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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, registered institution in securities, bank manager, solicitor, professional accountant or other professional advisers.

If you have sold or transferred all your shares in Xiwang Special Steel Company Limited (the "Company"), 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, registered institution in securities or other agent through whom the sale or the 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 AND CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO**

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

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

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

Nuada Limited

A letter from the Board is set out on pages 7 to 32 of this circular. A letter from the Independent Board Committee is set out on pages 33 to 34 of this circular. A letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 35 to 59 of this circular.

A notice convening the EGM to be held at Unit 2110, 21/F Harbour Centre, 25 Harbour Road, Wan Chai, Hong Kong on 23 December 2022 at 11:30 a.m. is set out on pages 73 to 75 of this circular. A form of proxy for use at the EGM (or any adjournment thereof) is also enclosed.

Whether or not you are able to attend the EGM, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Boardroom Share Registrars (HK) Limited, 2103B, 21/F, 148 Electric Road, North Point, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending the EGM or any adjournment thereof and voting in person if you so wish.

PRECAUTIONARY MEASURES FOR THE EXTRAORDINARY GENERAL MEETING

Taking into account the recent development of the epidemic caused by novel coronavirus pneumonia (COVID-19), the Company will implement the following prevention and control measures at the EGM against the epidemic to protect the Shareholders from the risk of infection:

- (i) Compulsory body temperature check will be conducted;
- (ii) Every Shareholder or proxy is required to wear surgical face mask throughout the EGM;
- (iii) Every Shareholder or proxy is required to submit the health declaration form, which may be used for close contact tracing, if required;
- (iv) No refreshment will be served and no corporate gift will be distributed; and
- (v) Every Shareholder or proxy will be assigned a designated seat at the time of registration to ensure an appropriate social distancing.

Any Shareholder or proxy (a) who does not comply with any of the precautionary measures referred to in (i) to (iii) above; or (b) with a body temperature of over 37.3 degrees Celsius; or (c) who is subject to health quarantine prescribed by the Government of Hong Kong will not be given access to the meeting venue. The Company reminds the Shareholders or proxies that they should carefully consider the risks of attending the EGM, taking into account their own personal circumstances. For the health and safety of Shareholders, Shareholders are strongly encouraged 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.

The Company will keep the constantly evolving COVID-19 pandemic situation under review. Subject to the development of the COVID-19 pandemic situation and the requirements or guidelines of the Government and/or regulatory authorities, the Company may be required to make changes to the arrangements relating to the EGM and implement additional measures at short notice. Shareholders should check the Company's website at www.xiwangsteel.com or the HKEXnews website at www.hkexnews.hk for any future announcements and updates on the EGM arrangements.

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DEFINITIONS

In this circular, unless the context requires otherwise, the following terms have the following meanings:

“2017 Guarantee Agreement”	the guarantee agreement dated 10 November 2017 entered into between the Group and Xiwang Group in relation to provision of guarantee services by the Group to Xiwang Group and the Relevant Subsidiaries
“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)

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“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 circular
“Existing Agreements”	the Existing Electricity Purchase Agency Agreement, and the Existing Steam Supply Agreement, entered into by Xiwang Metal with Zouping Power dated 21 August 2020 and 31 December 2019, respectively, and Existing Guarantee Agreement entered into by Xiwang Group and the Company
“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

DEFINITIONS

“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
“Latest Practicable Date”	2 December 2022, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information referred to in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“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

DEFINITIONS

“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 the Latest Practicable Date, 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 Latest Practicable Date, 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 Latest Practicable Date, a wholly-owned subsidiary of Xiwang Group Company
“Xiwang Investment”	Xiwang Investment Company Limited, a company incorporated in the British Virgin Islands with limited liability, which was at the Latest Practicable Date, the controlling shareholder of the Company and a wholly-owned subsidiary of Xiwang Holdings
“Xiwang Metal”	Xiwang Metal Science & Technology Company Limited* (西王金屬科技有限公司), a wholly-owned subsidiary of the Company

DEFINITIONS

“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

* For identification purpose only

The English names of the Chinese nationals, companies, entities, departments, facilities, certificates, titles and the like are translation of their Chinese names and are included in this circular for identification purpose only and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese name shall prevail.



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

(incorporated in Hong Kong with limited liability)

(Stock code: 1266)

Executive Directors:

Mr. ZHANG Jian (*Chief Executive Officer*)
Mr. SUN Xinhua
Ms. LI Hai Xia

Non-executive Directors:

Mr. Wang Di (*Chairman*)

Independent non-executive Directors:

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

Registered office:

Unit 2110, 21/F
Harbour Centre
25 Harbour Road
Wanchai, Hong Kong

Principal place of business in PRC:

Xiwang Industrial Area
Zouping City
Shandong Province China
256209

6 December 2022

To the Shareholders

Dear Sir or Madam,

**MAJOR AND CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO
(1) ELECTRICITY PURCHASE AGENCY AGREEMENT;
(2) NEW STEAM SUPPLY AGREEMENT;
(3) GUARANTEE AGREEMENT;
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

1. INTRODUCTION

Reference is made to the announcements of the Company dated 1 November 2022 and 5 December 2022 in relation to the New Agreements, the transactions contemplated thereunder, whereby it was announced that since the Existing Agreements (except for the Existing Guarantee Agreement) will expire on 31 December 2022 the Company has entered into the New Agreements for a term of three years from 1 January 2023 to 31 December 2025, of which the Guarantee Agreement constitutes major transaction of the Company which is subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules and all the New Agreements constitute continuing connected transactions of the Company which are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

As the continuing connected transactions contemplated under the Electricity Purchase Agency Agreement and the New Steam Supply Agreement are of a revenue nature in the ordinary and usual course of business of the Group, pursuant to Rule 14.04(1)(g) of the Listing Rules, the continuing connected transactions contemplated under the Electricity Purchase Agency Agreement and the New Steam Supply Agreement do not constitute notifiable transactions of the Company.

The purposes of this circular are:

- (i) to provide you with further details of the New Agreements, the respective transactions thereunder and their respective proposed annual caps;
- (ii) to provide you with the letter of recommendation from the Independent Board Committee and the letter of advice from the Independent Financial Advisers to the Independent Board Committee and the Independent Shareholders in relation to the terms of the New Agreements; and
- (iii) to give the Shareholders the notice convening the EGM at which an ordinary resolution will be proposed to consider and approve, if appropriate, the New Agreements, the respective transactions thereunder and their respective proposed annual caps.

2. MAJOR AND CONTINUING CONNECTED TRANSACTIONS

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.

LETTER FROM THE BOARD

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 shall 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.

LETTER FROM THE BOARD

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 (*Note: 1*)

Note 1: For the purpose of determining the Electricity Purchase Annual Caps, the Company had to consider the Group's historical production figures and the price trend of electricity.

The Company considers the historical production figures for FY2021 and the eight months ended in 2022 (the "Said Periods") should be omitted due to the reasons as follows:-

- (i) The figure for FY2021 was being negatively affected by the restriction of operation in Shandong Province under the pandemic of COVID-19; and
- (ii) The figures for the eight months ended in 2022 was further negatively affected by the restriction on production for the Beijing Winter Olympics 2022 along with the COVID-19 restriction still in place.

The Company considers it is inappropriate to utilize the Said Periods' production figures to project annual caps for FY2023, FY2024 and FY2025 due to the restrictions imposed on the Group's production while the Company expects that the Group will be able to utilize a higher capacity followed by the easing restriction due to COVID-19 in Shandong Province in the coming years.

Hence, the Electricity Purchase Annual Caps instead relied on the production figure from FY2020 as the basis, assuming it is the most reliable figure for the upcoming years. The total production amount for FY2020 of the Group was approximately 3.1 million tonnes. The Company expects to further utilize the Group's production facilities, as compared to FY2020, to produce approximately 3.3 million tonnes for each of FY2023, FY2024 and FY2025.

LETTER FROM THE BOARD

Regarding the electricity price trend, the average electricity unit price between FY2020 and FY2021 was virtually the same, at approximately RMB0.66 and RMB0.67, respectively. The electricity unit price increased by approximately 19% between the Said Periods from approximately RMB0.67 to approximately RMB0.80. The Company expects approximately a further 3% increase from the rest of FY2022, resulting with an average unit price of approximately RMB0.83 for FY2022. The expected electricity unit price for FY2023, FY2024 and FY2025 will be approximately RMB0.87, RMB0.91 and RMB0.96, respectively, assuming a 5% annual increase.

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 RMB 66.6 million (including VAT), RMB 80.8 million (including VAT), and RMB 77.3 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

LETTER FROM THE BOARD

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 therein;
2. the relevant departments of the Company will also regularly check the per unit price stated on the invoice given by Binzhou Power to Zouping Power, against the per unit price 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 or its minority Shareholders.

LETTER FROM THE BOARD

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 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.

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
Terms	:	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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

- 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 shall 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.

LETTER FROM THE BOARD

Historical Steam Supply Amount

The New Steam Supply Agreement will supersede the Existing Steam supply Agreement upon the expiry of the same. 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

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 steam price under the New Steam Supply Agreement; and (v) the anticipated coal price movements in Zouping referenced from (1) creditable published price/price index from websites; (2) futures price of coal; and (3) enquiries made by the Group's purchasing team.

The two major coal trading related websites commonly used in the industry, namely "mysteel.com" and "cqcoal.com". "mysteel.com" is a website operated by Shanghai Ganglian E-Commerce Holdings Co., Ltd. which is a company with its shares listed on the Shanghai Stock Exchange (Stock Code: 300226). It is one of the largest online portal for the Chinese metal trading markets. The Company therefore, amongst taking other metal trading related references, also takes reference of the coal price from "mysteel.com". "cqcoal.com" is another website that the Company utilized to reference for coal price because it is one of the two websites dedicated by the Chinese National Development and Reform Commission that releases the Bohai-Rim Steam-Coal Price Index. Such index is regarded as a reliable source that provides weekly price updates.

The Company takes references from futures prices of coal from the above websites because futures contracts are standardized and the futures prices are more sensitive to changes. It is a good reference for current coal price.

The Group's purchasing team can also provide coal price indications from their purchasing network and other coal suppliers for any recent transaction price figures in the region of Zouping.

The Company believes the coal price references were made from creditable and reliable sources that are either listed company or officially recognized index, in combination of actual market transaction price from market analysts.

LETTER FROM THE BOARD

The coal price is one of the major considerations for steam price and the Group will perform monthly check on both the coal and steam market prices to ensure the steam unit price supplied to Shandong Xiwang Sugar is no less favourable. As discussed above, the Group has with their procedures for obtaining reliable coal unit price indications. With respect to steam unit price, the Company will perform monthly check on the unit price on the invoices given to Shandong Xiwang Sugar by other independent third party to ensure that the unit price charged by Xiwang Metal or other sellers of the Group companies would be no less favourable than the unit price Shandong Xiwang Sugar Group pay to other independent third party.

The proposed Steam Supply Annual Caps are substantially larger than the historical steam supply amounts are because (i) the average unit price for steam has significantly increased (e.g. the difference of steam unit price between FY2020 and FY2021 and between the Said Periods were increases of approximately 34% and 59%, respectively, from approximately RMB91 in FY2020 to approximately RMB122 in FY2021 and to approximately RMB194 for the eight months ended 31 August 2022); and (ii) under the premises of the Company's reasoning for omitting the Said Periods for the purpose of projecting production volume referring to page 10 of this circular, the Company relied on the production volume of the FY2020 as basis and omitted the figures for the Said Periods. Under the positive influence of these factors, the Company anticipated that the steam unit price will reach approximately RMB199 by the end of FY2022, substantially larger steam supply caps with a 5% increase of steam unit price for each of FY2023, FY2024 and FY2025 respectively at approximately RMB209, RMB220 and RMB231.

Currently the Group is only supplying steam to Zouping Power (changing to Shandong Xiwang Sugar when the New Steam Supply Agreement comes into effect) due to the limited supply of steam volume and other infrastructural concerns.

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);

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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 independent 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 relevant invoices 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 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 Independent Shareholders as a whole.

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

LETTER FROM THE BOARD

- 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.

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Condition precedent : The Guarantee Agreement shall be conditional upon the approval of the Independent Shareholders at the EGM in accordance with the Listing Rules.

Proposed Guarantee Annual Caps

The proposed Guarantee Annual Caps are as follows:

Period	Guarantee Annual Caps <i>RMB' billion</i>
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 <i>RMB' billion</i>	Guarantee Annual Caps <i>RMB' billion</i>
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

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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 Latest Practicable Date, a guarantee fee under the Existing Guarantee Agreement of approximately RMB3.5 million has been settled by Xiwang Group in favour of the Group.

Assessment of the Risks of Entering into the Guarantee Agreement

In considering of the risks of entering into the Guarantee Agreement, the Board has taken into account the following factors:

- (i) The Company’s latest audited cash and bank balance of approximately RMB332 million and net assets of approximately RMB5.8 billion for the financial year ended 31 December 2021. Despite the Guarantee Annual Caps exceeds the said cash and bank balance amount and close to the Company’s net asset amount, the Board has considered a combination of factors for the Company to enter into the Guarantee Agreement as follows:
 - (a) The Company has been monitoring the financial status of Xiwang Group, as further described in Paragraph (ii) of this part;
 - (b) The Company has never settled any loan on behalf of Xiwang Group;
 - (c) It is highly unlikely that a series of defaults that would trigger the Company to repay on behalf of Xiwang Group for the entire Guarantee Annual Cap in a short amount of time; and
 - (d) The Company is anticipating a recovering real estate market which will positively affect its cash flow.

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- (ii) The Board does not ask for credit rating of Xiwang Group Company because (i) the credit rating fee is high with costs ranged between RMB300,000 and RMB400,000; (ii) it takes a long period of time (at least forty-five (45) working days) to obtain the credit rating report; (iii) the credit rating report obtained has short validity. It only lasts for one year which shall be updated annually with additional costs. Since the Company has been monitoring and has been able to access the management accounts, relevant information and books and record of Xiwang Group in the past years on a regular basis and Xiwang Group has further provided profit and cashflow forecast in the next three years to the Company, the Board considers that it is in a better position than any independent credit rating agencies in assessing the financial position of Xiwang Group. By weighting the above costs and benefits of the credit rating report and for the reasons above, credit rating report of Xiwang Group is not an economically effective mean to reflect the true repayment capability of the Xiwang Group. In combination of the recent Zouping lockdown since 21 November 2022 due to COVID-19 related measures, and the lockdown order has not been lifted up to the Latest Practicable Date, therefore time required for independent credit rating will be unreasonably long. As such, the Board does not find it, at the current stage, fruitful, beneficial and necessary to engage any independent credit rating agencies to conduct credit rating on Xiwang Group. The Company has, however, conducted media search on Xiwang Group on regular basis and actively reached out to the same for clarification and responses in the event any negative news and publicity concerning the credibility of Xiwang Group was found. Notwithstanding the aforesaid, the Company does not rule out any future possibility to conduct independent credit rating on Xiwang Group upon suitable and feasible time when the Company finds appropriate since the Company still recognises the worthiness of having an independent credit rating;
- (iii) From the recently conducted online media search on Xiwang Group, it was discovered that there had been negative news and publicity concerning the credibility of Xiwang Group, for instance, (i) 百億債務和解協議執行順利，「玉米油大王」西王集團仍陷欠薪、訴訟困境西王集團_新浪財經_新浪網 (<https://finance.sina.com.cn/roll/2021-12-03/docikyamrmy6701440.shtml>); and (ii) 西王集團6.2億股權被凍結西王食品逆勢漲停_中國經濟網—國家經濟門戶 (http://finance.ce.cn/stock/gsgdbd/202204/25/t20220425_3752_8634.shtml). The Company has taken the negative news and publicity seriously and requested Xiwang Group for a clarification and update on the latest status of the news. In relation to the unpaid salary incident, Xiwang Group opined that they was not aware of any labour dispute in any entity under the management of Xiwang Group. Xiwang Group had discussions and reviews on the incident which internal controls and measures have been implemented to enhance internal communication and corporate governance. In 2021, the management of the basketball team were transferred to Shandong Hi-Speed Group Co., Ltd. (山東高速集團有限公司). For debt settlement, the Company acknowledged a settlement arrangement between Xiwang Group and relevant creditors had been reached in April 2020. Since then, Xiwang Group had duly fulfilled its obligations and repaid the debt in accordance with the settlement arrangement. As such, the information reported may not be indicative of the present status of Xiwang Group.

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In the circumstances, the Company has engaged manpower to conduct media search on Xiwang Group from time to time. Whenever negative news is found, the Company will send relevant news to Xiwang Group and require clarification from Xiwang Group in a timely manner. If further clarification is required, a meeting will be held for the Company to fully understand the latest status of the news. As such, the Company is using its best endeavours to closely monitor Xiwang Group.

- (iv) Despite Xiwang Group has recorded a net loss in 2021, it remains to be in net asset position and has positive operational cash inflow. Based on the profit and cashflow forecast provided, the Board considers the loss suffered by Xiwang Group is a one-time loss and is of the view that Xiwang Group has sufficient repayment capability. The Company will conduct media search and communicate with Xiwang Group from time to time to see if there is any material adverse change towards the financial position of Xiwang Group which potentially impairs its ability to repay their loans; and
- (v) For the past years, Xiwang Group had periodically provided its financial statements and other relevant information as requested by the Company to monitor Xiwang Group's financial positions. In combination of our internal control measures, there has been sufficient risk control assessment over the past years.

As the default risk under the Guarantee Agreement is relatively low, and given the Guarantee Annual Cap is limited to the amount which the Company owes to Xiwang Group, the Board is of the view that the risks associated with the Guarantee Agreement are reasonable and controllable.

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;

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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 checkings 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.

The internal control measures provided a reliable mechanism to arouse awareness of the senior management of the Company to search for an appropriate measure that is of the best interests of the Group. The Company has been searching for remedies to ratify the shortfall such as to increase the Guarantee Amount from Xiwang Group which was previously explored by the Company during 2021 and 2022 (prior to the signing of the entrust loan agreement on 17 October 2022 as described below) but failed to find a matching bank or financial institution to offer such loan arrangement. The Company also considered that any sudden reduction in the Guarantee Amount in favour of Xiwang Group is not of the best interests of the Group as it could in turn negatively affect the Group's credit line given by Xiwang Group.

The internal control measures have provided a sound mechanism for the senior management of the Company to keep track with the Outstanding Amount periodically, and to take the appropriate action(s) when necessary that is of the best interests of the Company. The senior management considers any sudden reduction in Guarantee Amount in favour of Xiwang Group being inappropriate and opted to (i) withhold any further guarantee commitment of the Group in favour of Xiwang Group; (ii) search for more loan opportunities to increase Xiwang Group's Guarantee Amount in favour of the Group; and (iii) collecting guarantee fees from Xiwang Group.

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As at 31 October 2022 the difference between the Guarantee Amount and the Outstanding Amount is approximately RMB0.2 billion in favour of the Group.

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 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 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 Independent Shareholders as a whole.

3. 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 the Latest Practicable Date, Xiwang Group is owned as to 25.24% by Mr. WANG Yong, 42.43% by 20 individuals including Mr. WANG Di and the remaining 32.33% 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.

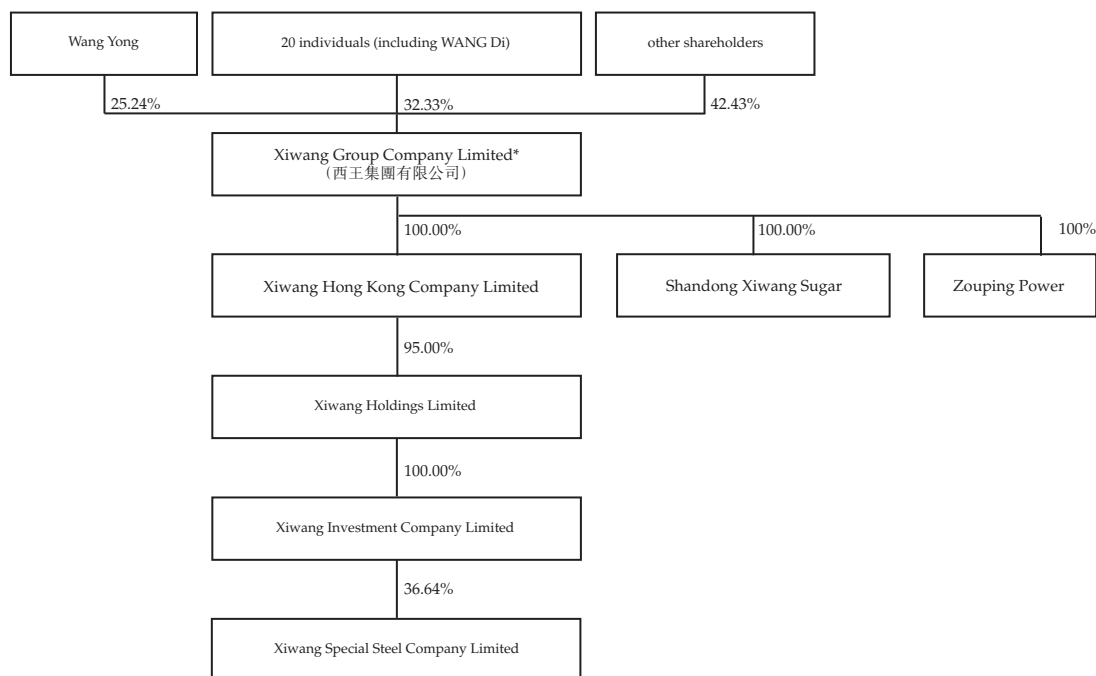
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Shandong Xiwang Sugar Group is a subsidiary of Xiwang Group and is a leading provider of starch sugars, principally engaged in corn processing business with a focus on the production of starch sugars and corn co-products in the PRC, and the distribution 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.

4. LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, 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 Latest Practicable Date, Xiwang Group is the controlling shareholder of the Company.

The below is a simplified organisational chart illustrating the ultimate beneficial owners of the parties relevant to the transaction and their relationships:



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 connected persons 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.

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Pursuant to Rule 14A.70(3) of the Listing Rules, the identity of the 20 individuals (who, in aggregate, own approximately 32.33% of Xiwang Group) and the other shareholders (who, in aggregate, own approximately 42.43% of Xiwang Group) are disclosed as follows:

Name in Chinese	Name in English (For identification purpose only)	Percentage of shareholdings
王剛	Wang Gang	1.88%
王呈林	Wang Chenglin	1.08%
王會議	Wang Huiyi	0.72%
王明詩	Wang Mingshi	0.72%
王明鶴	Wang Minghe	2.17%
王呈軍	Wang Chengjun	0.72%
甯立江	Ning Lijiang	1.80%
王濤	Wang Tao	1.44%
王棟	Wang Dong	1.88%
賀曉光	He Xiaoguang	0.72%
孫新虎	Sun Xihu	1.44%
王棣	Wang Di	1.44%
王方明	Wang Fangming	1.44%
韓忠	Han Zhong	1.44%
王燕	Wang Yan	8.68%
王呈龍	Wang Chenglong	0.72%
韓本芳	Han Benfang	0.72%
王亮	Wang Liang	1.88%
王傳玉	Wang Chuanyu	0.72%
王岩	Wang Yan	0.72%
	Sub-total	32.33%

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Name in Chinese	Name in English (For identification purpose only)	Percentage of shareholdings
國民信託有限公司	National Trust Co., Ltd.	5.45%
新華基金管理股份有限公司	Xinhua Fund Management Co., Ltd.	1.77%
濱州正誠永盛股權投資合夥企業 (有限合夥)	Binzhou Zhengcheng Yongsheng Equity Investment Partnership (Limited Partnership)	0.33%
北京福海合昇科技有限公司(<i>Note</i>)	Beijing Fuhai Hesheng Technology Co., Ltd.	6.00%
濱州正應世嘉股權投資合夥企業 (有限合夥)	Binzhou Zhengying Shijia Equity Investment Partnership (Limited Partnership)	5.05%
鄒平市韓店鎮西王村村民委員會	Village Committee of Xiwang Village, Handian Town, Zouping City	23.83%
	Sub-total	42.43%
王勇	Wang Yong	25.24%
	Grand Total	100.00%

Note: The ultimate beneficial owners of 北京福海合昇科技有限公司 are disclosed as follows:

Name in Chinese	Name in English (For identification purpose only)	Percentage of shareholdings
周志峰	Zhou Zhifeng	51%
楊孟欣	Yang Mengxin	25%
洪偉	Hong Wei	24%
		100%

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As the highest of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the maximum Guarantee Amount under the Guarantee Agreement exceeds 25%, the Guarantee Agreement and the transactions contemplated thereunder constitute major transaction of the Company under Chapter 14 of the Listing Rules, which is subject to the reporting, announcement, circular and Shareholders' approval requirements.

Moreover, as the highest of the applicable percentage ratios (other than the profits ratio) (as defined under Rule 14.07 of the Listing Rules) in respect of the New Agreements' Caps 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.

As the continuing connected transactions contemplated under the Electricity Purchase Agency Agreement and the New Steam Supply Agreement are of a revenue nature in the ordinary and usual course of business of the Group, pursuant to Rule 14.04(1)(g) of the Listing Rules, the continuing connected transactions contemplated under the Electricity Purchase Agency Agreement and the New Steam Supply Agreement do not constitute notifiable transactions of the Company.

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. Xiwang Investment and its associates, which together were interested in an aggregate of 868,093,000 Shares and Mr. WANG Di holds 9,333,333 Shares, representing approximately 36.64% and 0.39% of the issued share capital of the Company as at the Latest Practicable Date, respectively, shall abstain from voting at the EGM for the approval of the resolution relating to the transactions under the New Agreements and the New Agreements' Caps.

5. 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 Xihu 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 resolution 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.

LETTER FROM THE BOARD

6. INDEPENDENT BOARD COMMITTEE

The Company has established an Independent Board Committee comprising all independent non-executive Directors for providing advice to the Independent Shareholders on whether the terms of the New Agreements and the transactions contemplated thereunder as well as the New Agreements' Caps are fair and reasonable, and whether they are in the interest of the Company and the Shareholders as a whole. A letter from the Independent Board Committee to the Independent Shareholders is set out on pages 33 to 34 of this circular. The letter from the Independent Board Committee to the Independent Shareholders contains its recommendation on the New Agreements and the transactions contemplated thereunder as well as the New Agreements' Caps. Having considered the appropriate internal control procedures and the pricing policies in place with respect to New Agreements, the methods and procedures established by the Company to ensure that the transactions contemplated under the New Agreements will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders, the Independent Board Committee is of the view that the New Agreements, the continuing connected transactions thereunder and the New Agreements' Caps are fair and reasonable to the Independent Shareholders and in the interests of the Company and the Shareholders as a whole.

7. INDEPENDENT FINANCIAL ADVISER

The Company has appointed Nuada Limited as the Independent Financial Adviser to the Company for providing advice to the Independent Board Committee and the Independent Shareholders on whether the terms of the New Agreements and the transactions contemplated thereunder as well as the New Agreements' Caps are fair and reasonable, and whether they are in the interest of the Company and the Shareholders as a whole. A letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 35 to 59 of this circular. The letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders indicates that the Independent Financial Adviser considers the New Agreements and the transactions contemplated thereunder as well as the New Agreements' Caps are fair and reasonable to the Shareholders, and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

8. CONNECTED PERSONS WHO ARE REQUIRED TO ABSTAIN FROM VOTING ON THE RESOLUTION

As at the Latest Practicable Date and to the best knowledge, information and belief of the Directors, save for Xiwang Investment and Mr. WANG Di which are interested in the transactions to be approved at the EGM, none of the Shareholders of Company must abstain from voting on the relevant resolution.

9. THE EGM AND PROXY ARRANGEMENT

A notice convening the EGM is set out on pages 73 to 75 of this circular.

Pursuant to the Listing Rules and the Articles, any vote of Shareholders at a general meeting must be taken by poll except where the chairman of the EGM, 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.

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, 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 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.

10. RECOMMENDATION

The Board (including independent non-executive Directors) considers that the ordinary resolution to be proposed at the EGM is in the interests of the Company and the Shareholders as a whole, and accordingly, recommends the Shareholders to vote in favour of the resolution to be proposed at the EGM.

LETTER FROM THE BOARD

11. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders, the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, and additional information set out in Appendices I and II to this circular.

Yours faithfully,
For and on behalf of the Board
Xiwang Special Steel Company Limited
WANG DI
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is a full text of the letter from the Independent Board Committee prepared for the purpose of inclusion in this circular:



XIWANG SPECIAL STEEL COMPANY LIMITED

西王特鋼有限公司

(incorporated in Hong Kong with limited liability)

(Stock code: 1266)

6 December 2022

To the Independent Shareholders

Dear Sir or Madam,

**MAJOR AND CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO
(1) ELECTRICITY PURCHASE AGENCY AGREEMENT;
(2) NEW STEAM SUPPLY AGREEMENT;
(3) GUARANTEE AGREEMENT;
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

We refer to the circular issued by the Company to the Shareholders dated 6 December 2022 (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

As the highest of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the maximum Guarantee Amount under the Guarantee Agreement exceeds 25%, the Guarantee Agreement and the transactions contemplated thereunder constitute major transaction of the Company under Chapter 14 of the Listing Rules, which is subject to the reporting, announcement, circular and Shareholders’ approval requirements.

Moreover, as the highest of the applicable percentage ratios (other than the profits ratio) (as defined under Rule 14.07 of the Listing Rules) in respect of the New Agreements’ Caps 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.

As the continuing connected transactions contemplated under the Electricity Purchase Agency Agreement and the New Steam Supply Agreement are of a revenue nature in the ordinary and usual course of business of the Group, pursuant to Rule 14.04(1)(g) of the Listing Rules, the continuing connected transactions contemplated under the Electricity Purchase Agency Agreement and the New Steam Supply Agreement do not constitute notifiable transactions of the Company.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We have been appointed by the Board to consider the terms of the New Agreements with respect to their transactions contemplated thereunder and the New Agreements' Caps and to advise the Independent Shareholders as to whether, in our opinion, its terms are fair and reasonable so far as the Independent Shareholders are concerned. Nuada Limited has been appointed as the Independent Financial Adviser to advise us in this respect.

We wish to draw your attention to the letter from the Board, as set out on pages 7 to 32 of the circular and the letter from the Independent Financial Adviser, as set out on pages 35 to 59 of the circular which contains its advice to the Independent Board Committee and the Independent Shareholders on the terms of the New Agreements and the New Agreements' Caps for the continuing connected transactions contemplated thereunder.

Having considered the terms of the New Agreements and the advice of the Independent Financial Adviser, we are of the view that the transactions contemplated under the New Agreements are required in the ordinary and usual course of business of the Group, the terms and conditions are fair and reasonable and on normal commercial terms, and in the interests of the Company and the Shareholders as a whole, and the New Agreements' Caps for the continuing connected transactions contemplated thereunder are fair and reasonable. Our view relating to fairness and reasonableness is based on information, facts and circumstances currently prevailing.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to approve the New Agreements and the transactions contemplated thereunder and the New Agreements' Caps.

Yours faithfully,

For and on behalf of the Independent Board Committee

Xiwang Special Steel Company Limited

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

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter of advice to the Independent Board Committee and the Independent Shareholders from Nuada Limited dated 6 December 2022 prepared for the purpose of inclusion in this circular.

Nuada Limited

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6 December 2022

*To the Independent Board Committee
and the Independent Shareholders of
Xiwang Special Steel Company Limited*

Dear Sirs,

MAJOR AND CONTINUING CONNECTED TRANSACTIONS IN RELATION TO (1) ELECTRICITY PURCHASE AGENCY AGREEMENT; (2) NEW STEAM SUPPLY AGREEMENT; AND (3) GUARANTEE AGREEMENT

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the (i) the New Agreements and the transactions contemplated thereunder; and (ii) the New Agreements' Caps under the New Agreements, details of which are set out in the section headed "Letter from the Board" (the "**Board Letter**") in the Company's circular dated 6 December 2022 to the Shareholders, of which this letter forms part. Our appointment as the Independent Financial Adviser has been approved by the Independent Board Committee. Terms used in this letter shall have the same meanings as defined in this circular unless the context requires otherwise.

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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

On 1 November 2022, 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:

- (i) 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;
- (ii) 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
- (iii) 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 Latest Practicable Date, Xiwang Group is the 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 stated in the Board Letter, as the highest of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the maximum Guarantee Amount under the Guarantee Agreement exceeds 25%, the Guarantee Agreement and the transactions contemplated thereunder constitute major transaction of the Company under Chapter 14 of the Listing Rules, which is subject to the reporting, announcement, circular and Shareholders' approval requirements. Moreover, as the highest of the applicable percentage ratios (other than the profits ratio) (as defined under Rule 14.07 of the Listing Rules) in respect of the New Agreements' Caps 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. As the continuing connected transactions contemplated under the Electricity Purchase Agency Agreement and the New Steam Supply Agreement are of a revenue nature in the ordinary and usual course of business of the Group, pursuant to Rule 14.04(1)(g) of the Listing Rules, the continuing connected transactions contemplated under the Electricity Purchase Agency Agreement and the New Steam Supply Agreement do not constitute notifiable transactions of the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee has been formed to advise the Independent Shareholders as to the fairness and the reasonableness of the terms of the New Agreements with respect to their transactions contemplated thereunder and the New Agreements' Caps and as to how to vote at the EGM. We, Nuada Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this respect.

During the past two years immediately preceding and up to the date of our appointment as the Independent Financial Adviser, there were no other engagements between the Group and Nuada Limited. Apart from normal professional fees for our services to the Company in connection with the aforesaid engagement and this appointment as the Independent Financial Adviser, no other arrangement exists whereby we have received/will receive any fees and/or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, pursuant to Rule 13.84 of the Listing Rules, we are independent from, and are not associated with the Company or their respective substantial shareholder(s) or connected person(s) as defined under the Listing Rules, and accordingly are considered eligible to give independent advice on (i) the New Agreements and the transactions contemplated thereunder; and (ii) the New Agreements' Caps under the New Agreements.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the accuracy of the statements, information, opinions and representations contained or referred to in this circular and the information and representations provided to us by the Company, the Directors and the management of the Company ("**Management**"). We have no reason to believe that any information or representation relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all information, representations and opinions contained or referred to in this circular, which have been provided by the Company, the Directors and the Management and for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be true up to the Latest Practicable Date and should there be any material changes after the despatch of this circular, the Shareholders would be notified as soon as possible.

The Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in this circular and have confirmed in this circular, having made all reasonable inquiries, that to the best of their knowledge, opinion expressed in this circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement in this circular misleading.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Our review and analysis were based upon, among other things, (i) the New Agreements; (ii) the financial information of the Group for the two years ended 31 December 2020 (“FY2020”) and 31 December 2021 (“FY2021”) respectively as shown in the annual reports of the Company for FY2021 (the “Annual Report 2021”); (iii) the financial information of the Group for the interim periods for the six months ended 30 June 2021 (“IP2021”) and 30 June 2022 (“IP2022”) respectively as shown in the interim reports of the Company for IP2022 (the “Interim Report 2022”); (iv) the audited report for Xiwang Group for the year ended 31 December 2021; (v) the management accounts of the Xiwang Group for the six month ended 30 June 2022; (vi) the estimation of steel production and steam production for the Group for the year ending 31 December 2023 (“FY2023”), 2024 (“FY2024”) and 2025 (“FY2025”); (vii) the auditor’s letters on the continuing connected transactions of the Group for FY2020 and FY2021; (viii) the breakdown of Outstanding Amount and Guarantee Amount as at 30 June 2022 provided by the Management; and (ix) this circular.

We consider that we have reviewed sufficient information, including relevant information and documents provided by the Company and the Directors and the information published by the Company, to enable us to reach an informed view and to justify reliance on the accuracy of the information contained in this circular to provide a reasonable basis for our opinions and recommendations. We have not, however, carried out any independent verification of the information provided by the Company and the Directors, nor have we conducted an independent in-depth investigation into the business and affairs, financial condition and future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our recommendation in respect of the terms of the New Agreements, we have taken into account the following principal factors and reasons:

1. Background information of the Group

(a) *Information of the parties to the New Agreements*

The Group

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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Xiwang Group

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 Latest Practicable Date, Xiwang Group is owned as to 25.24% by Mr. WANG Yong, 42.43% by 20 individuals including Mr. WANG Di and the remaining 32.33% by other shareholders.

Zouping Power

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

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.

(b) Financial information of the Group

The table below summarises the financial results of the Group for FY2020 and FY2021 as extracted from the Annual Report 2021 and the financial results for the Group for IP2021 and IP2022 as extracted from the Interim Report 2022.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Table 1: Consolidated statement of profit or loss and other comprehensive income of the Group

	IP2022 (Unaudited) <i>RMB'000</i>	IP2021 (Unaudited) <i>RMB'000</i>	For FY2021 (audited) <i>RMB'000</i>	For FY2020 (audited) <i>RMB'000</i>
Revenue	8,473,283	9,890,828	19,116,121	15,288,101
Gross (loss)/profit	(24,192)	645,008	783,956	468,807
– Other income and (losses)/gains, net	(11,756)	12,172	58,650	65,373
(Loss)/Profit before tax	(417,768)	233,358	57,247	15,697
(Loss)/Profit for the period/year	(294,128)	191,699	65,031	18,368

For IP2022 and IP2021

The Group recorded unaudited revenue of approximately RMB8.47 billion for IP2022, representing a decrease of approximately 14.36% as compared with that of approximately RMB9.89 billion for IP2021. As stated in the Interim Report 2022, the decrease of revenue due to the combined effects of (i) the decrease in the sales volume of the Group's major product (ordinary steel and special steel) and (ii) the decrease in the average selling price of ordinary steel products. With reference to the note 2 to the condensed consolidated financial statements in the Interim Report 2022, the unaudited revenue of sales to external customers generated from the ordinary steel segment of the Group, which represents 70% of the sales volume of steel of the Group for IP2022, dropped from approximately RMB4.95 billion for IP2021 to approximately RMB3.83 billion for IP2022 and as stated in the management discussion and analysis section of the Interim Report 2022, the sales volume of ordinary steel decreased from approximately 1.15 million tonnes for IP2021 to approximately 0.95 million tonnes for IP2022, which represents a decrease of approximately 17.39%.

The Group recorded reversal from unaudited gross profit of approximately RMB645.0 million for IP2021 to unaudited gross loss of approximately RMB24.19 million for IP2022. According to the Management and the Interim Report 2022, the Group recorded unaudited gross loss for IP2022 as (i) the average selling price for ordinary steel and special steel products decreased from approximately RMB4,320 per tonne for IP2021 to RMB4,180 per tonne for IP2022; (ii) the demand for the Group's ordinary steel and special steel products decreased and the sales volume recorded a 19.5% decrease (i.e. from approximately 1.68 million tonnes for IP2021 to approximately 1.35 million tonnes for IP2022) as a result of the unsatisfactory performance of real estate industry in which major customers of the Group operate, and slow progress in infrastructure construction; and (iii) the surge in the cost of sales arising from the fluctuation in major raw materials prices such as coking coal while the cost of iron ore remained high throughout IP2022.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group also recorded reversal from unaudited other income and losses or gains of unaudited net gains of approximately RMB12.17 million for IP2021 to unaudited net losses approximately RMB11.76 million for IP2022. According to the Interim Report 2022, such reversal was mainly due to the Group incurred exchange losses of approximately RMB22.3 million for IP2022 (as compared to exchange gains of approximately RMB4.5 million for IP2021). As the Group had other borrowings denominated in USD, the Group suffered from the appreciation in USD. Based on the above, the Group recorded turnaround from profit for the period of approximately RMB191.70 million for IP2021 to loss for the period of approximately 294.13 million for IP2022.

For FY2021 and FY2020

The Group recorded revenue of approximately RMB19.12 billion for FY2021, representing an increase of approximately 25.05% as compared to that of approximately RMB15.29 billion for FY2020. With reference to the management discussion and analysis section of the Annual Report 2021, the average selling price of (i) ordinary steel increased from RMB3,171 per tonne for FY2020 to RMB4,383 per tonne for FY2021; and (ii) special steel increased from RMB3,377 per tonne for FY2020 to RMB4,490 per tonne for FY2021. Even though the total sales volume of steel decreased slightly from approximately 3.07 million tonnes for FY2020 to approximately 2.96 million tonnes for FY2021, the Group still recorded increase in revenue benefit from the increase of average selling price. For FY2021, the profit for the year of the Group amounted to approximately RMB65.03 million and increased from RMB18.37 million for FY2020, which is in line with the increase in revenue of the Group.

Table 2: Financial position of the Group

	As at 30 June 2022 (Unaudited) <i>RMB'000</i>	As at 31 December 2021 (audited) <i>RMB'000</i>
Current assets	4,001,878	4,071,814
– Cash and cash equivalents	130,354	332,182
Current liabilities	10,350,654	10,186,772
Non-current assets	12,092,668	12,097,056
Non-current liabilities	259,503	197,360
Net current liabilities	(6,348,776)	(6,114,958)
Total equity	5,484,389	5,784,738

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at 30 June 2022, the unaudited current assets of the Group amounted to approximately RMB4.0 billion which is stable to the audited current assets as at 31 December 2021 (i.e. approximately HK\$4.07 billion), out of which the cash and cash equivalents decreased from approximately RMB332.18 million as at 31 December 2021 to approximately RMB130.35 million as at 30 June 2022. According to the consolidated statement of cash flows in the Interim Report 2022, the Group recorded net cash used in operating activities of approximately RMB161.81 million for IP2022 as compared to net cash generated from operating activities of approximately RMB768.35 million for IP2021. The current liabilities of the Group slightly increased from approximately RMB10.19 billion as at 31 December 2021 to approximately RMB10.35 billion as at 30 June 2022. Accordingly, the Group recorded net current liabilities of approximately RMB6.35 billion as at 30 June 2022, as compared to approximately RMB6.11 billion as at 31 December 2021. The total equity of the Company decreased slightly from approximately RMB5.78 billion as at 31 December 2021 to approximately RMB5.48 billion as at 30 June 2022.

2. Electricity Purchase Agency Agreement

Date: 1 November 2022

Parties: Xiwang Metal (for and on behalf of the Group) as
Electricity User; and

Zouping Power as Agent

Please refer to the paragraph headed “2. Major and continuing connected transactions – Electricity Purchase Agency Agreement” under the Board Letter for details of the principal terms of the Electricity Purchase Agency Agreement.

(a) *Reasons for entering into the Electricity Purchase Agency Agreement*

As stated in the Board Letter, the Group consumed a significant amount of electricity in the production process of its steel products. According to the Management, Binzhou Power is the only local electricity supplier in Handian town at Binzhou City that able to support the electricity consumption level of the Group. The Group has been purchasing electricity from Binzhou Power through Zouping Power and able to enjoy a lower charge out rate from Binzhou Power since Zouping Power also acted as an agent of other companies within Xiwang Group who are connected persons of the Company. It is also required by Binzhou Power that Xiwang Group and its affiliated companies have to settle the electricity bills together through Zouping Power.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered (i) the Electricity Purchase is conducted in the ordinary and usual course of business of the Group; (ii) the business nature of the Group required significant amount of electricity; (iii) Binzhou Power is the only local electricity supplier in the Handian town at Binzhou City that able to support the electricity consumption level of the Group needs; (iv) no service fee, commission or agency fee (except for any charges to be paid to Binzhou Power and/or other independent third parties) would be charged by Zouping Power to Xiwang Metal; and (v) to purchase electricity through Zouping Power can enjoy a lower charge out rate as it is required by Binzhou Power to settle the electricity bills with Xiwang Group and its affiliated companies together, we are of the view and concur with Management's view that to enter into Electricity Purchase Agency Agreement is in the interests of the Group and Shareholders as a whole.

(b) Our view on the terms of the Electricity Purchase Agency Agreement

We have obtained the unit price list provided by the Company to compare the difference if the Group chose not to enjoy a lower charge out rate provided by Zouping Power to the Group. If the Group decided to purchase electricity directly from Binzhou Power, the electricity transmission and distribution price (expressed in kW per hour) would be RMB0.1459 kW per hour, which represents RMB0.029 kW per hour higher than the electricity transmission and distribution price of purchasing electricity through Zouping Power (i.e. RMB0.1169 kW per hour). Having also considered that Binzhou Power is the only local electricity supplier in Handian town at Binzhou City that able to support the electricity consumption level of the Group, we are of the view and concur with the Management's view that the enter of the terms of the Electricity Purchase Agency Agreement is in the interests of the Group and the Shareholders as a whole.

(c) Electricity Purchase Annual Caps

The following table sets out the proposed Electricity Purchase Annual Caps and Prepaid Electricity Charge Annual Caps:

Table 3: Proposed Electricity Purchase Annual Caps and Prepaid Electricity Charge Annual Caps:

Period	Electricity Purchase Annual Caps (excluding VAT) RMB' million	Prepaid Electricity Charge Annual Caps (including VAT) RMB' million
For the year ending 31 December 2023	1,270	359
For the year ending 31 December 2024	1,333	377
For the year ending 31 December 2025	1,400	396

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Please refer to the paragraph headed “2. Major and continuing connected transactions – Electricity Purchase Agency Agreement – Proposed caps and historical transactions amount” under the Board Letter for the details of bases in determined the Electricity Purchase Annual Caps and the Prepaid Electricity Charge Annual Caps.

With reference to the Board Letter, set out below are (i) the historical annual caps and transaction amounts for maximum annual consideration under the Existing Electricity Purchase Agency Agreement; and (ii) the historical annual caps and transaction amounts for prepayment made by the Group under the Existing Electricity Purchase Agency Agreement:

Table 4: Historical figures under the Existing Electricity Purchase Agency Agreement:

	Year ended/ending 31 December		
	2020	2021	2022
	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>
Historical annual caps for maximum annual consideration under the Existing Electricity Purchase Agency Agreement (including VAT)	1,204	1,467	1,661
Historical transaction amounts for maximum annual consideration under the Existing Electricity Purchase Agency Agreement (including VAT)	902.4	1,095.1	698.4 <i>(Note)</i>
Historical annual caps for prepayment made by the Group under the Existing Electricity Purchase Agency Agreement (including VAT)	268	298	328
Historical transaction amounts for prepayment made by the Group under the Existing Electricity Purchase Agency Agreement (including VAT)	254.2	147.1	243.8 <i>(Note)</i>

Note: The relevant figure is up until the eight months ended 31 August 2022.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As shown from the table above, we noted that the historical annual caps for maximum annual consideration under the Existing Electricity Purchase Agency Agreement have been utilised for approximately 75.0% and 74.6% for FY2020 and FY2021 respectively. As discussed with the Management, they anticipated that the steel production of the Group in FY2023 will start to picking up to the level same as FY2020, which is before the operation restrictions due to the pandemic of COVID-19 and the unit price of electricity will continue to increase. Accordingly they proposed the Electricity Purchase Annual Caps for the year ending 31 December 2023 (i.e. RMB1,270 million excluding VAT for FY2023) to be higher than the annual caps of maximum annual consideration under the Existing Electricity Purchase Agency Agreement for FY2020 (i.e. RMB1,204 million including VAT for FY2020) and then gradually increase in the following years. According to the estimation of the steel production of the Group and the expected unit price of electricity for FY2023, FY2024 and FY2025 provided by the Management, (i) the Group estimated to produce approximately 3.3 million tonnes of steel for FY2023, 2024 and 2025 respectively, which was determined based on the historical production level of approximately 3.1 million tonnes in 2020 and the Group intend to utilise higher capacity in FY2023 according to the Management; and (ii) the estimated average unit price of electricity increase of approximately 10.3%, from FY2023 to FY2025 (from FY2020 to the eight months ended 31 August 2022, the increase of unit price of electricity amounted to approximately 21.2%).

According to the calculation provided by the Management, the proposed Electricity Purchase Annual Caps are calculated based on the estimated consumption level of electricity of the year multiplied by the estimated average unit price of electricity. If we made the proposed Electricity Purchase Annual Cap for FY2023 as an example, the estimated consumption level of electricity (i.e. approximately 1,650 million kW) is calculated based on the estimated steel production of the Group for FY2023 (i.e. 3.3 million tonnes) multiplied by the estimated electricity consumption per tonne (i.e. 500kW per tonne, which is estimated based on the historical range between approximately 439kW per tonne to approximately 525 kW per tonne for FY2019, 2020 and 2021). The Group estimated that the average unit price of the electricity for FY2023 would be approximately RMB0.87 per kW (approximately 5% increment from the estimated average unit price for FY2022, RMB0.83 per kW), accordingly the proposed Electricity Purchase Annual Cap for FY2023 would be approximately RMB1,435 million (including VAT) (i.e. 1,650 million kW x RMB0.87) and approximately RMB1,270 million (excluding VAT).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

According to the Management, the production level of steel of the Group had decreased slightly to below 3.0 million tonnes in 2021 and approximately 1.53 million tonnes for the eight months ended 31 August 2022 which were mainly due to the restriction of operation in Shandong Province under the pandemic of COVID-19 and the restriction on production for Beijing Winter Olympics 2022. The Group has been increasing the production level in second half of 2022 after the completion of Beijing Winter Olympics 2022 and expect that the Group will be able to utilise higher capacity followed by the easing restriction due to COVID-19 in Shandong Province in the coming years. Based on the combined effect of increasing production level of steel and followed by the increase consumption of electricity and the increasing unit price of electricity, we are of the view and concur with the Management's view that the proposed Electricity Purchase Annual Caps are fair and reasonable and provide a buffer for the anticipated increase of usage of electricity of the Group in the coming years.

According to the terms of the Electricity Purchase Agency Agreement, Xiwang Metal shall prepay Zouping Power the Prepaid Electricity Charge and the amount of which should be no less than one month of the expected electricity charge. According to the Management, it is common practice in the PRC to prepay the electricity charge and Xiwang Metal would still need to pay such prepayment if Xiwang Metal chose to purchase electricity from Binzhou Power directly. Having considered (i) the prepayment amounts made by the Group under the Existing Electricity Purchase Agency Agreement from 1 January 2022 up until 31 August 2022 (i.e. RMB243.8 million) is more than the prepayment amounts made by the Group for FY2021 (i.e. RMB147.1 million); and (ii) the anticipated growth of production level of steel and increasing unit price of electricity as mentioned above, we are of the view and concur with the Management's view that the Prepaid Electricity Charge Annual Caps are fair and reasonable.

Internal Control Measures

According to the Management, 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 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 of the Electricity Purchase Agency Agreement;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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.

Regarding item (4) above, we also reviewed the relevant statements and letters issued by the auditors of the Company and the previous annual reports of the Company for the previous continuing connected transactions of the Group under, among others, the Existing Electricity Purchase Agency Agreement, and did not notice any anomaly.

In light of the above, we consider that there are adequate and enforceable internal control measures in place regarding the continuing connected transactions contemplated under the Electricity Purchase Agency Agreement.

3. New Steam Supply Agreement

Date: 1 November 2022

Parties: Xiwang Metal (for and on behalf of the Group) as seller; and

Shandong Xiwang Sugar as Purchaser

Please refer to the paragraph headed “2. Major and continuing connected transactions — New Steam Supply Agreement” under the Board Letter for details of the principal terms of the New Steam Supply Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(a) Reasons for entering into the New Steam Supply Agreement

With reference to the Board Letter, steam is a by-product generated during the Group's production of special steel, while the Group only make use of a small amount of steam in its production process. Given the stable and the demand on steam of Shandong Xiwang Sugar Group, and the proximity of Shandong Xiwang Sugar Group's production base to the Group's production base, the Group can generate additional income from the sale of steam unused without additional construction cost in its construction steam pipeline. As stated under the paragraph headed "1. Background information of the Group", the Group recorded net loss for the period during IP2022 as compared to net profit for the period during IP2021 and the Group has recorded net current liabilities continuously for FY2020 and FY2021. Based on the historical figures under the Existing Steam Supply Agreement, the Existing Steam Supply Agreement has generated revenue of approximately RMB29.6 million, RMB22.7 million and RMB23.2 million for FY2020, FY2021 and for the eight months ended 31 August 2022, respectively. For the abovementioned historical figures for FY2020 and FY2021, they represent approximately 5.41% and 3.41% of the revenue generated from sale of by-products segment of the Group for FY2020 (i.e. approximately RMB547.04 million) and FY2021 (i.e. approximately RMB664.90 million) respectively. Accordingly it is in the interests of the Group and Shareholders as a whole that the Group enter into the New Steam Supply Agreement and maintain the revenue source of the Group.

Having considered (i) the New Steam Supply Agreement is conducted in the ordinary and usual course of business of the Group; (ii) steam is a by-product generated during the Group's production of special steel, while the Group only make use of a small amount of steam in its production process; and (iii) the New Steam Supply Agreement would be able to maintain the revenue source of the Group, we are of the view and concur with Management's view that to enter into the New Steam Supply Agreement is in the interests of the Group and Shareholders as a whole.

(b) Our view on the terms of the New Steam Supply Agreement

As discussed with the Company, as the coal price could fluctuate, the Group will perform monthly check on the unit price on the invoice given to Shandong Xiwang Sugar by other Independent Third Parties to ensure that the unit price charged by Xiwang Metal or other sellers of the Group companies would be no less favourable than the unit price Shandong Xiwang Sugar Group pay to other Independent Third Parties. Xiwang Metal or other sellers of the Group companies will also calculate the price of steam every month according to the New Steam Supply Agreement that would in line with the trend of the coal price to charge Shandong Xiwang Sugar. According to the Management, the Company would perform monthly check to the change of spot price and futures price of coal price with reference to the online data available mainly from two commonly used websites, (<https://www.mysteel.com/>) and (<http://www.cqcoal.com/exp/exponent.jsp>), within the coal trading industry in the PRC to obtain the data of the Bohai-Rim Steam-Coal Price Index ("BSPI") and

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determine the change of unit price of steam proportionally. The BSPI was authorised by National Development and Reform Committee of the PRC since 2010 to reflect the coal price movement in the PRC (http://big5.www.gov.cn/gate/big5/www.gov.cn/gzdt/2010-10/13/content_1720978.htm). We have obtained the invoices between (i) Xiwang Metal and Zouping Power Branch (i.e. the counter party of the Existing Steam Supply Agreement); and (ii) Zouping Power Branch and Independent Third Parties in random months during the term of the Existing Steam Supply Agreement and noted that the unit price charged by Xiwang Metal under the Existing Steam Supply Agreement is no less favourable than the unit price Zouping Power Branch paid to other Independent Third Parties.

As stated in the Board Letter, 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). The price of steam under the New Steam Supply Agreement will be adjusted upward or downward by RMB5 per tonne (tax-inclusive) for the corresponding increase or decrease of each RMB0.01 per kcal (tax-inclusive) of the coal price. According to the Management, the Company is able to transfer the increase in coal price to customer under the aforesaid price mechanism. After adjustment of the price of steam according to the aforesaid price mechanism, the Group would ensure that the unit price charged by Xiwang Metal or other sellers of the Group companies would be no less favourable than the unit price Shandong Xiwang Sugar Group pay to other Independent Third Parties by monthly check on the unit price on the invoice given to Shandong Xiwang Sugar by other Independent Third Parties as stated above. Based on the above, we are of the view and concur with the Management's view that the New Steam Supply Agreement is fair and reasonable.

(c) *Steam Supply Annual Caps*

The following table sets out the proposed Steam Supply Annual Caps:

Table 5: Proposed Steam Supply Annual Caps:

Period	Steam Supply Annual Caps <i>RMB' million</i>
For the year ending 31 December 2023	88.0
For the year ending 31 December 2024	93.0
For the year ending 31 December 2025	97.0

Please refer to the paragraph headed "2. Major and continuing connected transactions — New Steam Supply Agreement" under the Board Letter for the details of bases in determined the Steam Supply Annual Caps.

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With reference to the Board Letter, set out below are the historical annual caps and transaction amounts under the Existing Steam Supply Agreement:

Table 6: Historical figures under the Existing Steam Supply Agreement:

	Year ending 31 December		
	2020	2021	2022
	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>
Historical annual caps for transaction amounts under the Existing Steam Supply Agreement	30	30	30
Historical transaction amounts under the Existing Steam Supply Agreement	29.6	22.7	23.2 <i>(Note)</i>

Note: The relevant figure is up until eight months ended 31 August 2022.

As steam is a by-product generated during the Group's production of special steel, the production level of steam would be proportional to the production of the steel of the Group. As mentioned under the paragraph headed "2. Electricity Purchase Agency Agreement" above in this letter, the Management anticipate that the production level of steel will be higher in 2023 and expecting approximately 3.3 million tonnes of steel will be produced. The Management are expecting that production level of steam will be 420,000 tonnes for FY2023, 2024 and 2025, which is similar to the production level recorded in 2020, 419,000 tonnes according to the historical data regarding the production of steam provided by the Management. The increasing unit price of steam also lead to the increase of proposed Steam Supply Annual Caps, according to the historical figures provided by the Management, the unit price of steam has been increased from approximately RMB90 per tonne in 2020 to approximately RMB200 per tonne in 2022 and they are expecting the unit price of steam will continue to increase in the near future. Since (i) there were historical figures to support the estimation of production level for the years ending 31 December 2023, 2024 and 2025 are achievable; (ii) the Group anticipated that the unit price for steam could increase in the coming years; and (iii) the increase of the annual caps under the New Steam Supply Agreement represents potential increase of revenue of the Group, we are of the view and concur with the Management's view that the New Steam Supply Agreement is in the interests of the Group and the Shareholders as a whole.

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(d) *Internal control measures*

According to the Management, 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 were fair and reasonable, and are conducted on normal commercial terms or better so as to safeguard the interests of the Group and the Shareholders as a whole. Such internal control measures include:

1. the 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 independent 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 invoices 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 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.

Regarding items (4) and (5) above, we also reviewed the relevant statements and letters issued by the auditors of the Company and the previous annual reports of the Company for the previous continuing connected transactions of the Group under, among others, the Existing Steam Supply Agreement, and did not notice any anomaly.

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In light of the above, we consider that there are adequate and enforceable internal control measures in place regarding the continuing connected transactions contemplated under the New Steam Supply Agreement.

4. The Guarantee Agreement

Date: 1 November 2022

Parties: the Company (and on behalf of its subsidiaries); and
Xiwang Group and the Relevant Subsidiaries

Please refer to the paragraph headed “2. Major and continuing connected transactions — The Guarantee Agreement” under the Board Letter for details of the principal terms of the Guarantee Agreement.

(a) Reasons for and benefits of entering into the Guarantee Agreement

With reference to the circular of the Company dated 26 February 2021, the terms under the Existing Guarantee Agreement supposed to be commenced from 1 January 2021 to 31 December 2023. According to the Management, Xiwang Group and the Relevant Subsidiaries and the Company entered into the Guarantee Agreement earlier than the Existing Guarantee Agreement expiring was mainly due to that Xiwang Group is currently negotiating new borrowings with the financial institutions in PRC and the terms of these potential borrowings will cover the period later than 2023. Accordingly Xiwang Group intends to renew the Existing Guarantee Agreement in order to proceed the potential borrowings. Based on the above, we are of the view and concur with the Management’s view that to enter into the Guarantee Agreement before the terms of the Existing Guarantee Agreement expiring is justifiable.

As at the Latest Practicable Date, the Company has been providing guarantee services to Xiwang Group and the Relevant Subsidiaries and Xiwang Group and the Relevant Subsidiaries have also been providing financial support and guarantee services to the Company. According to the breakdown provided by the Management, Xiwang Group and the Relevant Subsidiaries has also provided financial assistance and tangible assets or issued shares as collateral for the Company to obtain financial assistance. As at 30 June 2022, the Outstanding Amount was approximately RMB3.5 billion and the Guarantee Amount was approximately RMB4.2 billion. With reference to the Board Letter, the Management 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 then narrowed. According to the Management, due to the net current liabilities position of the Company for

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recent financial years (i.e. net current liabilities of approximately RMB5.0 billion for FY2020 and approximately RMB6.1 billion for FY2021), the Group had difficulties to obtain financial assistance to support its operation from Independent Third Parties if there is no guarantee provided by the Xiwang Group and Relevant Subsidiaries' resources. According to the Management, the Company has been continued to try to ratify the shortfall of the Outstanding Amount as compared to the Guarantee Amount, including but not limited to continue to seek for financial assistance to be guaranteed by Xiwang Group. However, we are of the view and concur with the Management's view that to reduce the Guarantee Amount at present is not in the best interests of the Company as it could in turn negatively affect the amount of the Group's credit line guaranteed by Xiwang Group.

According to the terms of the Guarantee Agreement, if the Guarantee Amount exceed the Outstanding Amount, the Company has the right to terminate the Guarantee Agreement or Xiwang Group will need to pay a guarantee fee of 0.5% per annum for the amount that the Outstanding Amount exceeds the Guarantee Amount. According to the Management and the Board Letter, as at the Latest Practicable Date, a guarantee fee under the Existing Guarantee Agreement (which is entered in January 2021) for FY2021 was approximately RMB3.5 million and is fully settled by Xiwang Group in favour of the Group in comply with the terms of the Existing Guarantee Agreement. Accordingly we are of the view and concur with the Management's view that the terms of the Guarantee Agreement could safeguard the interests of the Group and entering of the Guarantee Agreement to maintain the mutual support relationship between Xiwang Group and the Company is in the interests of the Group and the Shareholders as a whole and fair and reasonable.

We are aware that there were several negative news articles up to April 2022 concerning the credibility and liquidity position of Xiwang Group Company on the Internet. In this regard, we had discussed with the Management and understand that those allegations were untrue. In particular, regarding debt settlement, we understand that a settlement arrangement between Xiwang Group Company and relevant creditors had been reached in April 2020. Since then, Xiwang Group Company had duly fulfilled its obligations and repaid the debt in accordance with the settlement arrangement. Please refer to the paragraph headed "2. Major and continuing connected transactions — the Guarantee Agreement — Assessment of the risks of entering into the Guarantee Agreement" in the Board Letter for details regarding the negative news and the clarification by Xiwang Group Company. We have also conducted media search and were not aware of further negative news articles as at the Latest Practicable Date.

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In order to assess the recoverability of Xiwang Group, we have obtained the audited report for Xiwang Group for FY2021 and the management accounts of the Xiwang Group for the six months ended 30 June 2022. We noticed that Xiwang Group has recorded net assets of approximately RMB14.93 billion as at 31 December 2021 and unaudited net assets of approximately RMB14.03 billion as at 30 June 2022, which is significantly higher than the proposed Guarantee Annual Caps (i.e. RMB5.0 billion). With reference to the audited report for Xiwang Group for FY2021, excluding the guarantee amounts of the guarantees provided by Xiwang Group to the Relevant Subsidiaries (i.e. approximately RMB9.47 billion), the hypothesis net assets of the Xiwang Group for FY2021 would be approximately RMB5.46 billion, which is still higher than the proposed Guarantee Annual Caps (i.e. RMB5.0 billion). Having also considered, according to the terms of the Guarantee (i) 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 the loans payable by the Group to Xiwang Group or the Relevant Subsidiaries or other amounts payable by the Group to Xiwang Group or the Relevant Subsidiaries; (ii) 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; (iii) entering into the Guarantee Agreement is in contingent liability nature and will not impose liquidity pressure on the Company's financial positions; (iv) according to the terms of the Guarantee Agreement, if the Guarantee Amount exceed the Outstanding Amount, the Company has the right to terminate the Guarantee Agreement; (v) according to the terms of the Guarantee Agreement and the Management, 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, vice versa, Xiwang Group has the right not to provide new guarantees to the Group's new loans upon the expiration of the existing loans of the Group if not entering into the Guarantee Agreement; and (vi) as stated in the Board Letter, the Company has never settled any loan on behalf of Xiwang Group, we are of the view and concur with the Management's view that Xiwang Group has sufficient assets to cover the proposed Guarantee Annual Caps and the terms of the Guarantee Agreement would safeguard the interest of the Group.

(b) Our view on the terms of the Guarantee Agreement

For our due diligence purpose to assess the fairness and reasonableness of the Guarantee Fee, we have conducted a research on the website of the Stock Exchange on a best effort basis, on the continuing connected transaction involving the provision of guarantee services provided by companies (the "**Comparable Companies**") listed on the Stock Exchange to their respective connected persons as announced within approximately one year prior to 1 November 2022, being the date of the Guarantee Agreement and to compare against the guarantee fee under the Guarantee Agreement. Based on our best endeavour and as far as we are aware, we have identified an exhaustive and complete list of five companies (excluding the Company).

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We consider that the sample size of Comparable Companies and the 12-month period are representative as it demonstrates the market practice and the terms of similar continuing connected transaction involving the provision of guarantee services prior to the date of the Guarantee Agreement and it is adequate for conducting a reasonable comparison of the guarantee fee between the Guarantee Agreement and the Comparable Companies. Since there are sufficient number of Comparable Companies under the selection criteria mentioned above, we are of the view that such comparable analysis is fair and reasonable.

While the Comparable Companies may be engaged in different business and have different financial performance than the Company, therefore the Comparable Companies are only used to provide a general reference for the common market practice in similar guarantee service arrangements entered into by those listed companies with their connected parties. Details of the respective transactions of the Comparable Companies are summarised as follows:

Table 7: Comparable Companies

	Date of announcement	Stock code	Company name	Provide counter guarantee	Guarantee fee
1.	28 December 2021	3396	Legend Holdings Corporation	No	0.10%
2.	28 December 2021	358	Jiangxi Copper Company Limited	Yes	Nil
3.	31 January 2022	9608	Sundy Service Group Co. Ltd	Yes	4.00%
4.	16 May 2022	893	China Vanadium Titano-Magnetite Mining Company Limited	Yes	1.25%
5.	26 May 2022	503	Lansen Pharmaceutical Holdings Limited	Yes	0.50%
				Max	4.00%
				Min	Nil
				Average	1.17%

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As shown in the table above, we noted that one of the five Comparable Companies did not charge any guarantee fee and the guarantee fee charged by other Comparable Companies ranged from nil to 4% per annum (all of them are charged on the guaranteed amounts). The guarantee fee (i.e. 0.5%) under the Guarantee Agreement would be within the range of the guarantee fee of the Comparable Companies but lower than the average (i.e. 1.17%) of the range of the guarantee fee of the Comparable Companies (“**Comparable Range**”). Despite the guarantee fee under the Guarantee Agreement will only be charged for the amount exceed the Outstanding Amount when the Guarantee Amount exceeds the Outstanding Amounts and lower than the average of Comparable Range, having considered that (i) the guarantee fee charged by three out of five Comparable Companies were either equal to or lower than the guarantee fee of the Guarantee Agreement; and (ii) it is important to maintain mutual support relation between the Group and Xiwang Group as the Group had difficulties to obtain financial assistance to support its operation from Independent Third Parties if there is no guarantee provided by the Xiwang Group and Relevant Subsidiaries’ resources due to the net current liabilities financial position of the Group as mentioned above under the paragraph headed “(a) Reasons for and benefits of entering into the Guarantee Agreement” in this letter, we are of the view and concur with the view that the Guarantee Fee is fair and reasonable.

(c) *Proposed Guarantee Annual caps*

The table below shows the proposed Guarantee Annual Caps:

Table 8: Proposed Guarantee Annual Caps

	As at 31 December		
	2023	2024	2025
	<i>RMB’ billion</i>	<i>RMB’ billion</i>	<i>RMB’ billion</i>
Guarantee Annual Caps	5.0	5.0	5.0

Please refer to the paragraph headed “2. Major and continuing connected transactions — The Guarantee Agreement — Proposed Guarantee Annual Caps” under the Board Letter for the details of bases in determined the Guaranteed Annual Caps.

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With reference to the Board Letter, set out below are the historical annual caps and the historical maximum guarantee amount under the 2017 Guarantee Agreement and the Existing Guarantee Agreement:

Table 9: Historical figures under the 2017 Guarantee Agreement and the Existing Guarantee Agreement

	As at 31 December		
	2019	2020	2021
	<i>RMB' billion</i>	<i>RMB' billion</i>	<i>RMB' billion</i>
Historical annual caps	5.0	5.0	5.0
Historical maximum guarantee amount	4.5	4.2	4.2

As stated in the table above, the historical annual caps under the 2017 Guarantee Agreement and the Existing Guarantee Agreement have been highly utilised as at 31 December 2019, 2020 and 2021 respectively. As at 30 June 2022, the Guarantee Amount was approximately RMB4.2 billion. Having considered (i) the proposed Guarantee Annual Caps were determined based on the anticipated loan amounts of Xiwang Group and Relevant Subsidiaries and the historical annual caps have been highly utilised; (ii) based on the audited net assets of Xiwang Group of approximately RMB14.93 billion as at 31 December 2021 and unaudited net assets of Xiwang Group of approximately RMB14.03 billion as at 30 June 2022, we are of the view and concur with the Management's view that Xiwang Group have sufficient assets to cover the proposed Guarantee Annual Caps as stated above; (iii) according to the terms of the Guarantee Agreement, the Company has the right to terminate the Guarantee Agreement when the Guarantee Amounts exceed the Outstanding Amounts or charge a guarantee fee of 0.5% per annum for the amount exceeding the Outstanding Amount; and (iv) the proposed Guarantee Amounts is in contingent liability in nature and will not impose liquidity pressure on the Company's financial positions, we are of the view and concur with the Management the proposed Guarantee Annual caps are fair and reasonable.

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(d) *Internal Control Measures*

According to the Management, 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 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.

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Regarding item (5) above, we also reviewed the relevant statements and letters issued by the auditors of the Company and the previous annual reports of the Company for the previous continuing connected transactions of the Group under, among others, the Existing Guarantee Agreement, and did not notice any anomaly.

In light of the above, we consider that there are adequate and enforceable internal control measures in place regarding the continuing connected transactions contemplated under the Guarantee Agreement.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that (i) the entering of the Electricity Purchase Agency Agreement and the New Steam Supply Agreement are in the ordinary and usual course of business of the Group; (ii) although the entering of the Guarantee Agreement is not in the ordinary and usual course of business of the Group, the terms of Guarantee Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole and (iii) the terms of New Agreements are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Shareholders, and the Independent Board Committee to recommend the Independent Shareholders, and we also recommend the Independent Shareholders, to vote in favour of the relevant resolution(s) to be proposed at the EGM to approve (i) the New Agreements and the transactions contemplated thereunder; and (ii) the New Agreements' Caps under the New Agreements.

Yours faithfully,
For and on behalf of
Nuada Limited

Kim Chan
Director

Herman Luk
Assistant Manager

Mr. Kim Chan is a person licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO and is a responsible officer of Nuada Limited who has over 18 years of experience in the corporate finance industry.

Mr. Herman Luk is a person licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO and is a responsible officer of Nuada Limited who has over 7 years of experience in corporate finance industry.

1. SUMMARY OF FINANCIAL INFORMATION

Financial information of the Group for each of the three financial years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2022 have been disclosed in the following documents published on both websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.xiwangsteel.com):

- annual report of the Company for the year ended 31 December 2019 published on 9 June 2020 (pages 55 to 149);
<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0609/2020060901427.pdf>
- annual report of the Company for the year ended 31 December 2020 published on 28 April 2021 (pages 63 to 153);
<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0428/2021042802504.pdf>
- annual report of the Company for the year ended 31 December 2021 published on 29 April 2022 (pages 64 to 151); and
<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0429/2022042903677.pdf>
- interim report of the Company for the six months ended 30 June 2022 published on 29 September 2022 (pages 21 to 56).
<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0929/2022092900655.pdf>

2. STATEMENT OF INDEBTEDNESS

At the close of business on 31 October 2022 for the purpose of ascertaining information contained in this statement of indebtedness prior to the printing of this circular, the details of the Group's indebtedness are as follows:

- unsecured and guaranteed interest-bearing loans from Xiwang Group Finance Company Limited of approximately RMB38,037,000;
- unsecured and guaranteed bills payable from Xiwang Group Finance Company Limited of approximately RMB210,700,000;
- secured and guaranteed interest-bearing bank loans and other borrowings of approximately RMB4,388,867,000;
- secured and guaranteed bonds of approximately RMB137,295,000; and
- guarantees of approximately RMB4,179,000,000 for secured bank loans granted to related parties.

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 acceptance credits, or any guarantees, or any other contingent liabilities outstanding at the close of business on 31 October 2022.

3. WORKING CAPITAL SUFFICIENCY

The Directors, after due and careful enquiry and taking into consideration the financial resources and banking facilities available to the Group, are of the opinion that, after entering into the New Agreements, the Group will have sufficient working capital to satisfy its present requirements for the next twelve months from the date of this circular in the absence of unforeseen circumstances.

4. EFFECT ON THE EARNINGS AND ASSETS AND LIABILITIES OF THE GROUP

The Electricity Purchase Agency Agreement

The Board is of the view that the Electricity Purchase under the Electricity Purchase Agency Agreement will reduce the cost of electricity consumed in the production process of its steel products, which in turn will enhance the overall profitability and enable the Group to focus its efforts in improving the production efficiency. As a consequence, such arrangement would improve the Group's profitability and quality of assets and maintain its asset-liability ratio at a healthy level.

The New Steam Supply Agreement

The Board is of the view that steam is a by-product generated during the Group's production of special steel. 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 can generate additional income from the sale of steam unused. As a consequence, such arrangement would improve the Group's profitability and quality of assets and maintain its asset-liability ratio at a healthy level.

The Guarantee Agreement

The Board is of the view that the provision of guarantee services under the Guarantee Agreement to Xiwang Group will enhance the financing capacity of Xiwang Group which in turn will promote Xiwang Group to provide more financial supports in the form of loans to the Group to meet its capital needs and reduce its finance costs. In the future, Xiwang Group may also provide guarantee for the Group's external financing which will enhance the Group's financing capability and broaden its financing channels so as to meet the capital needs in its daily operation and long-term strategic development. As a consequence, such arrangement would improve the Group's profitability and quality of assets and maintain its asset-liability ratio at a healthy level.

5. FINANCIAL AND TRADING PROSPECT OF THE GROUP

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

Business Outlook

Looking forward to the year 2023, the gradual recovery of the domestic economy weakened by the pandemic, the facilitation of implementing steady growth policies, the recovery in manufacturing industry and the investments in infrastructure constructions would continue to contribute to economic stabilisation. Through various measures including facilitating large projects, speeding up the issuance and usage of local special debt, as well as raising both strategic banking facilities and investment fund arrangement in the budget to support the funding, along with the national curtailment of crude steel output as stated by the National Development and Reform Commission, the pressure on supply and demand of steel is expected to be eased. However, with the increasing overall downward pressure, the Group expected that the challenges in the first half of the year 2023 would continue to exist, the cost might not be able to decrease in the short run and the profit level would remain relatively weak.

The property industry, which has the highest demand in steel, showed a rebound. However, it is hard to reverse the current situations in the short run, including the lack of confidence in the market, the relatively inactive land acquisition by real-estate developers and the financial strain of the real estate industry. Under the periodic change of the business cycle, the PRC is at the critical point of time switching from passive replenishment phase to the proactive destocking phase, the room for increase in selling prices of products is limited, and the overall steel price is expected to be continuously under pressure. As the market demand of steels would not be able to rebound to the level of the first half of 2021 within a short period of time, the income of the Group will be affected.

Under the severe market conditions, the Group will be more prudent and cautious when formulating operation strategy, in response to the existing negative factors of the external market, and be prepared for the market demands in the future. The Group endeavours to implement multiple measures to enhance the effectiveness and quality of its operation. It strives to deepen transformation and proactively develops special steel products with high premiums and steady demand. The Group will also strengthen its cooperation with the Institute of Metallurgy, Chinese Academy of Sciences, to develop and promote differentiated and competitive special steel products, in order to enhance the resilience and profitability of the Group. It will continue to adhere to benchmarking and potentiality exploitation, as well as promoting cost reduction and efficiency improvement during the whole process from procurement, production to sales, in order to achieve further breakthroughs.

Recently, the Group has been granted the official approval for establishing the Shandong Provincial Special Steel New Material Technology Innovation Centre (the "TIC"). The TIC is the only special steel new material technology innovation centre in Shandong Province. Bearing the core objective of research and development as well as application of commonly-used key technology within the industry, it aims to overcome technological "bottlenecks". The TIC undertakes national and provincial scientific research and development projects in various fields in respect of special steel new materials, and strives to solve the "bottleneck" technological issues of special steel segment, so as to fulfill the demand on materials for highly sophisticated and precise products in the high-end equipment field, and centralise the resources for innovation of the special steel new material industry, while enhancing the technological level and innovative capability of the special steel new material industry in Shandong Province.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this 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 (Note 1)	Approximate percentage shareholding in the same class of securities in the relevant corporation as at the Latest Practicable Date
WANG Di	Company	Beneficial owner	9,333,333 shares (L)	0.39%
	Xiwang Holdings	Beneficial owner	177 shares (L)	0.09%
	Xiwang Group	Beneficial owner	RMB 35,460,000 (L)	1.44%
	Xiwang Property Holdings Company Limited ("Xiwang Property")	Beneficial owner	3,000,000 (L) share option	0.21%

Name of Director	Name of company/associated corporation	Capacity	Number and class of securities held/interested (Note 1)	Approximate percentage shareholding in the same class of securities in the relevant corporation as at the Latest Practicable Date
SUN Xihu	Xiwang Holdings	Beneficial owner	89 shares (L)	0.04%
	Xiwang Group	Beneficial owner	RMB 35,460,000 (L)	1.44%
	Xiwang Property	Beneficial owner	3,000,000 (L) share option	0.21%

Notes:

(1) The letter "L" represents the Director's long position in the shares of the relevant corporation.

3. DIRECTORS' INTEREST 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 2021, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, save for the New Agreements, 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 2021, being the date to which the latest published audited financial statements of the Company were made up, and which was significant in relation to the business of the Group.

4. SUBSTANTIAL SHAREHOLDERS

Name of substantial shareholder	Capacity	Number of shares of the Company held/interested (Note 1)	Approximate percentage of interest in the Company as at the Latest Practicable Date (Note 9)
Xiwang Investment	Beneficial owner	868,093,000 ordinary shares (L)	36.64%
Xiwang Holdings	Interest of a controlled corporation (Note 2)	868,093,000 ordinary shares (L)	36.64%
Xiwang Hong Kong	Interest of a controlled corporation (Note 2)	868,093,000 ordinary shares (L)	36.64%
Xiwang Group	Interest of a controlled corporation (Note 2)	868,093,000 ordinary shares (L)	36.64%
WANG Yong	Interest of a controlled corporation (Note 2, 3)	868,093,000 ordinary shares (L)	36.64%
ZHANG Shufang	Interest of a controlled corporation (Note 3)	868,093,000 ordinary shares (L)	36.64%
Haitong International Finance Company Limited (“Haitong International Finance”)	Other (Note 4)	849,875,000 ordinary shares (L)	35.87%
Haitong International Securities Group Limited (“Haitong International Securities”)	Interest of a controlled corporation (Note 5)	849,875,000 ordinary shares (L)	35.87%
Haitong International Holdings Limited (“Haitong International Holdings”)	Interest of a controlled corporation (Note 5)	849,875,000 ordinary shares (L)	35.87%
Haitong Securities Co., Ltd. (“Haitong Securities”)	Interest of a controlled corporation (Note 5)	849,875,000 ordinary shares (L)	35.87%

Notes:

- (1) The letter “L” represents the Director’s long position in the shares of the relevant corporation.
- (2) As at the Latest Practicable Date, Xiwang Investment was directly wholly-owned by Xiwang Holdings, which in turn was directly held as to 95% by Xiwang Hong Kong and as to 5% by Mr. WANG Yong and 22 individuals respectively. Xiwang Hong Kong is in turn wholly-owned by Xiwang Group. As at the Latest Practicable Date, Xiwang Group was owned as to 25.24% by Mr. WANG Yong, 32.33% by 20 individuals (including Mr. WANG Di and Mr. SUN Xinhua, each a Director) and the remaining 42.43% by other shareholders. Further, the 20 individuals are accustomed to act in accordance with the directions of Mr. WANG Yong in respect of the exercise of their voting rights held as shareholders of Xiwang Group. Therefore, Mr. WANG Yong, Xiwang Group, Xiwang Hong Kong and Xiwang Holdings are deemed to be interested in the number of shares of the Company held by Xiwang Investment.
- (3) Ms. ZHANG Shufang, being the spouse of Mr. WANG Yong, is deemed to be interested in all the shares of the Company in which Mr. WANG Yong is deemed to be interested.
- (4) Based on the Disclosure of Interests notice filed by Haitong International Investment Solutions Limited (“**Haitong International Investment Solutions**”) on 30 April 2021, the substantial shareholder of the Company entered into a security agreement and pledged the shares of the Company to Haitong International Investment Solutions. Upon occurrence of event of default, Haitong International Investment Solutions exercised the right to dispose of pledged shares partially (i.e. forced liquidation) on 27 April 2021. To the best knowledge of the Directors, such shares of the Company held by Haitong International Investment Solutions have been assigned to Haitong International Finance.
- (5) Based on the Disclosure of Interests notices filed by Haitong Securities, Haitong International Holdings, Haitong International Securities and Haitong International Finance on 13 September 2021, Haitong International Finance is a wholly-owned subsidiary of Haitong International Securities, which in turn is 64.4% owned by Haitong International Holdings, which in turn is wholly-owned by Haitong Securities. Therefore, Haitong Securities, Haitong International Holdings and Haitong International Securities are deemed to be interested in the number of shares in the Company held by Haitong International Finance.
- (6) These percentages are calculated based on 2,369,110,999 listed shares in issue as at the Latest Practicable Date.

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which have since 31 December 2021, being the date to which the latest published audited financial statements of the Company were made up, been 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.

Save for the New Agreements, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant in relation to the business of the Group.

As at the Latest Practicable Date, so far as was known to the Directors, the following Directors were also directors or employees of a company which has an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Director	Name of Company	Position
WANG Di	Xiwang Investment	Director
	Xiwang Hong Kong	Director
	Xiwang Holdings	Director
	Xiwang Group	Director
SUN Xinqu	Xiwang Group	Director

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, each of the executive Directors, non-executive Directors, and independent non-executive Directors has entered into a service agreement with the Company for a term of three years. Each of these service agreements may be terminated by either party by giving to the other not less than three months' prior notice in writing.

As at the Latest Practicable Date, none of the Directors had any existing or is proposed to have a service contract with the Company or any of its associated corporations which will not expire or is not determinable by the Company within one year without payment of compensation other than statutory compensation.

6. MATERIAL ADVERSE CHANGE

As set out in the announcement of the Company dated 29 August 2022 and in the 2022 interim results announcement dated 31 August 2022, the Group recorded a net loss of approximately RMB294.1 million because the costs of the major raw materials such as coking coal for the six months ended 30 June 2022 (the “**Period**”) increased significantly while the selling price of the products could not raise accordingly. As such, the profit margin of the Group squeezed and a gross loss of approximately RMB24.2 million resulted for the Period.

Except as disclosed above, the Directors confirm that there was no material adverse change in the financial or trading position of the Group since 31 December 2021, being the date to which the latest published audited financial statements of the Company were made up.

7. COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or their respective associates had any competing interest (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them was a controlling shareholder of the Company for the purpose of the Listing Rules in any business apart from the Group’s businesses which competes or is likely to compete, either directly or indirectly, with the business of the Group).

8. EXPERT

- (a) The following sets out the qualifications of the expert which has given its opinion, letter or advice contained in this circular:

Name	Qualifications
Nuada Limited	a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

- (b) As at the Latest Practicable Date, Nuada Limited did not have any shareholding, direct or indirect, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (c) As at the Latest Practicable Date, Nuada Limited did not have any interest, direct or indirect, in any assets which had, since 31 December 2021, being the date to which the latest published audited financial statements of the Company were made up, been 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.
- (d) Nuada Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they are included.
- (e) The letter, recommendation and opinion given by Nuada Limited are given as of the date of this circular for incorporation herein.

9. 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 claim of material importance and, so far as the Directors are aware, no litigation or claim of material importance was pending or threatened against any member of the Group.

10. MATERIAL CONTRACTS

The following contracts (not being contract entered into in the ordinary course of business) have been entered into by the members of the Group within two years immediately preceding the issue of this circular and are material:

- (a) Existing Guarantee Agreement;
- (b) the supplemental memorandum of understanding dated 31 March 2021 entered into among (i) Xiwang Special Steel Company Limited* (西王特鋼有限公司) (“**Xiwang Special Steel**”); (ii) The Institute of Metal Research, CAS; and (iii) 10 individuals in relation to the extension of the date of the memorandum of understanding to 30 June 2021;
- (c) the capital contribution agreement entered into among Xiwang Special Steel, IMR and the 10 individuals on 16 August 2021 in relation to the capital contribution to Zhongke Xiwang Special Steel Company Limited*(中科西王特鋼有限公司);
- (d) the financial services agreement dated 4 November 2021 entered into between the Company and Xiwang Group Finance Company Limited* (西王集團財務有限公司), (“**Xiwang Finance Company**”) in relation to provision of financial services by Xiwang Finance Company to the Company and the qualified subsidiaries;
- (e) the ore powder delivery service agreement dated 4 November 2021 entered into between Xiwang Metal and Xiwang Logistics Company Limited* (西王物流有限公司) (“**Xiwang Logistics**”) in relation to the provision of delivery service for ore powder by Xiwang Logistics to Xiwang Metal;
- (f) the steel delivery service agreement dated 4 November 2021 entered into between Xiwang Metal and Xiwang Logistics in relation to the provision of delivery service for steel by Xiwang Logistics to Xiwang Metal;
- (g) the Guarantee Agreement;
- (h) Electricity Purchase Agency Agreement; and
- (i) New Steam Supply Agreement.

* For identification purpose only

11. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.xiawangsteel.com) for a period of 14 days from the date of this circular (both days inclusive):

- (a) the Electricity Purchase Agency Agreement;
- (b) the New Steam Supply Agreement; and
- (c) the Guarantee Agreement.

12. GENERAL

- (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, Room 2103B, 21/F, 148 Electric Road, North Point, Hong Kong.
- (c) The company secretary of the Company is Ms. FUNG Nga Fong, who is a practicing certified public accountant and a Chartered Secretary, a Chartered Governance Professional and an Associate of both The Hong Kong Chartered Governance Institute and the Chartered Governance Institution in the United Kingdom.
- (d) The English text of this circular shall prevail over the Chinese text in the case of inconsistency.

NOTICE OF EGM

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



XIWANG SPECIAL STEEL COMPANY LIMITED

西王特鋼有限公司

(incorporated in Hong Kong with limited liability)

(Stock code: 1266)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that a extraordinary general meeting (the “EGM”) of Xiwang Special Steel Company Limited (the “Company”) will be held at Unit 2110, 21/F Harbour Centre, 25 Harbour Road, Wan Chai, Hong Kong on 23 December 2022 at 11:30 a.m. (or any adjournment thereof) for the purposes of considering and if thought fit, passing the following resolutions as ordinary resolutions of the Company. Unless otherwise indicated, capitalized terms used herein shall have the same meaning as those defined in the circular of the Company dated 6 December 2022:

ORDINARY RESOLUTIONS

To consider and, if thought fit, passing the following resolutions as an ordinary resolution, respectively, of the Company, with or without modification:

“**THAT**

- (a) each of the New Agreements (as defined and described in the circular of the Company dated 6 December 2022), and the respective transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) each of the New Agreements’ Caps (as defined and described in the circular of the Company dated 6 December 2022), be and are hereby approved, confirmed and ratified; and

NOTICE OF EGM

- (c) any one Director of the Company, or any two Directors (or any one Director and the company secretary) of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts and things as they consider necessary, desirable or expedient for the implementation of and giving effect to the New Agreements and the transactions contemplated thereunder and the related annual caps and all such acts and things the Directors have done are hereby approved, confirmed and ratified.”

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

Hong Kong, 6 December 2022

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 of the EGM, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), and the results of the poll will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company in accordance with the Listing Rules.
2. Any member of the Company entitled to attend and vote at the EGM is entitled to appoint a proxy (or more than one proxy if he is the holder of two or more shares) to attend and vote instead of him. A proxy need not be a member of the Company. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
3. Where there are joint registered holders of any Share, any one such persons may vote at the EGM, either personally or by proxy, in respect of such Share as if he were solely entitled thereto; but if more than one of such joint holders be present at the EGM personally or by proxy, the vote of the senior who tenders a vote shall be accepted to the exclusion of the votes of the joint holder, and for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

NOTICE OF 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 20 December 2022 to 23 December 2022 (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 19 December 2022.
6. References to time and dates in this notice are to Hong Kong time and dates.
7. Precautionary measures for the EGM:

Please see cover page of the this circular of the Company dated 6 December 2022 for measures being taken to try to prevent and control the spreading of the coronavirus disease (COVID-19) at the EGM, including: (i) compulsory temperature screening/checks; (ii) submission of health and travel declaration form; (iii) wearing of surgical face mask; (iv) no provision of refreshments or drinks; and (v) no provision of corporate gifts.

Any person who does not comply with the precautionary measures may be denied entry to the EGM venue. Shareholders are encouraged to appoint the chairman of the EGM as their proxy to vote on the relevant resolutions at the EGM instead of attending the EGM in person.

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