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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)

ANNOUNCEMENT

MAJOR AND CONTINUING CONNECTED TRANSACTIONS IN RELATION TO

- (1) ELECTRICITY PURCHASE AGENCY AGREEMENT;**
- (2) NEW STEAM SUPPLY AGREEMENT; AND**
- (3) GUARANTEE AGREEMENT**

The Group has been carrying on transactions pursuant to the Existing Agreements which the Existing Electricity Purchase Agency Agreement and Existing Steam Supply Agreement will expire on 31 December 2022 and the Existing Guarantee Agreement will expire on 31 December 2023. It is expected that the Group will continue to enter into transactions of a similar nature to the transactions under the Existing Agreements from time to time and has accordingly entered into the New Agreements for a term of 3 years from 1 January 2023 to 31 December 2025 as disclosed below.

On 1 November 2022 (after trading hours), Xiwang Metal (a wholly-owned subsidiary of the Company) and the Company respectively entered into the New Agreements with the respective parties (each is a connected person of the Company) as follows:

- (1) Xiwang Metal entered into the Electricity Purchase Agency Agreement with Zouping Power for the provision of a range of agency services, in relation to the Electricity Purchase from Binzhou Power through Zouping Power, with the major terms remaining the same;

- (2) Xiwang Metal entered into the New Steam Supply Agreement with Shandong Xiwang Sugar for the provision of supply of steam service to Shandong Xiwang Sugar, with the major terms remaining substantially the same, except Zouping Power is substituted by Shangdong Xiwang Sugar; the revised price for steam per kcal and tonne (tax inclusive); and that Xiwang Metal will be responsible for lining or modifying the steam pipeline network and installing the steam gauge; and
- (3) The Company entered into the Guarantee Agreement with Xiwang Group (and the Relevant Subsidiaries) to renew the provision of guarantee services by the Group, with the major terms remaining the same.

As at the date of this announcement, Xiwang Group is a controlling shareholder of the Company, Zouping Power is branch company established by Xiwang Group and Shandong Xiwang Sugar is a subsidiary of Xiwang Group. Therefore each of Xiwang Group, Zouping Power and Shangdong Xiwang Sugar is a connected person of the Company under Chapter 14A of the Listing Rules and the transactions contemplated under the New Agreements constitute continuing connected transactions of the Company.

As the highest of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of (i) the Electricity Purchase Annual Caps and Prepaid Electricity Charge Annual Caps under the Electricity Purchase Agency Agreement; (ii) the Steam Supply Annual Caps under the New Steam Supply Agreement; and (iii) the maximum Guarantee Amount under the Guarantee Agreement, all exceeds 25%, the Agreements and the transactions contemplated thereunder constitute major transactions of the Company under Chapter 14 of the Listing Rules, which are subject to the reporting, announcement, circular and Shareholders' approval requirements.

The EGM will be convened for the Independent Shareholders to consider and, if thought fit, approve the New Agreements, and the transactions contemplated respectively thereunder.

A circular containing, among other things, further information about the New Agreements, and the transactions contemplated respectively thereunder, the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders and the recommendation from the Independent Board Committee, together with the notice of the EGM, will be dispatched to the Shareholders on or before 5 December 2022 as additional time is required to compile the information and prepare the circular.

BACKGROUND

The Group has been carrying on transactions pursuant to the Existing Agreements which the Existing Electricity Purchase Agency Agreement and Existing Steam Supply Agreement will expire on 31 December 2022 and the Existing Guarantee Agreement will expire on 31 December 2023. It is expected that the Group will continue to enter into transactions of a similar nature to the transactions under the Existing Agreements from time to time and has accordingly entered into the New Agreements for a term of 3 years from 1 January 2023 to 31 December 2025 as disclosed below.

(I) THE ELECTRICITY PURCHASE AGENCY AGREEMENT

The principal terms of the Electricity Purchase Agency Agreement are set out as follows:

- Date : 1 November 2022
- Parties : – Xiwang Metal (for and on behalf of the Group) as Electricity User; and
– Zouping Power as Agent
- Term : Three calendar years commencing from 1 January 2023 and ending on 31 December 2025 (both dates inclusive)
- Major terms : 1. Zouping Power will act as an agent to purchase electricity from Binzhou Power for an on behalf of the Group.
2. Xiwang Metal undertakes to bear and enjoy all the obligations and rights relating to the use of the electricity as prescribed by Binzhou Power.
3. Zouping Power will charge Xiwang Metal for the electricity supplied to the Group at the original price charged by Binzhou Power, and the price must not be increased in any event.

4. Zouping Power shall not charge Xiwang Metal any service fees, commission or agency fee (except for any charges to be paid to Binzhou Power and/or other independent third parties).
5. This agency arrangement shall be conducted on normal commercial terms or better to the Group (i.e. on arm's length basis or on terms no less favourable to the Group than terms available to or from independent third parties).
6. Electricity meters shall be installed by Xiwang Metal at each and every point of electricity supply, and meter reading should be recorded by Zouping Power on the first day of each calendar month.

Prepaid Electricity charge and settlement : 1. Xiwang Metal shall prepay Zouping Power the Prepaid Electricity Charge, the amount of which should be no less than one month of the expected electricity charge.

2. After each meter reading, the accrued electricity charge shall be settled by setting off against the Prepaid Electricity Charge received by Zouping Power.

Condition precedent : The Electricity Purchase Agency Agreement should be conditional upon the approval of the Independent Shareholders at the EGM in accordance with the Listing Rules.

The terms of the Electricity Purchase Agency Agreement were concluded after arm's length negotiations between the parties to the Electricity Purchase Agency Agreement.

Proposed Caps and Historical Transactions Amount

Electricity Purchase Annual Caps

The proposed Electricity Purchase Annual Caps are as follows:

Period	Electricity Purchase Annual Caps (excluding VAT) RMB' million
For the year ending 31 December 2023	1,270
For the year ending 31 December 2024	1,333
For the year ending 31 December 2025	1,400

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

1. The anticipated change in downstream demand for the Group's products;
2. The anticipated increase in electricity consumption for the Group; and
3. The historical amount of electricity purchase by the Group.

Historical Amount of Electricity Purchase

For the years ended 31 December 2020 and 2021 and for the eight months ended 31 August 2022, the actual amount of Electricity Purchase by the Group from Binzhou Power through Zouping Power (and/or its associate(s)) was approximately RMB798.6 million (excluding VAT) and RMB902.4 million (including VAT), RMB969.2 million (excluding VAT) and RMB1,095.1 million (including VAT), and RMB618.1 million (excluding VAT) and RMB698.4 million (including VAT), respectively. For the years ended 31 December 2020 and 2021 and for the eight months ended 31 August 2022, the actual monthly average Electricity Purchase of the Group was approximately RMB66.6 million (including VAT), RMB80.8 million (including VAT), and RMB77.3 million (including VAT).

Prepaid Electricity Charge Annual Caps

The proposed Prepaid Electricity Charge Annual Caps are as follows:

Period	Prepaid Electricity Charge Annual Caps (including VAT) <i>RMB' million</i>
For the year ending 31 December 2023	359
For the year ending 31 December 2024	377
For the year ending 31 December 2025	396

Note: For the avoidance of doubt, the Prepaid Electricity Charge will be applied to set off the consideration of Electricity Purchase, which also includes the VAT payable to the relevant authorities.

The above proposed Prepaid Electricity Charge Annual Caps were determined after taking into account of the followings:

1. The anticipated change in downstream demand for the Group's products;
2. The anticipated increase in electricity consumption for the Group; and
3. The historical amount of electricity charge prepaid by the Group. During the years ended 31 December 2020 and 2021 and for the eight months ended 31 August 2022, the maximum amount of electricity charge prepaid by the Group to Zouping Power (and/or its associate(s)) for the purchase of electricity from Binzhou Power was approximately RMB254.2 million, RMB147.1 million and RMB243.8 million, respectively.

Internal Control Measures

The Group has established a series of internal control measures in order to ensure that the terms of the transactions under the Electricity Purchase Agency Agreement are fair and reasonable and conducted on normal commercial terms so as to ensure that they serve the best interest of the Group and the shareholders as a whole. Such internal control measures include:

1. the relevant departments of the Company will conduct regular checks, on a monthly basis, to review and assess whether the continuing connected transactions contemplated under the Electricity Purchase Agency Agreement are conducted in accordance with the terms stipulated therein;
2. the relevant departments of the Company will also regularly check the per unit cost stated on the invoice given by Binzhou Power to Zouping Power, against the per unit cost stated on the invoice provided by Zouping Power to the Group, for the purpose of considering if the amount of Electricity Purchase charged on the Group is fair and reasonable and in accordance with the terms of the Electricity Purchase Agency Agreement;
3. the Group shall, at least on a monthly basis, review and ensure the amount of the Electricity Purchase and Prepaid Electricity Charge shall not exceed the annual caps to be approved by the Independent Shareholders; and
4. in accordance with the Listing Rules, (i) the independent auditors of the Company will report annually on the Electricity Purchase and Prepaid Electricity Charge to confirm, among other matters, whether the Electricity Purchase and Prepaid Electricity Charge were paid into in accordance with the Electricity Purchase Agency Agreement; and (ii) the independent non-executive Directors will continue to report annually on whether the Electricity Purchase and Prepaid Electricity Charge are, among other things, paid or conducted on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Considering the internal control measures outlined above, the Company believes that the procedures are sufficient to ensure that the transactions contemplated under the Electricity Purchase Agency Agreement will be conducted on normal commercial terms and are not prejudicial to the interests of the Company and its minority Shareholders.

Reasons for and Benefits of the Transactions Under the Electricity Purchase Agency Agreement

The Group consumed a significant amount of electricity in the production process of its steel products. Zouping Power acted as an agent of several companies (which are also connected persons of the Company) in purchasing electricity from Binzhou Power. The Group is joining such arrangement, and has been purchasing electricity from Binzhou Power (which is an independent third party of the Company) through Zouping Power, as an agent of the Group. Zouping Power (and its associate(s)) did not and will not charge any service fee nor add any mark-up on top of the electricity charge. According to the requirements of Binzhou Power, Xiwang Group and its affiliated companies are required to settle the electricity bills together in order for the Group to enjoy a lower charge out rate.

To facilitate the Electricity Purchase, the Group also, from time to time, prepaid a Prepaid Electricity Charge to Zouping Power to pay to Binzhou Power on the Group's behalf.

In view of the above, the Directors (excluding the independent non-executive Directors whose views will be formed and disclosed in the circular after considering the advice from the Independent Financial Adviser) are of the view that the terms of the Electricity Purchase Agency Agreement are fair and reasonable, and the Electricity Purchase Agency Agreement is entered into in the ordinary and usual course of business of the Group and on normal commercial terms which are no less favourable than those available from independent third parties under the prevailing local market conditions, and is in the interests of the Company and the Shareholders as a whole.

(II) NEW STEAM SUPPLY AGREEMENT

The principal terms of the New Steam Supply Agreement are set out as follows:

Date	:	1 November 2022
Parties	:	Xiwang Metal (for and on behalf of the Group) as Seller Shandong Xiwang Sugar as Purchaser
Term	:	Three calendar years commencing from 1 January 2023 and ending on 31 December 2025 (both dates inclusive)

Major terms : 1. Supply of steam

Xiwang Metal will be responsible for lining or modifying the steam pipeline network and installing the steam gauge and supplying steam to the Shandong Xiwang Sugar Group. Xiwang Metal will record the volume of steam at the end of each month and is responsible for ensuring the accuracy of the steam gauge, while Shandong Xiwang Sugar Group shall perform checks from time to time.

2. Consideration and payment

i. In consideration of relevant government policy and the changes in coal prices and other costs, the parties shall make assessment and adjustments on the prices for the supply of steam from time to time during the term of the agreement. It is agreed that if the coal price in the market of Zouping reaches RMB0.20 per kcal (tax-inclusive), the corresponding price for steam will be RMB200 per tonne (tax-inclusive). With the aforesaid standard as the basis, the price for steam will be adjusted upward or downward by RMB5 per tonne (tax-inclusive) accordingly for the corresponding increase or decrease of each RMB0.01 per kcal (tax-inclusive) of the coal price.

ii. Xiwang Metal will calculate the price of steam (tax-inclusive) supplied to the Shandong Xiwang Sugar Group according to the price in that month and issue a value-added tax receipt settled at the end of the month and payable before the 10th day of the following month. The fee payable under the New Steam Supply Agreement is to be made principally by cash.

iii. Transactions contemplated under the New Steam Supply Agreement will be conducted:

a. in the ordinary and usual course of business of the Group and the Shandong Xiwang Sugar Group;

- b. on normal commercial terms and on terms no less favourable than those offered by independent third parties;
- c. on terms that are fair and reasonable; and
- d. in compliance with all requirements under the Listing Rules (including the requirement that the annual amounts of the transactions shall not exceed the Steam Supply Annual Caps), applicable laws and the terms of the New Steam Supply Agreement.

Condition Precedent : The New Steam Supply Agreement should be conditional upon the approval of the Independent Shareholders at the EGM in accordance with the Listing Rules.

The terms of the New Steam Supply Agreement were concluded after arm's length negotiations between the parties therein.

Historical Steam Supply Amount

The New Steam Supply Agreement will supersede the Existing Steam Supply Agreement upon the former's expiry. The historical figures under the Existing Steam Supply Agreement are, however, still relevant references for the Steam Supply Annual Cap as follows:

Period	Historical steam supply amounts <i>RMB' million</i>	Existing steam supply annual caps <i>RMB' million</i>
For the year ended 31 December 2020	29.6	30.0
For the year ended 31 December 2021	22.7	30.0
For the eight months ended 31 August 2022	23.2	30.0

Steam Supply Annual Caps

It is estimated that the maximum aggregate annual transaction amounts under the New Steam Supply Agreement for each of the three years ending 31 December 2023, 2024 and 2025 will be RMB88.0 million, RMB93.0 million, and RMB97.0 million respectively.

The Steam Supply Annual Caps were calculated after primarily taking into account (i) the estimated volume of steam generated by the Group; (ii) the estimated volume of consumption of steam by the Group; (iii) the anticipated volume of steam to be purchased by Shandong Xiwang Sugar Group; (iv) the estimated sales of steam to independent third parties; (v) the steam price under the New Steam Supply Agreement; and (vi) the anticipated coal price movements in Zouping.

Internal Control Measures

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

1. the price for the steam supply service will be negotiated on arm's length basis and at a price with reference to the relevant government policy and the changes in coal prices and other costs and adjustments on the prices for the supply of steam from time to time;
2. the relevant department of the Company will also regularly check the per unit price on the invoice given to Shandong Xiwang Sugar Group with other customers for steam supply services (if there is any);
3. the Group shall, at least on a monthly basis, review and ensure the amount of the steam supply sold shall not exceed the annual caps to be approved by the Independent Shareholders;
4. the Company's external auditors will conduct an annual review on the pricing and the annual caps of the continuing connected transactions;
5. the independent non-executive Directors will conduct an annual review of the implementation and enforcement of the continuing connected transactions;

6. the New Steam Service Agreement will be reviewed by sales department and approved by sales managers; and
7. the Company will monitor the market price quotations for steam supply services as stated in the above, and it is able to directly and easily source alternative buyers or customers at a relatively low switch cost for similar steam supply services in the market, if the terms offered to Shandong Xiwang Sugar Group become less favourable than those offered to the independent third parties.

Reasons for and Benefits of Entering into the New Steam Supply Agreement

Steam is a by-product generated during the Group's production of special steel, while the Group only makes use of a small amount of steam in its production process. Given the stable and huge demand on steam of Shandong Xiwang Sugar Group, and the proximity of its plants to the Group's production base, the Group is expected to generate additional income from the sale of steam.

In light of the above, the Directors (excluding the independent non-executive Directors whose view are subject to the Independent Financial Adviser's advice which will be disclosed in the circular) are of the view that the terms of the New Steam Supply Agreement are on normal commercial terms and fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(III) THE GUARANTEE AGREEMENT

The principal terms of the Guarantee Agreement are set out as follows:

- Date : 1 November 2022
- Parties : the Company (and on behalf of its subsidiaries); and
Xiwang Group and the Relevant Subsidiaries
- Term : The Guarantee Agreement is valid for a term of three years commencing from 1 January 2023 to 31 December 2025. Under the Guarantee Agreement, the Group continues to provide guarantee services to Xiwang Group and the Relevant Subsidiaries, subject to the terms contained in the Guarantee Agreement and the approval from the Independent Shareholders at the EGM to be convened.

- Major terms : 1. The Group shall provide Xiwang Group and the Relevant Subsidiaries with guarantee services under which the Group shall undertake to guarantee and bear any obligations and liabilities of Xiwang Group and the Relevant Subsidiaries under the loan agreements to be entered between the lenders and Xiwang Group and/or the Relevant Subsidiaries, in accordance with the terms of the specific guarantee agreements to be entered between the lenders and the Group.
2. Any loans repaid by the Group for and on behalf of Xiwang Group (and the Relevant Subsidiaries) pursuant to the Guarantee Agreement shall be deemed to be a repayment of (i) the loans payable by the Group to Xiwang Group or the Relevant Subsidiaries; or (ii) other amounts payable by the Group to Xiwang Group or the Relevant Subsidiaries.
3. The Guarantee Amount shall not exceed the Outstanding Amount during the period from 1 January 2023 to 31 December 2025, and shall be subject to a maximum cap of RMB5.0 billion.
4. If the Guarantee Amount exceeds the Outstanding Amount, (i) the Group reserves the right to unilaterally terminate the specific guarantee(s) for an amount no less than the amount exceeding the Outstanding Amount; and (ii) a guarantee fee of 0.5% per annum on the Outstanding Amount shall be payable by Xiwang Group and/or the Relevant Subsidiaries to the Group for the amount exceeding the Outstanding Amount.
5. Xiwang Group undertakes that it shall always continue to provide guarantees and loans to the Group and cannot unilaterally terminate any one of them without the Group's consent.
- Condition precedent : The Guarantee Agreement should be conditional upon the approval of the Independent Shareholders at the EGM in accordance with the Listing Rules.

Proposed Guarantee Annual Caps

The proposed Guarantee Annual Caps are as follows:

Period	Guarantee Annual Caps RMB' billion
For the year ending 31 December 2023	5.0
For the year ending 31 December 2024	5.0
For the year ending 31 December 2025	5.0

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

1. the anticipated loans amount of Xiwang Group and Relevant Subsidiaries for their operational needs;
2. the Outstanding Amount of approximately RMB3.2 billion, RMB3.9 billion, RMB3.5 billion and RMB3.5 billion lent or guaranteed by Xiwang Group in favour of the Group as at 31 December 2019, 2020, 2021 and 30 June 2022, respectively; and
3. the historical guarantee amounts and historical annual caps under the Existing Guarantee Agreement.

Historical Guarantee Amount

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

Period	Historical maximum guarantee amounts RMB' billion	Guarantee Annual Caps RMB' billion
For the year ended 31 December 2019	4.5	5.0
For the year ended 31 December 2020	4.2	5.0
For the year ended 31 December 2021	4.2	5.0

For the years ended 31 December 2019, 2020 and 2021, the highest guarantee amounts historically provided by the Group to Xiwang Group and the Relevant Subsidiaries under the guarantees executed pursuant to the 2017 Guarantee Agreement and the Existing Guarantee Agreement was approximately RMB4.5 billion, RMB4.2 billion and RMB4.2 billion, respectively. As at 30 June 2022, the Guarantee Amount was approximately RMB4.2 billion, which exceeded the Outstanding Amount (as defined in the 2017 Announcement) of approximately RMB3.5 billion. In light of such shortfall, the Group has strengthened its internal control measures in order to ensure that the transactions are conducted in accordance with the terms of the Guarantee Agreement. For details, please refer to the paragraphs headed “Internal Control Measures” below.

As at the date of this announcement, a guarantee fee under the Existing Guarantee Agreement of approximately RMB3.5 million has been recognized by the Company.

Internal Control Measures

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

1. the Group will, no less frequent than on a quarterly basis, evaluate the financial performance and position of Xiwang Group and the Relevant Subsidiaries, which their management accounts are provided to the Group for such evaluation. If the Group is aware of any material adverse change in the financial conditions of Xiwang Group or the Relevant Subsidiaries, the Group will adopt measures immediately, such as not to provide additional guarantee to such entities;
2. each time when there is (i) more than 10% adjustment to the Guarantee Amount or the Outstanding Amount; or (ii) at least at a monthly interval, the Group shall review and ensure that the Guarantee Amount shall be smaller than the Outstanding Amount;
3. in addition, the senior management of the Group will also conduct regular checks at monthly intervals to assess whether individual guarantee transactions contemplated under the continuing connected transaction are conducted in accordance with the terms of the specific guarantee agreement(s); and they will also regularly review whether the terms of specific guarantee agreement(s) are fair and reasonable and in accordance with the terms of the Guarantee Agreement. The senior management of the Group will also conduct checking regularly to ensure that the annual caps are not exceeded;

4. the guarantee fee will be calculated on annual basis with reference to the audited figures disclosed in the annual report of the Company; and
5. in accordance with the Listing Rules, (i) the independent auditors of the Company will report annually on the guarantee services to confirm, among other matters, whether the guarantee services were entered into in accordance with the Guarantee Agreement; and (ii) the independent non-executive Directors will continue to report annually on whether the guarantee services are, among other things, on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Reasons for and Benefits of Entering into the Guarantee Agreement

The Outstanding Amount as at 31 December 2019, 2020 and 2021 were approximately RMB3.2 billion, RMB3.9 billion and RMB3.5 billion, respectively. The Company is of the view that the provision of guarantee services to Xiwang Group will enhance the financing capacity of Xiwang Group which in turn will promote Xiwang Group to provide more financial supports to the Group in the form of loans or financial guarantees. On 17 October 2022, an entrusted loan agreement and an ancillary guarantee agreement were executed under which the Company is the borrower and Xiwang Group is one of the guarantors of a loan of RMB1.55 billion. The difference of the Outstanding Amount and the Guarantee Amount is very likely then narrowed.

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

In view of the above, the Directors (excluding the independent non-executive Directors whose views will be formed and disclosed in the circular after considering the advice from the Independent Financial Adviser) are of the view that, whilst it is not in the ordinary and usual course of business of the Company to provide the guarantee services, the terms of the Guarantee Agreement are fair and reasonable and the Guarantee Agreement is entered into on normal commercial terms, and on terms no less favourable than those available from independent third parties under the prevailing local market conditions, and is in the interests of the Company and the Shareholders as a whole.

INFORMATION OF THE PARTIES

The Group is a leading high-end special steel manufacturer located in Shandong Province of the PRC. Its products consist of ordinary steel that is primarily used in buildings and infrastructures, as well as special steel that is used in automobile, shipbuilding, chemical and petrochemical, machinery and equipment sectors.

Xiwang Group is a company incorporated in the PRC with limited liability on 24 April 2001 and the controlling shareholder of the Company and is principally engaged in investment holding. As at the date of this announcement, Xiwang Group is owned as to 25.24% by Mr. WANG Yong, 32.34% by 20 individuals including Mr. WANG Di and the remaining 42.42% by other shareholders.

Zouping Power is branch company of Xiwang Group. The scope of business of Zouping Power includes supply of power, gas, heat, water and electricity. It is also authorized to provide services in respect of installation of power facilities, sewage and water treatment, and involve in sale of iron ore, iron ore powder and coke.

Shandong Xiwang Sugar Group is a subsidiary of Xiwang Group and is a leading provider of starch sugars, principally engaged in corn processing business with a focus on the production of starch sugars and corn co-products in the PRC, and the distribution and the sale of such products within and outside the PRC. Its products mainly include crystalline glucose, crystalline fructose, crystalline fructose-glucose, fructose- glucose syrup, corn gluten meal, corn gluten feed, corn germ, corn starch, sodium gluconate and maltodextrin. Most of these are functional ingredients which are mainly applied to food and beverage, fermentation, pharmaceutical, chemical, animal feed and construction industries.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Xiwang Investment is the controlling shareholder of the Company and is wholly-owned by Xiwang Holdings. Xiwang Holdings is held as to 95% by Xiwang Hong Kong and Xiwang Hong Kong is in turn wholly-owned by Xiwang Group. As at the date of this announcement, Xiwang Group is the controlling shareholder of the Company. Zouping Power, is a branch company established by Xiwang Group and Shandong Xiwang Sugar is a subsidiary of Xiwang Group. Therefore Xiwang Group, Zouping Power and Shandong Xiwang Sugar are all a connected person of the Company under Chapter 14A of the Listing Rules and the transactions contemplated under the New Agreements constitute continuing connected transactions of the Company.

As the highest of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of (i) the Electricity Purchase Annual Caps and Prepaid Electricity Charge Annual Caps under the Electricity Purchase Agency Agreement; (ii) the Steam Supply Annual Caps under the New Steam Supply Agreement; and (iii) the maximum Guarantee Amount under the Guarantee Agreement, all exceeds 25%, the Agreements and the transactions contemplated thereunder each constitute major transactions of the Company under Chapter 14 of the Listing Rules, which are subject to the reporting, announcement, circular and Shareholders' approval requirements.

Moreover, as the highest of the applicable percentage ratios (other than the profits ratio) (as defined under Rule 14.07 of the Listing Rules) in respect of the New Agreements' Caps under the New Steam Supply Agreement and the maximum Guarantee Amount under the New Agreements exceed 5%, the New Agreements and the transactions contemplated thereunder constitute non-exempt continuing connected transaction of the Company under Chapter 14A of the Listing Rules, which is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements.

The Company will also disclose the relevant details of the New Agreements in its next published annual reports and accounts in accordance with the relevant requirements as set out in Rule 14A.49 of the Listing Rules.

The Company will hold an EGM to consider and approve (i) the New Agreements and the transactions contemplated thereunder; and (ii) the New Agreements' Caps under the New Agreements.

APPROVAL BY THE BOARD

The proposal in respect of the entering into of the New Agreements were approved at the Board meeting held by the Company. As each of Mr. WANG Di and Mr. SUN Xinqu being a Director is also a director and shareholder of Xiwang Group and is also a director of Shandong Xiwang Sugar, and Mr. ZHANG Jian is a director of Xiwang Group, such Directors had abstained from voting on the board resolutions to approve the entering into of the New Agreements. Save as disclosed above, none of the Directors have a material interest in the transactions under the New Agreements.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An independent board committee comprising all the independent non-executive Directors (who has no material interest in the Agreements) will be formed to advise the Independent Shareholders on (i) the New Agreements and the transactions contemplated thereunder; and (ii) the New Agreements' Caps under the New Agreements.

The Company has appointed Nuada Limited as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on (i) the New Agreements and the transactions contemplated thereunder; and (ii) the New Agreements' Caps under the New Agreements.

EGM AND DESPATCH OF CIRCULAR

The Independent Board Committee, comprising Mr. LEUNG Shu Sun Sunny, Mr. LI Banguang and Mr. YU Kou, has been formed to advise the Independent Shareholders as to whether the New Agreements are entered into in the ordinary and usual course of business of the Group and on normal commercial terms and are in the interests of the Group and the Shareholders as a whole and whether the terms thereof are fair and reasonable and to advise the Independent Shareholders on how to vote, taking into account the recommendation of the Independent Financial Advisers, in respect of such matters at the EGM.

A circular containing details of the Agreements, a letter from the Independent Board Committee and a letter from the Independent Financial Adviser, both advising on Agreements' Terms, and the notice of the EGM will be despatched to the Shareholders in accordance with the Listing Rules on or before 5 December 2022 as additional time is required to compile the information and prepare the circular.

DEFINITIONS

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Binzhou Power”	State Grid Shandong Electric Power Company Binzhou Power Supply Company (國網山東省電力公司濱州供電公司), a local power supply company which is an independent third party of the Company
“Board”	the board of Directors of the Company
“Company”	Xiwang Special Steel Company Limited (西王特鋼有限公司) (Stock Code: 1266), a company incorporated in Hong Kong with limited liability on 6 August 2007 and the shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“continuing connected transactions”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be convened and held to approve (i) the provision of agency services in relation to Electricity Purchase and the payment of Prepaid Electricity Charge to Zouping Power by the Group under the Electricity Purchase Agency Agreement; (ii) the New Steam Supply Agreement; and (iii) the Guarantee Agreement and the transactions contemplated respectively thereunder
“Electricity Purchase”	the purchase of electricity from Binzhou Power through Zouping Power and/or their associate(s)
“Electricity Purchase Agency Agreement”	the agency services agreement dated 1 November 2022 entered into between Xiwang Metal (for and on behalf of the Group) and Zouping Power in relation to the provision of agency services with respect to Electricity Purchase and payment of Prepaid Electricity Charge to Zouping Power by the Group

“Electricity Purchase Annual Caps”	the maximum annual consideration (being the aggregate of the purchase price of Electricity Purchase) to be paid through Zouping Power to Binzhou Power for the Electricity Purchase under the Electricity Purchase Agency Agreement for each of the three financial years ending 31 December 2023, 2024 and 2025, details of which are set out in this announcement
“Existing Agreements”	the Existing Electricity Purchase Agency Agreement, the Existing Steam Supply Agreement, and Existing Guarantee Agreement dated 21 August 2020, 31 December 2019 and 19 January 2021, respectively, entered into by Xiwang Metal with Zouping Power and Xiwang Group and the Company with Xiwang Group, respectively
“Existing Electricity Purchase Agency Agreement”	the agency services agreement dated 21 August 2020 entered into between Xiwang Metal (for and on behalf of the Group) and Zouping Power in relation to the provision of agency services with respect to Electricity Purchase and payment of Prepaid Electricity Charge to Zouping Power by the Group
“Existing Guarantee Agreement”	the guarantee agreement dated 19 January 2021 entered into between the Company (and on behalf of its subsidiaries) and Xiwang Group in relation to provision of guarantee services by the Group to Xiwang Group and the Relevant Subsidiaries
“Existing Steam Supply Agreement”	the steam supply agreement dated 31 December 2019 entered into between Zouping Power and Xiwang metal
“Group”	the Company and its subsidiaries
“Guarantee Agreement”	the new guarantee agreement dated 1 November 2022 entered into between the Company (and on behalf of its subsidiaries) and Xiwang Group (and the Relevant Subsidiaries) in relation to the provision of Guarantee by the Group to Xiwang Group and the Relevant Subsidiaries

“Guarantee Amount”	the guarantee amount to be provided by the Group to Xiwang Group and the Relevant Subsidiaries under the New Guarantee Agreement (including but not limited to the amount that the Group has guaranteed for Xiwang Group and the Relevant Subsidiaries and has not yet expired)
“Guarantee Annual Cap(s)”	the proposed annual caps in respect of the maximum Guarantee Amount under the New Guarantee Agreement for each of the three years ending 31 December 2025
“Independent Board Committee”	the committee of Directors consisting of Mr. LEUNG Shu Sun Sunny, Mr. YU Kou and Mr. LI Bangguang, being all the independent non-executive Directors, formed to advise the Independent Shareholders in respect of the terms of the Agreements
“Independent Financial Adviser” or “Nuada Limited”	Nuada Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity as defined under the Securities and Futures Ordinance (Cap. 571 of The Laws of Hong Kong) which has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Electricity Purchase Agency Agreement, New Steam Supply Agreement and Guarantee Agreement
“Independent Shareholders”	Shareholders who are not involved in or interested in the relevant resolution(s) to be approved at the EGM
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Agreements”	the Electricity Purchase Agency Agreement, the New Steam Supply Agreement, and Guarantee Agreement all dated 1 November 2022, entered into by Xiwang Metal with Zouping Power, Shandong Xiwang Sugar and the Company with Xiwang Group, respectively

“New Agreements’ Caps”	(i) the Electricity Purchase Annual Caps and Prepaid Electricity Charge Annual Caps under the Electricity Purchase Agency Agreement; (ii) the Steam Supply Annual Caps under the New Steam Supply Agreement; and (iii) the maximum Guarantee Amount under the Guarantee Agreement
“New Steam Supply Agreement”	the steam supply agreement dated 1 November 2022 entered into between Shandong Xiwang Sugar and Xiwang Metal
“Outstanding Amount”	being (i) the aggregate amount due from the Group to Xiwang Group and the Relevant Subsidiaries (including but not limited to the borrowings provided by Xiwang Group and the Relevant Subsidiaries to the Group); plus (ii) the aggregate amount of the Group’s borrowing which is guaranteed, secured or pledged by Xiwang Group and the Relevant Subsidiaries; less (iii) the aggregate amount due from Xiwang Group and the Relevant Subsidiaries to the Group (including but not limited to the deposits placed by the Group with Xiwang Group and the Relevant Subsidiaries)
“PRC”	the People’s Republic of China
“Prepaid Electricity Charge”	the amount of prepayment made by the Group to Zouping Power and/or their associate(s) to pay to Binzhou Power
“Prepaid Electricity Charge Annual Caps”	the maximum amount of Prepaid Electricity Charge prepaid by the Group to Zouping Power, but not yet paid to Binzhou Power (or due from Zouping Power to the Group) under the Electricity Purchase Agency Agreement at any time during the term of the Electricity Purchase Agency Agreement
“Relevant Subsidiaries”	All of the subsidiaries of Xiwang Group except for members of the Group
“RMB”	Renminbi, the lawful currency of the PRC

“Shandong Xiwang Sugar”	Shandong Xiwang Sugar Industry Company Limited* (山東西王糖業有限公司), a company established in the PRC
“Shandong Xiwang Sugar Group”	Shandong Xiwang Sugar and its subsidiaries
“Shareholder(s)”	shareholder(s) of the Company
“Steam Supply Annual Caps”	the annual cap(s) for supply of steam by the Group to the Shandong Xiwang Sugar Group under the New Steam Supply Agreement for the period commencing on 1 January 2023 and ending on 31 December 2025
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“VAT”	PRC value-added tax
“Xiwang Group”	Xiwang Group Company Limited* (西王集團有限公司), a company established in the PRC with limited liability, which is at the date of this announcement, the controlling shareholder of the Company
“Xiwang Holdings”	Xiwang Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, which was at the date of this announcement, held as to 95% by Xiwang Hong Kong and 5% by Mr. Wang Yong and 22 individuals
“Xiwang Hong Kong”	Xiwang Hong Kong Limited (西王香港有限公司), a company incorporated in Hong Kong with limited liability, which was at the date of this announcement, a wholly-owned subsidiary of Xiwang Group
“Xiwang Investment”	Xiwang Investment Company Limited, a company incorporated in the British Virgin Islands with limited liability, which was at the date of this announcement, the controlling shareholder of the Company and a wholly-owned subsidiary of Xiwang Holdings

“Xiwang Metal”	Xiwang Metal Technology Co., Ltd.* (西王金屬科技有限公司), a wholly-owned subsidiary of the Company
“Zouping”	Zouping City 鄒平市, a county – level city of Shandong province in PRC
“Zouping Power”	Xiwang Group Company Limited Zouping Power Branch* (西王集團有限公司鄒平動力分公司), a branch company established by Xiwang Group in the PRC and is a connected person of the Company

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

Hong Kong, 1 November 2022

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

Executive Directors:

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

Independent non-executive Directors:

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

Non-executive Director:

Mr. WANG Di

* *For identification purpose only*