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XIWANG SPECIAL STEEL COMPANY LIMITED

西王特鋼有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1266)

MAJOR TRANSACTION AND RENEWAL OF CONTINUING CONNECTED TRANSACTION

Reference is made to the announcement of the Company dated 4 January 2016 in relation to, among other things, the Guarantee Agreement entered into between the Group and Xiwang Group Company.

As the Guarantee Agreement will be expired on 31 December 2018, the Group and Xiwang Group Company agreed to renew the transaction terms, and entered into the New Guarantee Agreement on 10 November 2017.

On 10 November 2017, the Group and Xiwang Group Company entered into the New Guarantee Agreement pursuant to which, the Group will provide Xiwang Group Company and the Relevant Subsidiaries with guarantee services subject to the terms and conditions provided therein for the period from 1 January 2018 to 31 December 2020. No guarantee will be provided by the Group to Xiwang Group Company and the Relevant Subsidiaries under the New Guarantee Agreement, and the Group continues to provide guarantee services to Xiwang Group Company under the Guarantee Agreement, before the approval from the Independent Shareholders at the EGM has been obtained.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Xiwang Group Company is the ultimate holding company of the Company. Therefore, Xiwang Group Company is a connected person of the Company under Chapter 14A of the Listing Rules and the transactions under the New Guarantee Agreement constitute continuing connected transactions of the Company.

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

Reference is made to the announcement of the Company dated 4 January 2016 in relation to, among other things, the Guarantee Agreement entered into between the Group and Xiwang Group Company on 4 January 2016. As the Guarantee Agreement will be expired on 31 December 2018, the Group and Xiwang Group Company agreed to renew the transaction terms, and entered into the New Guarantee Agreement on 10 November 2017.

NEW GUARANTEE AGREEMENT

Date

10 November 2017

Parties

- (a) The Group
- (b) Xiwang Group Company

Term

The New Guarantee Agreement is valid for a term of three years commencing from 1 January 2018 to 31 December 2020. However, no guarantee will be provided by the Group to Xiwang Group Company and the Relevant Subsidiaries under the New Guarantee Agreement, and the Group continues to provide guarantee services to Xiwang Group Company under the Guarantee Agreement, before the approval from the Independent Shareholders at the EGM has been obtained.

Major Terms

1. The Group shall provide Xiwang Group Company and the Relevant Subsidiaries with guarantee services subject to the terms and conditions provided therein.
2. The Group shall undertake to guarantee and bear any obligations and liabilities of Xiwang Group Company and the Relevant Subsidiaries provided under the loan agreement to be entered between the lenders and Xiwang Group Company and/or the Relevant Subsidiaries subject to the terms of the specific guarantee agreements to be entered between the lenders and the Group.
3. The Guarantee Amount shall not exceed the Outstanding Amount and shall be subject to the maximum cap of RMB5.0 billion.
4. No guarantee fees shall be paid by Xiwang Group Company to the Group for the provision of guarantee services.

5. Any loans to be repaid by the Group for and on behalf of Xiwang Group Company (and the Relevant Subsidiaries) pursuant to the New Guarantee Agreement shall be offset by the loans payable by the Group to Xiwang Group Company, or as other amounts payable by the Group to Xiwang Group Company or the Relevant Subsidiaries.

Proposed Caps

The proposed caps in respect of the maximum Guarantee Amount are as follows:

Period	Maximum guarantee amounts (RMB Billion)
From 1 January 2018 to 31 December 2018	5.0
From 1 January 2019 to 31 December 2019	5.0
From 1 January 2020 to 31 December 2020	5.0

The above proposed caps were determined after taking into account of the following:

1. the anticipated loans of Xiwang Group Company and Relevant Subsidiaries for the operational needs of certain subsidiaries of Xiwang Group Company;
2. the Outstanding Amount of approximately RMB5.07 billion granted by Xiwang Group Company to the Group as at 31 October 2017; and
3. the historical guarantee amounts and historical annual caps of the Guarantee Agreement.

The Directors (excluding the independent non-executive Directors, whose views will be contained in the circular after considering the advice from the Independent Financial Adviser) consider that the above proposed caps in respect of the guarantee services are fair and reasonable.

Historical Guarantee Amount

The historical guarantee amounts recognised by the Company and historical annual caps relation to the Guarantee Agreement are as follows:

Period	Historical guarantee amounts (RMB Billion)	Historical annual caps (RMB Billion)
From 4 January 2016 to 31 December 2016	Approximately 2.01	4.0
From 1 January 2017 to 31 October 2017	Approximately 2.54	4.0

Internal control measures

The Group has established a series of internal control measures in order to ensure that the terms of the transactions 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 mainly include:

1. the Group will ensure that each individual guarantee will have a duration of not longer than two years. Moreover, the Group will, no less frequent than on a quarterly basis, evaluate the financial performance and position of Xiwang Group Company and the Relevant Subsidiaries. If the Group is aware of any material adverse change in the financial conditions of Xiwang Group Company 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 will be more than 10% adjustment to the Guarantee Amount or the Outstanding Amount or at least at a monthly interval, the Group shall review and ensure the Guarantee Amount shall be less than the Outstanding Amount (being (i) the aggregate amount due from the Group to Xiwang Group Company and the Relevant Subsidiaries (including but not limited to the borrowings provided by Xiwang Group Company to the Group); and (ii) the aggregate amount of the Group's borrowing which is guaranteed and/or secured by Xiwang Group Company and the Relevant Subsidiaries), less the aggregate amount due from Xiwang Group Company and the Relevant Subsidiaries to the Group (including but not limited to the deposits placed by the Group with Xiwang Finance Company); and
3. in accordance with the Listing Rules, (i) the independent auditors of the Company will report annually on the guarantee services to confirm, among other matters, whether the guarantee services were entered into in accordance with the New Guarantee Agreement; and the independent non-executive Directors will continue to report annually on whether the guarantee services are, among other things, on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Reasons for and Benefits of Entering into the New Guarantee Agreement

1. The Group has obtained a large amount of loans from Xiwang Group Company for the business operation of the Group in the past. The Company is of the view that the provision of guarantee services to Xiwang Group Company will enhance the financing capacity of Xiwang Group Company which in turn will promote Xiwang Group Company to provide more financial supports to the Group in the form of loans or financing guarantee.

2. The Company is of the view that the risks arising from such transaction can be controlled, as the Guarantee Amount should be lower than the Outstanding Amount.
3. Despite the Guarantee Agreement will be expired on 31 December 2018, the Group and Xiwang Group Company agreed to enter into the New Guarantee Agreement on 10 November 2017 for the reason that the loan agreements to be entered into between the lenders and Xiwang Group Company and/or the Relevant Subsidiaries generally provide for a repayment term of more than one year. As such, the loan agreement to be entered between the lenders and Xiwang Group Company and/or the Relevant Subsidiaries after 31 December 2017 may not be able to be guaranteed for the entire loan term pursuant to the Guarantee Agreement which will hinder Xiwang Group Company from obtaining financing from its lenders.

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

INFORMATION OF THE PARTIES

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

Xiwang Group Company is a company incorporated in the PRC with limited liability on 24 April 2001 and the ultimate holding company of the Company.

APPROVAL BY THE BOARD

The proposal in respect of the entry into the New Guarantee Agreement was approved at the Board meeting held by the Company. As each of Mr. WANG Yong, Mr. WANG Di and Mr. SUN Xihu being a Director was also a director and shareholder of Xiwang Group Company, such Directors had abstained from voting on the board resolution to approve the entry into the New Guarantee Agreement. Save as disclosed above, none of the Directors have a material interest in the transactions under the New Guarantee Agreement.

LISTING RULES IMPLICATIONS

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

The Company will also disclose the relevant details of the New Guarantee Agreement in its next published annual report 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 the provision of guarantee services under the New Guarantee Agreement.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An independent board committee comprising all the independent Directors (who have no material interest in the New Guarantee Agreement) will be formed to advise the Independent Shareholders on the provision of guarantee services under the New Guarantee Agreement.

The Company will appoint an Independent Financial Adviser to advise the Independent Board Committee of the Company and the Independent Shareholders on the provision of guarantee services under the New Guarantee Agreement.

DESPATCH OF CIRCULAR

A circular containing details of the provision of guarantee services under the New Guarantee Agreement, a letter from the Independent Board Committee of the Company and a letter from the Independent Financial Adviser, both advising the provision of guarantee services under the New Guarantee Agreement, and the notice of the EGM will be despatched to the Shareholders in accordance with the Listing Rules on or before 1 December 2017.

DEFINITIONS

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

“Board”	the board of Directors
“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
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be convened and held to approve the provision of guarantee services under the New Guarantee Agreement
“Group”	the Company and its subsidiaries
“Guarantee Agreement”	the guarantee agreement dated 4 January 2016 entered into between the Group and Xiwang Group Company in relation to provision of guarantee services by the Group to Xiwang Group Company and the Relevant Subsidiaries
“Guarantee Amount”	the guarantee amount to be provided by the Group to Xiwang Group Company and the Relevant Subsidiaries under the New Guarantee Agreement
“Independent Board Committee”	the committee of Directors consisting of Mr. LEUNG Shu Sun Sunny, Mr. LI Banguang and Mr. YU Kou, being all the independent non-executive Directors, formed to advise the Independent Shareholders in respect of the terms of the provision of guarantee services under the New Guarantee Agreement

“Independent Financial Adviser”	Lego Corporate Finance Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the provision of guarantee services under the New Guarantee Agreement
“Independent Shareholders”	shareholders other than Xiwang Investment and those who are not involved in or interested in the relevant resolution(s) to be approved at the EGM
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Guarantee Agreement”	the new guarantee agreement dated 10 November 2017 entered into between the Group and Xiwang Group Company in relation to provision of guarantee services by the Group to Xiwang Group Company and the Relevant Subsidiaries
“Outstanding Amount”	being the aggregate amount due from the Group to Xiwang Group Company and the Relevant Subsidiaries (including but not limited to the borrowings provided by Xiwang Group Company to the Group) and the aggregate amount of the Group’s borrowing which is guaranteed and/or secured by Xiwang Group Company and the Relevant Subsidiaries, less the aggregate amount due from Xiwang Group Company and the Relevant Subsidiaries to the Group (including but not limited to the deposits placed by the Group with Xiwang Finance Company)
“Parties”	the Group and Xiwang Finance Company, and “Party” means any one of them
“PRC”	the People’s Republic of China
“Relevant Subsidiaries”	all of the subsidiaries of Xiwang Group Company except for the Group
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	shareholder(s) of the Company

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Xiwang Finance Company”	Xiwang Group Finance Company Limited* (西王集團財務有限公司), a company established by, inter alia, Xiwang Group Company on 15 December 2015
“Xiwang Group Company”	Xiwang Group Company Limited* (西王集團有限公司), a company incorporated in the PRC with limited liability on 24 April 2001 and the ultimate holding company of the Company

By order of the Board of
Xiwang Special Steel Company Limited
Wang Di
Chairman

Hong Kong, 10 November 2017

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

Executive Directors

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

Independent non-executive Directors

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

Non-executive Directors

Mr. WANG Di
Mr. WANG Yong

* *for identification purpose only*