal Limited
Units 1602-4, 16/F, FWD Financial Centre
No 308 Des Voeux Road Central
Hong Kong



25 August 2021

The Board of Directors

Xiwang Special Steel Company Limited (Stock Code: 1266)

Unit 2110, 21/F,

Harbour Centre,

25 Harbour Road, Wanchai

Hong Kong

Dear Sirs,

Valuation of Machinery, Equipment and Construction in Progress held by Xiwang Special Steel Company Limited

INSTRUCTIONS

In accordance with the instructions from Xiwang Special Steel Company Limited (the “Company”), we have undertaken a valuation assignment to express an independent opinion on the market value of machinery, equipment and construction in progress (the “Machinery, Equipment and CIP”, or the “Subject Assets”) held by Xiwang Special Steel Company Limited (the “PRC Company”) as at 31 May 2021 (the “Valuation Date”). Our valuation work was performed subject to the assumptions and limiting conditions described in this report.

Subsequent to the above instructions, we commenced with our valuation by gathering relevant information about the Subject Assets, held discussions with personnel of the management from the Company and the PRC Company (the “Management”), gathered relevant documents, and made necessary research and enquiries to complete our valuation. Due to the prevailing Novel Coronavirus (COVID-19) outbreak, it was agreed that this valuation is to be conducted without on-site inspection and that the Management will provide us with all information and photographs which are necessary for our valuation. For due diligence, we have reviewed and crosschecked official asset registry with asset list and photographs provided by the Management. This helps validate both completeness and condition of the assets on hand for valuation purpose.

This report outlines the purpose of valuation, premise of value and sources of information; identifies the asset appraised; describes the valuation methodology, assumptions and limiting conditions; and presents our investigation, analysis, and our opinion of value.

PURPOSE OF VALUATION

The purpose of this valuation is to express an independent opinion on the market value of the Machinery, Equipment and CIP held by the Company as at the Valuation Date. It is our understanding that this valuation will be used by the directors and management of the Company for public documentation purposes in relation to the Machinery, Equipment and CIP.

We understand that our valuation report may be included in the Company's circular and disclosed to other parties including its directors, shareholders, auditors and Hong Kong Exchanges and Clearing Limited (the "HKEX"). Nonetheless, we will not be liable to any parties other than the addressee of the valuation report.

Vincorn Consulting and Appraisal Limited ("Vincorn") assumes no responsibility whatsoever to any person other than the directors and management of the Company in respect of, or arising out of, the content of this report. If others choose to rely in any way on the contents of this report they do so entirely on their own risk.

PREMISE OF VALUE

Our valuation has been prepared in accordance with the Business Valuation Standards (First Printed 2005) published by the Hong Kong Business Valuation Forum and the International Valuation Standards effective from 31 January 2020 published by the International Valuation Standards Council, where applicable.

Our valuation is based on the going concern premise and conducted on a market value basis. Market value is defined as the estimated amount for which an asset or liability should exchange on the Valuation Date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

OVERVIEW OF THE COMPANY**Xiwang Special Steel Company Limited**

Xiwang Special Steel Company Limited is a limited company and was incorporated in Hong Kong on 6 August 2007 and the issued shares of which are listed on the Main Board of the Stock Exchange (Stock code: 1266.HK) in 2012. The principal activities of Xiwang Special Steel Company Limited and its subsidiaries (collectively referred to as the "Group") are engaged in the production and sale of steel products in China.

The Group is a leading high-end special steel manufacturer located in Shandong Province of China. The Group's products consist of ordinary steel products that are used primarily for buildings and infrastructures, as well as special steel products that are used in automobile, shipbuilding, chemical and petrochemical, machinery, and equipment sectors. The Group is also engaged in commodity trading business, mainly iron ore trading.

SCOPE OF SERVICES

This engagement involves an analysis of the Machinery, Equipment and CIP as at the Valuation Date. In undertaking this valuation assignment, we have conducted the following steps to evaluate the reasonableness of the adopted bases and assumptions provided by the Management:

- Conducted meeting(s) and/or discussion with the Management;
- Obtained the relevant financial and operational information related to the Company and the Subject Assets;
- Performed market research and obtained statistical data from public sources;
- Examined all relevant bases and assumptions of both the financial and operational information related to the subject matter, which were provided by the Management;
- Conducted valuation of the subject matter using the respective standards of value that are most appropriate; and
- Documented the result of our findings in this valuation report.

SOURCES OF INFORMATION

In conducting our valuation of the Machinery, Equipment and CIP, we have considered, reviewed and relied upon the following key information provided by the Management and the public:

- The fixed asset list of the Company in respect of the Machinery, Equipment and CIP;
- Asking prices for Machinery, Equipment and CIP provided by third parties;
- Various trading platforms on the internet to obtain asking prices for assets similar to the Machinery, Equipment and CIP; and
- S&P Capital IQ database and other reliable sources.

We have held discussion with the Management and conducted research from public sources to assess the reasonableness and fairness of the information provided. We have no reason to doubt the truth and accuracy of the information provided to us by the Management, and we have relied to a considerable extent on the information provided in arriving at our opinion of value.

Inspection For Valuation

Due to the prevailing Novel Coronavirus (COVID-19) outbreak, we did not conduct inspection of the Subject Assets. For our valuation, we reviewed various documents and information provided to us for the purpose of this valuation.

The assets under review comprise mainly of machinery, equipment and construction in progress such as wire cutting machine, bridge crane, brand sawing machine and utilities equipment used in the production and sale of steel products.

VALUATION METHODOLOGIES

There are three generally accepted approaches to assess the market value of the Machinery, Equipment and CIP, namely the market approach, the income approach, and the cost approach. Each of these approaches is appropriate in one or more circumstances.

Market Approach

The market approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised machinery, equipment and construction in progress relative to the market comparative. Assets that there is an established used market may be appraised by this approach.

Income Approach

Income Approach values an asset by reference to the capitalized value of income, cash flows or cost savings that could hypothetically be earned or achieved by a market participant owning the asset.

The principle of this approach is that the value of the asset can be measured by the present worth of the economic benefits to be received over the asset's life. This approach estimates the future economic benefits and discounts these benefits to its present value using an appropriate discount rate for all risks associated with realizing those benefits.

Cost Approach

The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence present (physical, functional or economical), taking into consideration past and present maintenance policy and rebuilding history. The cost approach generally furnishes the most reliable indication of value for assets without a known used market.

Selection of Valuation Methodology

In accordance to valuation procedures, all valuation approaches must be considered, as one or more approaches may be applicable to the subject asset. In certain situations, elements of the market and cost approaches may be combined to reach a value conclusion. However, the relative strength, applicability, and significance of the approaches and their resulting values must be analysed and reconciled.

In estimating the value of the Machinery, Equipment and CIP, the market approach is primarily utilized where an active market exists for these assets. Verified market comparable is the best proof of transacted value as it reflects the dynamics of secondary market. Factors such as the availability and desirability of types of the Machinery, Equipment and CIP are vital consideration, as supply and demand are an influencing factor on the transactions. The valuation of the major component of the Machinery and Equipment such as hydraulic press, heating furnace, table saw, steel-tapping casting car, etc. are based on market approach as the prices of similar assets are available.

For the other Machinery, Equipment and CIP without an active market such as lathe, mould, crane, etc., we relied on the cost approach, where an estimate is made on the cost of reproduction new or replacement cost, less allowance for depreciation or loss of value arising from condition, utility, age, wear and tear, and obsolescence, taking into consideration past and present maintenance policy, rebuilding history (if any), and current utilization.

VALUATION ASSUMPTIONS AND RATIONALE**General assumptions**

In determining the market value of the Machinery, Equipment and CIP, several general valuation assumptions will be established. The general assumptions adopted in this valuation have included:

- All material information that would affect the value of the Subject Assets has been properly disclosed;
- This valuation is concerned solely with the value of the Subject Assets and our opinion of value is not related to or dependent upon the earning capacity of the business. We did not attempt to arrive at the value of the Subject Asset as a total business entity.
- No investigation has been made of, and no responsibility is assumed for, the legal description or for legal matters, including title or encumbrances. Titles to the Subject Assets are assumed to be good and marketable unless otherwise stated. The Subject Assets are further assumed to be free and clear of any or all liens, easements or encumbrances, unless otherwise stated.
- The Company will retain competent management, key personnel, and technical staff to support the ongoing operation of its business; and
- There are no hidden or unexpected conditions associated with the Company that might adversely affect the reported value.

VALUATION OF THE MACHINERY, EQUIPMENT AND CIP

Review of the mechanical and internal conditions of the Machinery, Equipment and CIP with company personnel has revealed that there are no items reported to us as having any mechanical problems.

We also found that the Machinery, Equipment and CIP are adequately maintained under a preventive maintenance policy so as to ensure normal operation of Machinery, Equipment and CIP. Review of standard operating and maintenance procedures has shown that the maintenance staff has the documentation, general information, and procedures in place for the maintenance of each major unit.

APPENDIX II**VALUATION REPORT IN RELATION TO
MACHINERY, EQUIPMENT AND FACILITIES**

In valuing the Machinery, Equipment and CIP, we have relied on the advice given by the Group that the Group has valid and enforceable title to the Machinery, Equipment and CIP and the records of the Machinery, Equipment and CIP including the costs and acquisition Date. Summary of the assessment for the Machinery, Equipment and CIP's market value as of 31 May 2021 is as follow:

31 May 2021 (In RMB)	Acquisition Cost	Net Book Value	Market Value
Machinery and Equipment	<u>245,387,423</u>	<u>186,987,297</u>	<u>186,879,831</u>
Total	245,387,423	186,987,297	186,879,831
Market Value of Machinery and Equipment		RMB	186,879,831

Note: According to the information provided by the Company, Machinery and Equipment were acquired by the Company in the period from 2016 to 2020. Pursuant to the depreciation of machinery and equipment, net book value is less than the acquisition cost as at the Valuation Date. According to the depreciation policy of the Company, the useful life of Machinery and Equipment ranges from 5 to 20 years and the depreciation rate of Machinery and Equipment ranges from 5% to 19%.

31 May 2021 (In RMB)	Net Book Value	Market Value
Construction in Progress	<u>468,823,614</u>	<u>468,709,094</u>
Total	468,823,614	468,709,094
Market Value of Construction in Progress		468,709,094
Total Market Value of Machinery, Equipment and Construction in Progress	RMB	655,588,925

CURRENCY

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

LIMITING CONDITIONS

Our valuation is confidential to you, for your sole use and for the specific purpose stated. We will not accept responsibility to any third party in respect of its contents.

To the best of our knowledge, all data set forth in this report are reasonable and accurately determined. The data, opinions, or estimates identified as being furnished by others that have been used in formulating this analysis are gathered from reliable sources; yet, no guarantee is made nor liability assumed for their accuracy.

We have relied to a considerable extent on information provided by the Management in arriving at our opinion of value. We are not in the position to verify the accuracy of all information provided to us. However, we have had no reason to doubt the truth and accuracy of the information provided to us and to doubt that any material facts have been omitted from the information provided. No responsibilities for the operation and financial information that have not been provided to us are accepted.

Our opinion of the market value of the subject in this report is valid only for the stated purpose and only for the effective date of the appraisal. The valuation reflects facts and conditions existing at the date of valuation and subsequent events have not been considered. No responsibility is taken for any changes in the market conditions and no obligation is assumed to revise this report to reflect events or change of government policy or conditions which may occur subsequent to the date hereof.

No opinion is intended to be expressed for matters which require legal or other specialized expertise or knowledge, beyond that customarily employed by appraisers. Our conclusions assume continuation of prudent management of the Subject Assets over a reasonable and necessary period of time to maintain the character and integrity of the assets valued.

CONCLUSION OF VALUE

In our opinion, on the basis of the information made available to us, the market value of Machinery, Equipment and CIP held by Xiwang Special Steel Company Limited as of 31 May 2021 is reasonably estimated at:

RMB655,588,925

**(RENMINBI SIX HUNDRED FIFTY FIVE MILLION FIVE HUNDRED
EIGHTY EIGHT THOUSAND NINE HUNDRED AND TWENTY FIVE)**

This conclusion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. While we have exercised our professional judgment in arriving at the appraisal, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of Vincorn. You are advised to consider with caution the nature of such assumptions which are disclosed in this report and to exercise caution when interpreting this report.

We hereby certify that we have neither present nor prospective interests in the Company or the value reported.

Yours faithfully,

for and on behalf of

Vincorn Consulting and Appraisal Limited

Freddie Chan

BBA-FIN (Hons)

CFA ACCA FRM MRICS

RICS Registered Valuer

Executive Director

Vincent Cheung

BSc(Hons) MBA FRICS MHKIS RPS(GP)

MCIREA MHKSI MISCM MHIREA

RICS Registered Valuer

Registered Real Estate Appraiser and

Agent PRC

Managing Director

Notes:

Mr. Vincent K.C. Cheung is a fellow of the Royal Institution of Chartered Surveyors, a member of the Hong Kong Institute of Surveyors, a Registered Professional Surveyor (General Practice) under the Surveyors Registration Ordinance (Cap. 417) in Hong Kong, a member of China Institute of Real Estate Appraisers and Agents, a member of Hong Kong Securities and Investment Institute, a member of Institute of Shopping Centre Management, a member of Hong Kong Institute of Real Estate Administrators, a Registered Valuer of the Royal Institution of Chartered Surveyors and a Registered Real Estate Appraiser and Agent People's Republic of China. He is suitably qualified to carry out the valuation and has over 23 years of experience in the valuation of properties of this magnitude and nature in the subject region. *Mr. Cheung is one of the valuers on the "list of property valuers for undertaking valuation for incorporation or reference in listing particulars and circulars and valuations in connection with takeovers and mergers" as well as a Registered Business Valuer of the Hong Kong Business Valuation Forum.*

Mr. Freddie W.T. Chan is a CFA® charterholder, an Association of Chartered Certified Accountants (ACCA®) charterholder and a FRM® charterholder who expertizes in corporate and intangible valuation sector. He has over 10 years of professional experiences in banking, finance, corporate advisory and valuation experiences. His experience on valuations covers Hong Kong, Mainland China, Australia, United States, Europe and other overseas countries. Mr. Chan is a member of the Hong Kong Society of Financial Analysts as well.

The following is the valuation report received from DeveChina International Appraisals Co., Ltd. for the purpose of incorporation in this circular, which is prepared in Chinese. Should there be any inconsistency between the Chinese and the English version, the Chinese version shall prevail.

DISCLAIMER

1. This Asset Valuation Report is prepared in accordance with the Basic Standards for Asset Valuation* (資產評估準則) issued by the Ministry of Finance of the People Republic of China (中國財政部) and the Standards for Asset Valuation Practice* (資產評估執業準則) and the Code of Ethics* (職業道德準則) issued by the China Appraisal Society* (中國資產評估協會).
2. The Client or other users of the Asset Valuation Report shall use this Asset Valuation Report in accordance with the provisions of laws and administrative regulations within the scope of use set forth herein. We and our valuers shall not be liable if the Client or such other users use this Asset Valuation Report in violation of the aforementioned provisions.

This Asset Valuation Report shall be used solely by the Client and such other users as agreed in the engagement agreement for asset valuation and specified in laws and administrative regulations and shall not be used by any other firm and individuals.

We and our valuers remind users of the Asset Valuation Report that they should correctly understand and use the valuation conclusion which is not equivalent to the realizable price of the subject and should not be regarded as a guarantee of the realizable price of the subject.

3. The analysis, judgment and results in the Asset Valuation Report issued by us are subject to the assumptions and restrictions in the Asset Valuation Report, and users of the Asset Valuation Report should pay attention to the assumptions and premises for the establishment of the valuation conclusion, special matters and restrictions on use of the Asset Valuation Report.
4. We and our valuers abide by the laws, administrative regulations and asset valuation standards, act on the principles of independence, objectivity and impartiality, and are liable for the Asset Valuation Report in accordance with the law.
5. The list of assets relating to the subject are submitted by the Client and the subject entity and confirmed by them through signature, seal or other means permitted by law; the Client and other relevant parties are liable for the authenticity, completeness and legality of the information provided by them in accordance with the law.

6. We and our valuers have no existing or anticipated interests in the subject, have no existing or anticipated interests in relevant parties and have no bias towards relevant parties.
7. Our valuers have paid due attention to the legal title in the subject and related assets in the Asset Valuation Report, checked the information on the legal title in the subject and related assets and made truthful disclosure of issues identified, and have reminded the Client and other relevant parties to perfect the title to meet the requirements for issuing the Asset Valuation Report.

**SUMMARY OF ASSET VALUATION REPORT
ON
MARKET VALUE OF OWNERSHIP OF 15 PATENTS INVOLVED IN THE
CAPITAL CONTRIBUTION IN THE FORM OF PATENTS FROM THE
INSTITUTE OF METAL RESEARCH, CHINESE ACADEMY OF
SCIENCES TO PARTICIPATE IN THE ESTABLISHMENT OF ZHONGKE
XIWANG SPECIAL STEEL COMPANY LIMITED
FOR
THE UNDERSTANDING OF
XIWANG SPECIAL STEEL COMPANY LIMITED**

DeveChina Valuation Report [2021] No. 152

IMPORTANT NOTE

The following is extracted from the text of the Asset Valuation Report which should be read in order to understand the details of this valuation assignment and to properly understand the valuation conclusion.

Retained by Xiwang Special Steel Company Limited, DeveChina International Appraisal Co., Ltd. has appraised the market value of the ownership over the 15 patents involved in the capital contribution in the form of intangible assets (patents) from the Institute of Metal Research, Chinese Academy of Sciences to participate in the establishment of Zhongke Xiwang Special Steel Company Limited for the understanding of Xiwang Special Steel Company Limited, by applying statutory or fair methodologies and procedures for asset valuation and other procedures we deemed necessary in accordance with relevant laws, administrative regulations and asset valuation standards, on the principles of independence, objectivity and impartiality. The Asset Valuation Report is summarized as follows.

Purpose: According to the Resolution of the Shareholders' Meeting of Xiwang Special Steel Company Limited, Xiwang Special Steel Company Limited and the Institute of Metal Research, Chinese Academy of Sciences, jointly fund the establishment of Zhongke Xiwang Special Steel Company Limited. The Institute of Metal Research, Chinese Academy of Sciences, proposes to make capital contribution in the form of intangible assets (patents). To this end, it is necessary to appraise the market value of the ownership of 15 patents involved as at the base date to provide reference for this economic behavior.

Base date: 31 May 2021.

Subject and scope: Ownership of 15 patents involved in the proposed capital contribution in the form of intangible assets (patents) from the Institute of Metal Research, Chinese Academy of Sciences, to participate in the establishment of Zhongke Xiwang Special Steel Company Limited. The subject under valuation is ownership over patents, in respect of which no license has been granted to others.

Type of value: Market value.

Methodology: The cost approach and the income approach are applied in the valuation.

Conclusion:

The result of the cost approach is selected as the conclusion of the Report. The specific conclusions are as follows.

The subject patents involved in the capital contribution in the form of intangible assets (patents) from the Institute of Metal Research, Chinese Academy of Sciences to participate in the establishment of Zhongke Xiwang Special Steel Company Limited has a book value of 0 and an estimated value of RMB353 million as at the base date.

The conclusion of this Report is valid for one year from the base date, i.e. from 31 May 2021 to 30 May 2022.

In using this conclusion, users of the Report should be aware of the following key considerations that may have an impact on the conclusion.

- (a) The Institute of Metal Research, Chinese Academy of Sciences undertakes that it has sole ownership over the subject patents, free from any co-ownership or other disputes over ownership.
- (b) According to the business plan provided by it, the Institute of Metal Research, Chinese Academy of Sciences proposes to make capital contribution in the form of intangible assets (patents) to participate in the establishment of Zhongke Xiwang Special Steel Company Limited, and the subject patents are mainly used for the industrialization of rare earth bearing steel – tooling tie, rare earth tooling steel, rare earth heat resistant steel, rare earth gear steel, rare earth spring steel, rare earth shaft steel, rare earth bearing steel – continuous casting tie, rare earth high strength steel, and rare earth welding steel. For the purpose hereof, income from the subject patents over the benefit period are projected on the premise that the subject patents will be used in manufacturing and production activities of the proposed enterprise, and based on the expected sales price and sales volume of products as determined in the business plan provided to us by the Institute of Metal Research, Chinese Academy of Sciences.
- (c) The estimated value is exclusive of value-added tax.

- (d) Zhongke Xiwang Rare Earth Special Steel Company Limited (中科西王稀土特鋼有限公司) is registered with the industry and commerce administration under the name of Zhongke Xiwang Special Steel Company Limited (中科西王特鋼有限公司), and is disclosed herein as Zhongke Xiwang Special Steel Company Limited except where economic behavior is mentioned, and a copy of the duplicate business license of Zhongke Xiwang Special Steel Company Limited is annexed hereto.

**ASSET VALUATION REPORT
ON MARKET VALUE OF OWNERSHIP OF 15 PATENTS INVOLVED IN
THE CAPITAL CONTRIBUTION IN THE FORM OF PATENTS FROM
THE INSTITUTE OF METAL RESEARCH, CHINESE ACADEMY OF
SCIENCES TO PARTICIPATE IN THE ESTABLISHMENT OF ZHONGKE
XIWANG SPECIAL STEEL COMPANY LIMITED
FOR
THE UNDERSTANDING OF
XIWANG SPECIAL STEEL COMPANY LIMITED**

DeveChina Valuation Report [2021] No. 152

I. INTRODUCTION

To Xiwang Special Steel Company Limited,

Retained by the Institute of Metal Research, Chinese Academy of Sciences, DeveChina International Appraisal Co., Ltd. has estimated the market value as at 31 May 2021 of the ownership over 15 patents involved in the capital contribution in the form of intangible assets (patents) from the Institute of Metal Research, Chinese Academy of Sciences to participate in the establishment of establish Zhongke Xiwang Special Steel Company Limited for the understanding of Xiwang Special Steel Company Limited, by applying the cost approach and the income approach as well as necessary procedures for asset valuation in accordance with relevant laws, administrative regulations and asset valuation standards, on the principles of independence, objectivity and impartiality. Details on asset valuation are reported as follows:

**II. OVERVIEW OF THE CLIENT, THE SUBJECT ENTITY AND OTHER USERS
SPECIFIED IN THE ENGAGEMENT AGREEMENT FOR ASSET VALUATION**

The Client of this valuation is Xiwang Special Steel Company Limited, and the subject entity is the Institute of Metal Research, Chinese Academy of Sciences. The basic information is as follows:

(A) Overview of the Client

Name: Xiwang Special Steel Company Limited

Domicile: Xiwang Industrial Area, Zouping, Shandong Province

Legal representative: Zhang Qingsheng

Registered capital: RMB730.82544605 million

Date of establishment: 31 December 2003

Business term: 31 December 2003 to non-fixed period

Business type: Metal products industry

Business scope: Production and sales of various section steels, stainless steels, steel products, plates, bars, wires, bearing steels, billets, steels and various precision castings; technical research and development services for new steel grades, new processes and new equipment of special steels; design, production and installation of steel structure and grid structure; pipeline installation, anti-corrosion insulation, design, production and installation of various non-standard equipment; design, production and installation of various doors and windows; and 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).

(B) Overview of the subject entity

1. Basic information

Name of entity: The Institute of Metal Research, Chinese Academy of Sciences (“the Institute”)

Domicile: No. 72, Wenhua Road, Shenhe District, Shenyang, Liaoning Province

Start-up capital: RMB142.85 million

Legal representative: Zuo Liang

Source of funding: Fiscal subsidy income

Organized by: Chinese Academy of Sciences

Tenet and scope of business: To conduct research in materials science and engineering and to promote the development of science and technology. Materials physics and chemistry research, materials science research, materials processing engineering research, metallurgical physics and chemistry research, iron and steel metallurgy research, nonferrous metals metallurgy research, condensed matter physics research, electrochemistry research, electromagnetic field and microwave technology research, environmental science research, related academic education, post-doctoral training, professional training and academic exchange, and publication of the Journal of Corrosion (English) and the Journal of Chinese Society for Corrosion and Protection

(C) Relationship between Client and the Institute

The Client and the Institute jointly fund the establishment of Zhongke Xiwang Special Steel Company Limited.

III. PURPOSE

According to the Resolution of the Shareholders' Meeting of Xiwang Special Steel Company Limited, Xiwang Special Steel Company Limited and the Institute jointly fund the establishment of Zhongke Xiwang Special Steel Company Limited. The Institute proposes to make capital contribution in the form of intangible assets (patents) to participate in the establishment of Zhongke Xiwang Rare Earth Special Steel Company Limited. To this end, it is necessary to appraise the market value of ownership of 15 patents involved as at the base date to provide reference for this economic behavior.

IV. SUBJECT AND SCOPE

The subject of this valuation is the market value of ownership of 15 patents involved in the capital contribution in the form of intangible assets (patents) from the Institute to participate in the establishment of Zhongke Xiwang Special Steel Company Limited for the understanding of Xiwang Special Steel Company Limited. The subject under valuation is ownership over patents, in respect of which no license has been granted to others.

The scope of this valuation covers ownership of 15 patents involved in the capital contribution in the form of intangible assets (patents) from the Institute to participate in the establishment of Zhongke Xiwang Special Steel Company Limited for the understanding of Xiwang Special Steel Company Limited, all of which are invention patents granted to the Institute of Metal Research, Chinese Academy of Sciences, including:

No.	Patent No.	Name and Content	Acquired on	Acquisition method	Granted in
1	201710059980.6	A high purity rare earth steel treatment method	24 January 2017	Original Acquisition	China
2	201510962080.3	A method of preparation of high purity H13 hot work tool steel by aluminum rare earth composite deoxidation	18 December 2015	Original Acquisition	China
3	201510964913.X	A method of preparing high purity La and Ce mixed rare earths by electrolysis	18 December 2015	Original Acquisition	China
4	201310017693.0	Medium and low temperature shake-up for large extra thick slabs	17 January 2013	Original Acquisition	China
5	201310017691.1	High-temperature belt liquid core shake-up for large extra thick slabs	17 January 2013	Original Acquisition	China

No.	Patent No.	Name and Content	Acquired on	Acquisition method	Granted in
6	Japan 5716209	A method for controlling A-deflection in steel ingots by steel purification (Method for controlling A-deflection in steel blocks by purification of dissolved steel)	15 October 2012	Original Acquisition	Japan
7	201210524102.4	Preparation method and mold of high quality mold casting ingots with micro defects and high utilization	7 December 2012	Original Acquisition	China
8	201110200291.5	A method of purifying ingots and reducing A segregation using gas	18 July 2011	Original Acquisition	China
9	201010561300.9	A method for eliminating central shrinkage and loosening of continuous casting ingots	26 November 2010	Original Acquisition	China
10	200810229512.X	Tungsten anti-oxidation double-layer airflow protection welding method	10 December 2008	Original Acquisition	China
11	200810013231.0	A method for eliminating δ ferrite in high tenacity martensitic stainless steel	17 September 2008	Original Acquisition	China
12	200410020667.4	High manganese steel railroad combination rutting fork heart rail casting process	4 June 2004	Original Acquisition	China
13	200410100469.9	Super steel road combination rutting fork heart rail manufacturing process	24 December 2004	Original Acquisition	China
14	200810011501.4	A method of fine crystallization casting process for high manganese steel castings	21 May 2008	Original Acquisition	China
15	200410100470.1	A visual casting method	24 December 2004	Original Acquisition	China

The subject patents have zero book value, and their research and development costs have been expensed.

The subject and scope of the valuation are consistent with those of the economic behavior.

Title in the subject assets is as follows:

The subject patents are all invention patents developed by the Institute with non-governmental funds and governmental funds. The Institute has provided copies of patent right certificates, patent claims, patent specifications and annual patent fee payment receipts of the

subject patents. The subject patents have not been licensed to others, and the Institute has undertaken that they are the sole owner of the subject patents, free from any co-ownership, pledge, license, lawsuit or the like.

The subject patents represent a complete set of preparation technology for high-quality rare-earth special steel. The patented technology makes possible the industrialization of rare earth special steel, which can be applied in the production of key materials for major equipment manufacturing, key engineering construction, strategic emerging industries and national defense and is widely used in key fields such as transportation, marine engineering, energy and environmental protection, petrochemical industry, aerospace and weapon equipment. It is an important basic material for the development of society and science and technology. Main products include bearing steel, gear steel, tooling steel, spring steel, shaft steel, heat-resistant steel, high-strength steel, steel for welding materials and other varieties of bars, indicating tremendous market potential.

The subject patents represent the “double low oxygen” control technology of high temperature steel and rare earth metal, develop full-process purity-controlled rare earth addition technology, propose technical conditions of low-oxygen high-purity rare earth metal for metallurgical industry, solve the technical bottleneck of “unstable product quality” and “poor production process” in the industrial application of rare earth special steel, and form a complete set of preparation technology for high-quality rare-earth special steel. With its existing production lines in China, the Institute has successfully carried out industrialization tests of rare earth in more than 30 types of special steels, such as bearing steel, tooling steel, gear steel, shaft steel, wheel steel, brazing tool steel and military steel and amassed extensive engineering data and intensive practical experience.

V. TYPE AND DEFINITION OF VALUE

Market value is the estimated amount of value of a subject asset in an arm’s length transaction on the base date between a willing buyer and a willing seller, each acting rationally and neither being under any compulsion. Market value reflects the perceptions and judgments of the market as a whole, rather than those of certain participants in the market, regarding the value of an asset.

The economic behavior of the proposed understanding of Xiwang Special Steel Company Limited on the Institute’s capital contribution in the form of patents to participate the establishment of Zhongke Xiwang Special Steel Company Limited is voluntary, rational and under no compulsion, and satisfies conditions for the adoption of the market value. Therefore, market value is adopted for the valuation based the purpose of this valuation assignment and the characteristics of the subject entity.

VI. BASE DATE

The base date of this asset valuation is 31 May 2021.

All pricing standards are price standards in effect on the base date.

The base date is determined by the Client as required for the economic behavior and taking into account the realization of this economic behavior, the accounting of the enterprise, the integrity of accounting information, and changes in interest rates.

The base date of this Report is consistent with the base date agreed in the engagement agreement for asset valuation.

VII. BASIS OF VALUATION**(A) Basis of economic behavior**

1. Resolution of the Shareholders' Meeting of Xiwang Special Steel Company Limited.

(B) Laws and regulations

1. Asset Valuation Law of the People's Republic of China (adopted at the 21st session of the Standing Committee of the 12th National People's Congress on 2 July 2016);
2. Company Law of the People's Republic of China (adopted at the 6th session of the Standing Committee of the 13th National People's Congress on 26 October 2018);
3. Law of the People's Republic of China on State-owned Assets of Enterprises (adopted at the 5th session of the Standing Committee of the 11th National People's Congress on 28 October 2008);
4. Civil Code of the People's Republic of China (adopted at the 3rd Session of the 13th National People's Congress on 28 May 2020);
5. Law of the People's Republic of China on Promoting the Transformation of Scientific and Technological Achievements (amended at the 16th session of the Standing Committee of the 12th National People's Congress on 29 August 2015);
6. Law of the People's Republic of China on Enterprise Income Tax (adopted at the 26th session of the Standing Committee of the 12th National People's Congress on 24 February 2017);

7. Notice of the State Council on Printing and Issuing Some Provisions on the Implementation of the Law of the People's Republic of China on Promoting the Transformation of Scientific and Technological Achievements (Guo Fa [2016] No. 16);
8. Notice on Further Increasing Authorization to Promote the Transformation of Scientific and Technological Achievements (Cai Zi [2019] No. 57);
9. Interim Measures for the Management of State-owned Assets of Public Institutions (Order No. 36 of the Ministry of Finance of the People's Republic of China);
10. Notice of the Chinese Academy of Sciences on Printing and Distributing the Measures for the Management of State-owned Assets of Institutions of the Chinese Academy of Sciences (Ke Fa Tiao Cai Zi [2013] No. 203);
11. Measures for the Management of External Investments of the Chinese Academy of Sciences (Ke Fa Tiao Cai Zi [2017] No. 101);
12. Notice of the Bureau of Condition Assurance and Finance of the Chinese Academy of Sciences on Further Increasing the Authorization to Promote the Transformation of Scientific and Technological Achievements (Tiao Cai Zi [2019] No. 49);
13. Measures for the Administration of State-owned Assets Valuation (State Council Decree No. 91);
14. Measures for the Administration of Filing of State-owned Asset Projects (Cai Qi [2001] No. 802);
15. Notice on Full Implementation of the Business Tax-to-VAT Pilot Program issued by the Ministry of Finance and the State Administration of Taxation (Cai Shui [2016] No. 36);
16. Measures for Supervision and Administration of State-owned Asset Transactions of Enterprises (State-owned Assets Supervision and Administration Commission and Ministry of Finance Order No. 32);
17. Patent Law of the People's Republic of China (adopted at the 6th session of the Standing Committee of the 11th National People's Congress on 27 December 2008);
18. Rules for the Implementation of the Patent Law of the People's Republic of China (2010 Revision);

19. Notice on Adjustments to VAT Rates issued by the Ministry of Finance and the General Administration of Taxation (Cai Shui [2018] No. 32);
20. Announcement on Policies Related to Deepening VAT Reform (The Ministry of Finance, the General Administration of Taxation and the General Administration of Customs [2019] No. 39);
21. Regulations on the Administration of Registered Capital of Companies (Order No. 64 of the General Administration for Industry and Commerce).

(C) Valuation standards

1. Basic Standards for Asset Valuation (Cai Zi [2017] No. 43);
2. Code of Ethics for Asset Valuation (Zhong Ping Xie [2017] No. 30);
3. Standards for Asset Valuation Practice – Engagement Agreements for Asset Valuation (Zhong Ping Xie [2017] No. 33);
4. Standards for Asset Valuation Practice – Asset Valuation Procedures (Zhong Ping Xie [2018] No. 36);
5. Standards for Asset Valuation Practice – Asset Valuation Methods (Zhong Ping Xie [2019] No. 35);
6. Standards for Asset Valuation Practice – Asset Valuation Files (Zhong Ping Xie [2018] No. 37);
7. Standards for Asset Valuation Practice – Intangible Assets (Zhong Ping Xie [2017] No. 37);
8. Standards for Asset Valuation Practice – Asset Valuation Report (Zhong Ping Xie [2018] No. 35);
9. the Guidance on Types of Asset Valuation Values (Zhong Ping Xie [2017] No. 47);
10. Guidance on Patent Asset Valuation (Zhong Ping Xie [2017] No. 49);
11. Guidelines for Quality Control of the Business of Asset Valuation Firms (Zhong Ping Xie [2017] No. 46);
12. Guidelines for the Valuation Report on State-owned Assets of Enterprises (Zhong Ping Xie [2017] No. 42);

13. Guidelines for the Valuation of Intellectual Property Assets (Zhong Ping Xie [2017] No. 44);
14. Guidance on Legal Ownership of Subjects of Asset Valuation (Zhong Ping Xie [2017] No. 48).

(D) Basis of title

1. Patent right certificates.

(E) Pricing basis

1. LPR announced by the National Interbank Funding Center on the base date;
2. Business Plan provided by the subject entity;
3. Records of site inspections by valuers and other relevant valuation information collected;
4. Other information related to this asset valuation.

(F) Other basis

1. Valuation (by [US] Kenneth R. Ferris, Barbara S. Pescheray Petitt, translated by Liu Xiangya and Jia Zhe, Machinery Industry Press);
2. Investment Valuation (by [US] Damodaran, translated by [Canada] Lin Qian).

VIII. VALUATION METHODOLOGIES**(I) Selection of valuation methodology**

The intangible assets under this valuation are patents. Intangible assets are generally valued by the market approach, the cost approach and the income approach.

Two prerequisites must be met for the use of the market approach: First, there must be a fully developed and active market for the asset. Secondly, information such as reference assets and their comparable indicators and technical parameters are collectible. After market survey conducted by our valuers, it was not possible to obtain references same as or similar to the subject asset, so the prerequisites for using the market approach for this valuation were not established, and the cost and income approaches were adopted for this valuation.

1. Cost approach

Estimated value = Replacement cost × (1 – depreciation rate)

(1) *Determination of replacement cost*

The intangible assets under valuation are developed by the subject entity using non-governmental funds and governmental funds. The cost information for their redevelopment can be obtained by adjustments to the subject entity's historical data and market inquiry. In valuing the intangible assets, key considerations are given to the following aspects: relevant human costs in their development and research, such as salaries and benefits of R&D personnel; material costs such as relevant experimental equipment, premise and utilities and energy consumed; and other indirect costs, such as administration, documentation and evaluation. In addition, consideration should also be given to potential return otherwise available to the amount of capital spent on R&D of patents, or the opportunity cost of spending such money on R&D of patents vs making investment to receive return at average rate of return of the society or industry.

Replacement cost = R&D cost + patent application fee + capital cost + reasonable profit

R&D cost: All direct and indirect costs and expenses incurred in the process of patent development;

Patent application fee: Expense necessary to obtain patents.

Where,

R&D cost = salary cost + material cost + other cost

Replacement cost is arrived at through financial accounting. Roughly, replacement cost is calculated at current prices and fee rates based on consumption (including human efforts and materials) in developing the asset, net of unnecessary and unreasonable items. The valuers have checked the historical cost by verifying auditor reports and the itemized accounts of relevant expenditures of relevant R&D projects.

Patent application fee includes patent application fee, examination fee, agency fees, annual fees, etc., calculated at current prices and fee rates.

Based on R&D period of the project, the cost of capital is determined by multiplying the lending rate for the corresponding term on the base date by the replacement price of the R&D cost.

It is assumed that R&D costs and patent application fees are evenly incurred, and reasonable profit is calculated by multiplying the sum of R&D costs and patent application fees by the profit margin (determined on the basis of average ROE of comparable peer listed companies over recent years and average length of R&D period).

(2) *Determination of depreciation rate*

The depreciation of a patent depends on technological development of the industry. As technologies develop rapidly, more advanced, efficient and applicable new technologies emerge, leading to depreciation of old technology. The depreciation of technology is mainly affected by statutory life of service, product renewal cycle, substitutability, etc.

This valuation first determines the depreciation rate based on current use status of the subject patents, current development of the industry in which the subject patents is applied, the speed of renewal and other factors.

(3) *Determination of estimated value*

Estimated value = Replacement cost × (1 – depreciation rate)

2. *Income approach*

The basic principle of the income approach in intangible asset valuation is as follows:

First, based on the feasibility study report provided by the subject entity, conduct an objective analysis of the subject entity's forecast of sales revenue from the subject patents over their remaining economic life, analyze the percentage of share of income from the subject patents. Secondly, select an appropriate discount rate to discount the share of income from the subject patents. Finally, sum up and calculate realistic value of the subject intangible assets.

The calculation formula is as follows:

$$P = \sum_{t=1}^n \frac{a \times Rt}{(1 + r)^t}$$

Where: P – Estimated value;

a – Percentage of share of profit from the patents;

R_t – Expected profit in the tth benefit period;

n – Remaining economic life;

t – The tth year in the future;

r – Discount rate.

IX. PERFORMANCE AND DETAILS OF VALUATION PROCEDURES

Our valuers have performed valuation of the subject, and the performance and details of valuation procedures are as follows.

(A) Acceptance of engagement

We accepted the engagement by Xiwang Special Steel Company Limited, reached an agreement on basic matters of the valuation assignment including the purpose, subject and scope and base date of the valuation, as well as rights and obligations of the parties, and formed the valuation plan in consultation with the Client.

(B) Preparation

Based on the overall arrangement of the engagement, we drafted the valuation plan, determined the team leader and team members, and organized relevant training.

(C) Asset counting and verification

Our valuers instructed the subject entity to count its assets, prepare valuation materials and fill in the asset counting sheet. Through a web conference, we listened to relevant personnel of the Client and the subject entity for a more detailed introduction of company situation and historical and current conditions of the subject assets. Based on the asset counting sheet provided by the subject entity, we checked books against books, against financial statements and against physicals to avoid duplication and omission, and verified legal documents, accounting records and relevant information provided by the subject entity. We inspected the patent right certificates, recent receipts for annual patent fee payments, copies of duplicate patent registers and patent application documents to further understand patent technologies reported by the Client.

We mainly completed the following work: (i) completed the asset valuation schedule; (ii) interviewed the finance department and the R&D department through the internet to understand technical research and development, financial accounting, sales, procurement and production organization; and (iii) collected, checked and verified relevant information, mainly the contents of patent right certificates provided by the subject entity and continuous payment of annual fees for the subject patents, and recent patent annual fee payment receipts provided by the subject entity, the detailed accounts, contracts, auditor reports and other accounting data for R&D expenditure of the patents.

(D) Valuation and estimation

Based on the selected valuation approach, our valuers selected corresponding formulas and parameters for analysis, calculation and judgment, carried out valuation and estimation and arrived at preliminary conclusions. The team leader summarized preliminary conclusions of various asset valuations, and prepared and formed the draft asset valuation report.

(E) Internal review and communication with and reporting to the Client and the subject entity

The draft report was submitted for internal review at three levels, and revised based on reviewers' opinions. Subsequently, the report for solicitation of opinions was issued.

(F) Submission of report

We adjusted the Report based on solicited opinions and issued the final report to the Client.

X. ASSUMPTIONS

(i) Specific assumptions

1. It is assumed that accounting policies adopted by the subject entity and the project implementation entity after the base date are consistent with accounting policies adopted at the time of preparation of this Report in material respects;
2. It is assumed that cash flows from products corresponding to the subject intangible assets occur in the middle of the year;
3. It is assumed that the products corresponding to the subject intangible assets maintain their current competitive position in the market after the base date.

(ii) General assumptions

1. Assume that the implementation entity continues as a going concern and the subject assets remain in use after the base date;
2. Assume no material changes in the political, economic and social environment of the country and region in which the project implementation entity is located after the base date;
3. Assume no material changes in national macroeconomic policies, industrial policies and regional development policies after the base date;
4. Assume no material changes in interest rates, tax bases and rates, policy-related levies related to the project implementation entity after the base date;
5. Assume that the project implementation entity fully complies with all relevant laws and regulations;
6. Assume no force majeure that has a material adverse impact on the subject assets after the base date.

The conclusions of the Report are established on the basis of the above-mentioned assumptions as at the base date. We and the undersigned valuers are not liable if different conclusions are arrived at due to changes in assumptions.

XI. CONCLUSION**(I) Results of cost approach and income approach and their analysis**

As at the base date, the ownership over the patents involved in the capital contribution in the form of intangible assets (patents) from the Institute to participate in the establishment of Zhongke Xiwang Special Steel Company Limited for the understanding of Xiwang Special Steel Company Limited, has a book value of zero, and has a value of RMB340.0 million under the income approach and RMB353.0 million under the cost approach, with a difference of RMB13.0 million or approximately 3.82%.

The application of the subject patents is influenced by macroeconomic policies and industry prospects, and also largely depends on the market development ability of the enterprise. It is also largely affected by subjective factors considering that it is difficult to make objective judgment on factors such as future sales volume, price and change trend of products using the subject assets, which in turn affects the realizability of future economic benefits. The cost approach of valuation does not only reflect the re-development cost at the base date, but also takes into account the capital cost and opportunity cost, so the result under the cost approach is adopted as the final valuation result.

(II) Conclusion

Based on the above valuation procedures, the following conclusion has been reached: The ownership over the subject patents involved in the capital contribution in the form of intangible assets (patents) from the Institute to participate in the establishment of Zhongke Xiwang Special Steel Company Limited for the understanding of Xiwang Special Steel Company Limited, has a book value of 0 and an estimated value of RMB353.0 million as at the base date.

XII. SPECIAL MATTERS

The following are relevant matters that have been identified during the valuation process that may affect the valuation conclusion but are beyond judgement and estimation of the valuers in their proficiency and ability:

- (a) The Institute undertakes that it has sole ownership over the subject patents, free from any co-ownership or other disputes over ownership.
- (b) According to the business plan provided by it, the Institute makes capital contribution in the form of intangible assets (patents) to participate in the establishment of Zhongke Xiwang Special Steel Company Limited, and the subject patents are mainly used for the industrialization of rare earth bearing steel – tooling tie, rare earth tooling steel, rare earth heat resistant steel, rare earth gear steel, rare earth spring steel, rare earth shaft steel, rare earth bearing steel – continuous casting tie, rare earth high strength steel, and rare earth welding steel. For the purpose hereof, income from the subject patents over the benefit period are projected on the premise that the subject patents will be used in manufacturing and production activities of the proposed enterprise, and based on the expected sales price and sales volume of products as determined in the business plan provided to us by the Institute.
- (c) The estimated value is exclusive of value-added tax.

We and our valuers are not liable for any special matters existing in the subject entity and the project implementation entity that may affect the estimated value of the assets, provided that such matters are not specifically stated by the subject entity at the time of engagement or at the time when post report date matters and contingencies are reported and such matters remain unknown to us and our valuers despite their performance of valuation procedures.

- (d) Zhongke Xiwang Rare Earth Special Steel Company Limited (中科西王稀土特鋼有限公司) is registered with the industry and commerce administration under the name of Zhongke Xiwang Special Steel Company Limited (中科西王特鋼有限公司), and is disclosed herein as Zhongke Xiwang Special Steel Company Limited except where economic behavior is mentioned, and a copy of the duplicate business license of Zhongke Xiwang Special Steel Company Limited is annexed hereto.

XIII. RESTRICTIONS ON THE USE OF THE ASSET VALUATION REPORT

- (a) The Report shall be used only for the purpose and usage of valuation as set forth in the Report;
- (b) The Report shall be used solely by such users as stated in the Report. We and our valuers shall not be liable if the Client or such other users use this Asset Valuation Report in violation of laws and administration regulations or beyond the scope of use specified in the Asset Valuation Report;
- (c) This Asset Valuation Report shall be used solely by the Client and such other users as agreed in the engagement agreement for asset valuation and specified in laws and administrative regulations and shall not be used by any other firm and individuals;
- (d) Users of the Asset Valuation Report should correctly understand and use the valuation conclusion which is not equivalent to the realizable price of the subject asset and should not be considered as a guarantee of the realizable price of the subject asset;
- (e) Any extract, quotation or disclosure in public media of any or all contents of the Asset Valuation Report is subject to the review by the asset valuation firm, except as otherwise specified by laws and regulations or agreed between relevant parties;
- (f) The conclusion revealed in this Report is valid only for the economic behavior described in the Report, and is valid for one year as from the base date;
- (g) This Report shall become legally effective in accordance with relevant provisions of laws and regulations once signed and affixed with seal by us and our valuers;
- (h) This Report contains certain annexes and asset valuation statement and asset valuation schedule, all of which also form an integral part of this Report and have the same legal effect as the text of this Report;

- (i) This Report shall not be officially used until it has been filed with the State-owned assets supervision and administration agency or the shareholder;
- (j) The conclusion revealed in this Report gives a fair view of the value of the subject assets as at the base date.

XIV. ASSET VALUATION REPORT DATE

The date of this Report is 22 August 2021.

Legal representative of the asset valuation firm: Chen Si

Valuer: Wang Yong

Valuer: Zhang Xiaoli

DeveChina International Appraisal Co., Ltd.

22 August 2021

1. RESPONSIBILITY STATEMENTS

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 Group. 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 circular 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 <i>(Note 1)</i>	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%

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
	Xiwang Holdings Limited (“ Xiwang Holdings ”)	Beneficial owner	177 shares (L)	0.09%
	Xiwang Group Company Limited* (西王集團有限公司) (“ Xiwang Group ”)	Beneficial owner	RMB35,460,000 (L)	1.44%
	Xiwang Property Holdings Company Limited (“ Xiwang Property ”)	Beneficial owner	3,000,000 (L) share options	0.21%
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)	1.44%
	Xiwang Property	Beneficial owner	3,000,000 (L) share options	0.21%

Note:

- 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 2020, 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, 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 2020, 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. DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

As at the Latest Practicable Date, each of the executive Directors, the non-executive Director, and the 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.

5. MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors confirm that there was no material adverse change in the financial or trading position of the Company since 31 December 2020, being the date to which the latest published audited financial statements of the Company were made up.

6. 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).

7. MATERIAL LITIGATION

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.

8. 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 supplemental agreement dated 16 September 2019 to the agreement dated 5 January 2015 entered into among the Company, 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;
- (b) 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;
- (c) the steam supply agreement dated 16 December 2019 entered into between Xiwang Metal Science & Technology Company Limited* (西王金屬科技有限公司) (“**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 Group (as defined therein) (the “**New Steam Supply Agreement**”);
- (d) 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;
- (e) the steam supply agreement dated 31 December 2019 entered into between Xiwang Group Company Limited Zouping Power Branch* (西王集團有限公司鄒平動力分公司) (“**Zouping Power Branch**”) and Xiwang Metal in relation to the supply of steam from Xiwang Metal to Zouping Power Branch;

- (f) the memorandum of understanding (the “MOU”) dated 26 June 2020 entered into among (i) the PRC Subsidiary; (ii) IMR; and (iii) 10 individuals in relation to the proposed formation of a joint venture company among the parties for, among others, the production and sale of rare earth special steel, various types of steel and steel products;
- (g) the agency services agreement dated 21 August 2020 entered into between the Group and Zouping Power Branch in connection with provision of agency services in relation to electricity purchase and the payment of prepaid electricity charge to Zouping Power Branch by the Group; and
- (h) the new guarantee agreement dated 19 January 2021 entered into between the Group and Xiwang Group Company Limited* (西王集團有限公司) (“Xiwang Group”) (and the all the subsidiaries of Xiwang Group except for the member of the Group (the “Relevant Subsidiaries”)) in relation to the provision of guarantee services by the Group to Xiwang Group and the Relevant Subsidiaries;
- (i) the supplemental memorandum of understanding dated 31 March 2021 entered into among (i) the PRC Subsidiary; (ii) IMR; and (iii) 10 individuals in relation to the extension of the date of the MOU to 30 June 2021; and
- (j) the Capital Contribution Agreement.

9. EXPERTS AND CONSENTS

The following sets out the qualifications of the experts who have given opinions or advice contained in this circular:

Vincorn	an independent qualified valuer
DeveChina	an independent qualified valuer in the PRC

Each of the experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report or letter to its name in the form and context in which it appears.

As at the Latest Practicable Date, each of the experts 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 2020, 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.

10. 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 2018, 2019 and 2020;
- (c) the letter from the Board, the text of which is set out on pages 4 to 11 of this circular;
- (d) the valuation report from Vincorn in relation to certain machinery, equipment and facilities (including construction-in-progress) to be contributed to the JV Company by the PRC Subsidiary, the text of which is set out in Appendix II to this circular;
- (e) the valuation report from DeveChina in relation to certain intellectual properties in respect of the technologies to industrialise the production of high-quality rare earth special steel to be contributed to the JV Company by IMR, the text of which is set out in Appendix III to this circular;
- (f) the written consents as referred to under the paragraph headed “Experts and Consents” in this appendix;
- (g) the material contracts as referred to in the section headed “Material Contracts” in this appendix; and
- (h) this circular.

11. 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 EGM



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

(incorporated in Hong Kong with limited liability)

(Stock code: 1266)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the an extraordinary general meeting (the “**EGM**”) of Xiwang Special Steel Company Limited (the “**Company**”) will be held at Boardroom, 3-4, Mezzanine Floor, Renaissance Hong Kong Harbour View Hotel, No.1 Harbour Road, Wanchai, Hong Kong, at 2:00 p.m. on Friday, 17 September 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 25 August 2021.

ORDINARY RESOLUTION

1. “**THAT:**

- (a) the entering into of the capital contribution agreement (the “**Capital Contribution Agreement**”) dated 16 August 2021 among Xiwang Special Steel Company Limited* (西王特鋼有限公司), The Institute of Metal Research, Chinese Academy of Sciences (中國科學院金屬研究所), 10 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 (樂義坤), Wang Pei (王培), Kang Xiuhong (康秀紅) and Lu Shanping (陸善平), 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;

NOTICE OF EGM

- (b) any one director of the Company (the “**Director**”), 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 Capital Contribution Agreement and the transactions contemplated thereunder 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, 25 August 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 of the Company (the “**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 EGM

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 14 September 2021 to 17 September 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 13 September 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 of Hong Kong Limited (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 25 August 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 resolution at the EGM instead of attending the EGM in person.

As at the date of this Notice, the executive Directors of the Company are Mr. ZHANG Jian, Mr. SUN Xihu and Ms. LI Hai Xia, the non-executive Director of the Company is Mr. WANG Di, and the independent non-executive Directors of the Company are Mr. LEUNG Shu Sun Sunny, Mr. LI Bangguang and Mr. YU Kou.