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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, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Shougang Fushan Resources Group Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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首鋼福山資源集團有限公司 SHOUGANG FUSHAN RESOURCES GROUP LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 639)

POSSIBLE CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE 2021 MASTER SALES AND PURCHASE AGREEMENT AND NOTICE OF GENERAL MEETING

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

RAINBOW.

RAINBOW CAPITAL (HK) LIMITED
流博資本有限公司

RAINBOW CAPITAL (HK) LIMITED

Capitalised terms used in this cover page have the same meanings as defined in this circular.

A letter from the Board is set out on pages 5 to 17 of this circular and a letter from the Independent Board Committee containing its recommendations to the Independent Shareholders is set out on pages 18 to 19 of this circular. A letter of advice from Rainbow Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the terms of the 2021 Master Sales and Purchase Agreement and the transactions contemplated thereunder is set out on pages 20 to 36 of this circular.

A notice convening a GM to be held at 10:50 a.m. on Wednesday, 30 June 2021 or immediately after the conclusion of the annual general meeting of the Company to be held on the same day, whichever is later, at Empire Grand Room, 1st Floor, The Empire Hotel Hong Kong, 33 Hennessy Road, Wanchai, Hong Kong is set out on pages 42 to 44 of this circular. A form of proxy for the GM for use by the Shareholders is enclosed with this circular. Whether or not you are able to attend the GM in person, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the share registrar of the Company, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding of the GM (i.e., at or before 10:50 a.m. on Monday, 28 June 2021 (Hong Kong time)), or any adjourned meeting thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the GM or any adjourned meeting thereof (as the case may be) should you so wish.

PRECAUTIONARY MEASURES

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

- Compulsory body temperature check will be conducted for every Shareholder or proxy at the entrance of the venue. Any person with a body temperature of over 37.5 degrees Celsius will not be admitted to the venue.
- Every Shareholder or proxy is required to wear surgical facial mask throughout the GM.
- No refreshment will be served.

The Company wishes to advise the Shareholders, particularly the Shareholders who are subject to quarantine in relation to COVID-19, that they may appoint any person or the chairman of the GM as a proxy to vote on the resolution, instead of attending the GM in person.

Furthermore, no corporate gifts or coupons will be distributed in the GM.

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DEFINITIONS

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

“2021 Master Sales and Purchase Agreement”	the mutual sales and purchase framework agreement dated 17 May 2021 entered into between the Company and Shougang Group in relation to the Sales and Purchase;
“associate”	has the meaning ascribed to it under the Listing Rules;
“Board”	the board of directors of the Company;
“Company”	Shougang Fushan Resources Group Limited, a limited liability company incorporated in Hong Kong, the Shares of which are listed on the main board of the Stock Exchange (stock code: 639);
“Completion Date”	the date on which all conditions precedent under the 2021 Master Sales and Purchase Agreement are fulfilled, which includes the completion of Shoucheng’s Proposed Restructuring;
“connected person”	has the meaning ascribed to it under the Listing Rules;
“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules;
“Director(s)”	the director(s) of the Company;
“Excel Bond”	Excel Bond Investments Limited, a company incorporated in the British Virgin Islands with limited liability which is principally engaged in investment holding, a company indirectly (through its wholly-owned subsidiary, Ultimate Capital Limited) holding approximately 11.88% in aggregate of all issued Shares and a wholly-owned subsidiary of the Vendor;
“Fushan Products”	coking coal products;
“GM”	the general meeting of the Company to be convened and held at 10:50 a.m. on Wednesday, 30 June 2021 or immediately after the conclusion of the annual general meeting of the Company to be held on the same day, whichever is later, at Empire Grand Room, 1st Floor, The Empire Hotel Hong Kong, 33 Hennessy Road, Wanchai, Hong Kong for the purpose of considering and, if thought fit, approving, among others, the 2021 Master Sales and Purchase Agreement and the Proposed Caps;

DEFINITIONS

“Group”	the Company and its subsidiaries from time to time;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	an independent committee of the Board comprising all independent non-executive Directors of the Company, namely Mr. Kee Wah Sze, Mr. Choi Wai Yin, Mr. Japhet Sebastian Law and Mr. Chen Jianxiong, established for the purpose of advising the Independent Shareholders on the terms of the 2021 Master Sales and Purchase Agreement and the transactions contemplated thereunder;
“Independent Financial Adviser” or “Rainbow Capital”	Rainbow Capital (HK) Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser appointed by the Company for the purpose of advising the Independent Board Committee and the Independent Shareholders in relation to the continuing connected transactions (including the Proposed Caps) under the 2021 Master Sales and Purchase Agreement;
“Independent Shareholders”	the Shareholders, other than Shougang Group and its associates which in aggregate indirectly hold approximately 33.09% interest in the Company and Mr. Ding who holds approximately 0.002% interest in the Company at the date of this circular and will be required to abstain from voting on the resolution(s) to be proposed at the GM;
“Individual Agreements”	the separate individual agreements to be entered between each member of the Group and each of Shougang Group and/or its associates for the Sales and Purchase pursuant to the 2021 Master Sales and Purchase Agreement;
“Latest Practicable Date”	7 June 2021, being the latest practicable date for ascertaining certain information referred to in this circular prior to the printing of this circular;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 of the Listing Rules;
“PRC”	the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan;

DEFINITIONS

“Proposed Caps”	the proposed caps in respect of the transaction amounts for the respective Sales and Purchase under the 2021 Master Sales and Purchase Agreement for the period commencing from the Completion Date to 31 December 2021 and for the two financial years ending on 31 December 2023 (both days inclusive);
“Purchaser”	King Rich Group Limited, a company incorporated in the British Virgin Islands with limited liability, which is principally engaged in investment holding and a wholly-owned subsidiary of Shougang Holding;
“RMB”	Renminbi, the lawful currency of the PRC;
“Sales and Purchase”	mutual sales and purchase, which include (i) supplying the Fushan Products to Shougang Group and/or its associates by the Group; and (ii) supplying the Shougang Group Products to the Group by Shougang Group and/or its associates, under the 2021 Master Sales and Purchase Agreement;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Shareholders”	holder(s) of the Share(s) of the Company;
“Shares”	ordinary shares of the Company;
“Shoucheng”	Shoucheng Holdings Limited, a company incorporated in Hong Kong with limited liability whose shares are listed on the main board of the Stock Exchange (stock code: 697);
“Shoucheng’s Proposed Restructuring”	the disposal by Shoucheng of the entire issued share capital of Excel Bond pursuant to the terms and conditions of the Shoucheng Share Sale Agreement;
“Shoucheng Share Sale Agreement”	the agreement in relation to a proposed restructuring entered between the Vendor and the Purchaser on 15 January 2021 which was being amended and restated on 18 February 2021;
“Shougang Group”	首鋼集團有限公司 (Shougang Group Co., Ltd.*), a state-owned enterprise established in the PRC and a controlling shareholder of Shoucheng and the Company, which will be a substantial shareholder of the Company upon the completion of Shoucheng’s Proposed Restructuring;

DEFINITIONS

“Shougang Group Products”	materials including but not limited to steel and machinery and services to be rendered within the scope of Shougang Group’s businesses and in relation to the Group’s usual and ordinary course of business;
“Shougang Holding”	Shougang Holding (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of Shougang Group;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“substantial shareholder”	has the meaning ascribed thereto under the Listing Rules;
“VAT”	Value-Added Tax;
“Vendor”	Shoujing Yifei Holdings Limited, a company incorporated in Samoa with limited liability which is principally engaged in investment holding and a wholly-owned subsidiary of Shoucheng; and
“%”	per cent.

* *For identification purpose only.*

LETTER FROM THE BOARD



首鋼福山資源集團有限公司 SHOUGANG FUSHAN RESOURCES GROUP LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 639)

Executive Directors:

Mr. Ding Rucai (*Chairman*)
Mr. Fan Wenli (*Managing Director*)
Mr. Chen Zhaoqiang (*Deputy Managing Director*)
Mr. Liu Qingshan (*Deputy Managing Director*)
Mr. Wang Dongming

*Registered office and principal place
of business:*

6th Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

Non-executive Directors:

Ms. Chang Cun
Mr. Shi Yubao

Independent Non-executive Directors:

Mr. Kee Wah Sze
Mr. Choi Wai Yin
Mr. Japhet Sebastian Law
Mr. Chen Jianxiong

15 June 2021

To the Shareholders

Dear Sir or Madam,

POSSIBLE CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE 2021 MASTER SALES AND PURCHASE AGREEMENT AND NOTICE OF GENERAL MEETING

INTRODUCTION

Reference is made to the announcement of the Company dated 17 May 2021 in relation to, among others, the entering into of the 2021 Master Sales and Purchase Agreement between the Company and Shougang Group to regulate the possible continuing connected transactions between the Group and Shougang Group and/or its associates for the period commencing from the Completion Date and ending on 31 December 2023 (both days inclusive), and the Proposed Caps for which will become effective on the Completion Date in compliance with the Listing Rules.

LETTER FROM THE BOARD

The purpose of this circular is:

- (i) to provide the Shareholders with further details of the 2021 Master Sales and Purchase Agreement and the transactions contemplated thereunder;
- (ii) to set out the opinions of the Independent Financial Adviser on the terms of the 2021 Master Sales and Purchase Agreement and the transactions contemplated thereunder;
- (iii) to set out the recommendations of the Independent Board Committee in respect of the terms of 2021 Master Sales and Purchase Agreement and the transactions contemplated thereunder; and
- (iv) to give the Shareholders notice of the GM to consider and, if thought fit, to approve the 2021 Master Sales and Purchase Agreement and the transactions contemplated thereunder and the Proposed Caps.

THE 2021 MASTER SALES AND PURCHASE AGREEMENT

A summary of the principal terms of the 2021 Master Sales and Purchase Agreement are set out below:

Date

17 May 2021

Parties

- (A) the Company; and
- (B) Shougang Group

Nature of the transactions

- (i) the Group will supply the Fushan Products to Shougang Group and/or its associates; and
- (ii) Shougang Group and/or its associates will supply Shougang Group Products to the Group.

Conditions precedent

The obligations of the parties to the 2021 Master Sales and Purchase Agreement are conditional upon (i) approval of the 2021 Master Sales and Purchase Agreement and the Proposed Caps by the Independent Shareholders in compliance with the Listing Rules at the GM; and (ii) the completion of Shoucheng's Proposed Restructuring.

LETTER FROM THE BOARD

If the above conditions precedent under the 2021 Master Sales and Purchase Agreement are not satisfied on or before 31 December 2021 or such other date as the parties may agree in writing, the 2021 Master Sales and Purchase Agreement will terminate automatically and no party will be entitled to any rights or benefits or be under any obligations under or in respect of the 2021 Master Sales and Purchase Agreement.

Term

Subject to the satisfaction of the conditions precedent, the term of the 2021 Master Sales and Purchase Agreement will commence from the Completion Date and ending on 31 December 2023 (both days inclusive).

Pricing terms

The pricing terms under the 2021 Master Sales and Purchase Agreement will be determined based on an arm's length basis, on normal commercial terms and on terms no less favourable to independent third parties and in accordance with the following principles:

- (i) by reference to the prevailing market prices of the Fushan Products (which will be with reference to the well-known coal industry website www.sxcoal.com) and materials included under the Shougang Group Products (which will be with reference to the well-known steel industry website <https://index.mysteel.com/price/indexPrice.html> and prices quoted by other suppliers in the industry) or substantially similar products, taking into account of the price of the same or substantially similar products with comparable order quantities and quality being offered on the market;
- (ii) if there are not sufficient comparable transactions including machinery, construction and services included under the Shougang Group Products in (i) above, on normal commercial terms comparable to those offered to/received from independent third parties in respect of the same or substantially similar products with comparable order quantities; and
- (iii) if both (i) and (ii) above are not applicable, by reference to the average price of similar products previously supplied by a party, and on normal commercial terms comparable to those offered by the relevant party to independent third parties.

Amounts and Payment terms

The contract amounts in respect of the Sales and Purchase shall be paid in accordance with the terms of each of the Individual Agreements. The payment terms for the continuing connected transactions under the 2021 Master Sales and Purchase Agreement will be on normal commercial terms which will be no less favourable to the Company than those available from independent third parties.

LETTER FROM THE BOARD

Proposed Caps and Basis of Determination

The transaction amounts under the 2021 Master Sales and Purchase Agreement during its term will not exceed the Proposed Caps. The table below sets out the Proposed Caps (net of VAT) in respect of the 2021 Master Sales and Purchase Agreement for the respective period/year:

	For the period from Completion Date to 31 December 2021 RMB' 000	For the year ending 31 December 2022 RMB' 000	For the year ending 31 December 2023 RMB' 000
Supply of Fushan Products	1,350,000	2,570,000	2,840,000
Purchase of Shougang Group Products	50,000	100,000	110,000

The Proposed Caps were determined mainly based on (i) the historical transaction amounts between the Group and Shougang Group and/or its associates; (ii) the expected growth in demand for both the Fushan Products and Shougang Group Products; and (iii) the expected production volume of the products; and (iv) the current and expected future prices.

Historical transaction amounts

The table below sets out the historical transaction amounts (net of VAT) between the Group and Shougang Group and/or its associates in respect of the Sales and Purchase for the respective period/year below:

	For the year ended 31 December 2018 RMB' 000	For the year ended 31 December 2019 RMB' 000	For the year ended 31 December 2020 RMB' 000	For the period from 1 January to 30 April 2021 RMB' 000
Supply of Fushan Products	698,549	1,046,570	1,292,363	568,930
Purchase of Shougang Group Products	3,126	4,108	7,284	5,615

LETTER FROM THE BOARD

Growth in respect of Fushan Products

In determining the Proposed Caps for the supply of Fushan Products, the Company has estimated the production volume of coking coal for the three years ending 31 December 2023 based on several factors including (i) the Group's production capacity; (ii) the proportion of historical sales volume of Fushan Products to Shougang Group and/or its associates for the three years ended 31 December 2020 and the 4 months ended 30 April 2021, against the total sales volume of clean coking coal of the Group for the same period, which represented 32%, 34%, 37% and 47% respectively; (iii) the estimated growth and sales volume of the Group for the three years ending 31 December 2023; and (iv) the estimated selling prices of Fushan Products for the three years ending 31 December 2023 based on the recent market selling prices.

The recent market selling prices (inclusive of VAT) of two kinds of clean coking coal, being low-sulphur and high-sulphur clean coking coal (which are what Fushan Products mainly comprise of), increased to RMB1,780 per tonne and RMB1,388 per tonne respectively from the average market selling prices of RMB1,605 per tonne and RMB1,203 per tonne respectively in the year ended 31 December 2019 (representing an increase of 11% and 15%) and RMB1,369 per tonne and RMB1,096 per tonne respectively in the year ended 31 December 2020 (representing a significant increase of 30% and 27%). The Company has assumed a reasonable growth rate of 5% per annum on the recent market selling prices for two years ending 31 December 2023. Such growth rate is considered prudent given that the average market selling prices of low-sulphur and high-sulphur clean coking coal have increased at compound annual growth rates of approximately 14% and 12% respectively during the period from 2016 to 2020, and the overall consumer price index in China has increased on average around 2.1% in the past 5 years, with the highest year on year increase being 5.4%. Furthermore, the Company has also considered estimated additional selling prices of RMB38 per tonne on 38% of high-sulphur sales volume and RMB210 per tonne on 25% of high-sulphur sales volume to Shougang Group and/or its associates for additional railway transportation costs and ocean freight costs, respectively, according to the current logistic arrangements between the Group and Shougang Group.

Given that the production volume of raw coking coal (from which clean coking coal is derived) of one of the Group's three operating coking coal mines did not reach its approved production capacity in the two years ended 31 December 2019 and 2020, there is expected to be an increase in the Group's production after the said mine resumes full production capacity. The upper coal seam of said mine was closed down in May 2019 and the production permit for the mining of lower coal seam for the said mine was only granted in August 2019, and a running period of approximately two years (which is typical for coking coal mines) was required for the production volume of the mine to gradually reach its full approved capacity. As the running period of the said mine has completed, it is expected that the approved production capacity of 1,750,000 tonnes per annum per the Group's coking coal mine would be reached for the year ending 31 December 2021. Accordingly, the Group expects its total raw coal production volume could reach 5,250,000 tonnes per year in the following years in line with the aggregate approved production capacity of the Group's three operating coking coal mines, as compared to 4,410,000 tonnes and 4,950,000 tonnes for the two years ended 31 December 2019 and 2020 respectively. Together with the increase in purchase of clean coal from third parties for blending and sales, the Company expects the overall sales volume of clean coking coal products (including Fushan Products) to increase steadily in the next few years.

LETTER FROM THE BOARD

The Company determined the expected increase in proportion of sales volume of Fushan Products to Shougang Group and/or its associates against the total sales volume of clean coking coal of the Group, based on the compound annual growth rate in the past few years, in addition to the ordered quantities for clean coking coal from Shougang Group and/or its associates for the current year up to 30 April 2021, which is approximately 114,800 tonnes and 1,400,000 tonnes for low-sulphur and high-sulphur clean coking coal respectively, which in aggregate represented growth rate of 24% compared to the sales volume of Fushan Products to Shougang Group and/or its associates for the year ended 31 December 2020.

Notwithstanding the above, for the purposes of Listing Rules compliance and to avoid over reliance on Shougang Group, the Company has imposed internal controls to limit the proportion of sales volume attributable to Shougang Group and/or its associates to no more than 55% of the total estimated sales volume of clean coking coal products of the Group on annual basis, with the Proposed Caps (insofar as concerns the supply of Fushan Products) representing approximately 49%, 50% and 51% of the total estimated sales volume of clean coking coal of the Group for each of the three years ending 31 December 2021, 2022, and 2023 respectively, based on preliminary estimation by the Company. This will however also be dependent on prevalent market conditions and the global economy, as exceptional circumstances may necessitate adjustments on sales and demands and overall operational strategies of the Group. Such exceptional circumstances would include, for instance, when other customers default on their orders for Fushan Products, as a result of cessation of operations due to environmental issues, government policies, financial problems or otherwise, in which case the Company will be required to reach out to its existing customers, including but not limited to Shougang Group, to take up the defaulted orders. These will however only be one-off cases. The Company considers the implementation of such contingent measures essential to ensure that the Company continues its business without any material interruptions, since storage capacities are limited and products must be continuously released in order to accommodate the mines' continual production, and are therefore fair and reasonable.

Growth in respect of Shougang Group Products

In determining the Proposed Caps for the purchase of Shougang Group Products, the Company has estimated its demand for the purchases including materials, machinery, construction and services etc. which will need to be applied for the continued operation and infrastructure of its coal mines for the three years ending 31 December 2023. The increase in estimated demand is mainly attributable to the expected higher demand for steel and machinery which is necessary in the mining and production of clean coking coal, which as aforementioned, is expected to increase steadily in the next years. Machinery and construction together with related services are also required for the Group's upcoming infrastructure and automation projects for its coal mines and preparation plants.

The Group will normally procure the purchase for certain amount through tendering and the Group will procure Shougang Group Products from Shougang Group and/or its associates only when the prices and terms provided by Shougang Group are no less favourable to the Group than those provided by other independent third parties. The Company expects that the proportion of Shougang Group Products to the total purchase (for the operation and infrastructure of the Group's coal mines) for the three years ending 31 December 2023 will increase given the historical transactions and ongoing collaboration between the Group and Shougang Group, and the purchase amount of Shougang Group Products will also be affected by an assumed reasonable growth rate of 5% per annum as above.

LETTER FROM THE BOARD

Shareholders and potential investors should note that the Proposed Caps should not be construed as an assurance or forecast by the Company of the future revenues of the Group, and should not rely on any estimations or forecast in this circular used for the purpose of calculation of the Proposed Caps.

REASONS FOR THE 2021 MASTER SALES AND PURCHASE AGREEMENT

The Group is principally engaged in coking coal mining, production and sales of coking coal products in the PRC. The Group has been supplying coking coal product to Shougang Group and/or its associates since 2010 and purchasing steel products from Shougang Group and/or its associates since 2015, as well as contracting Shougang Group and/or its associates for certain construction, exploration and design projects, etc. in its ordinary and usual course of business. Currently, Shougang Group (together with its associates) is the largest customer of the Group for the two years ended 31 December 2020, accounting for approximately 22%, 31% and 36% of the Group's total revenue for the three years ended 31 December 2020, respectively.

As the transactions between the Group and Shougang Group and/or its associates will become connected transactions of the Company following the completion of Shoucheng's Proposed Restructuring, and it is expected that the Company will continue to conduct such transactions on or after the Completion Date, the Company and Shougang Group entered into the 2021 Master Sales and Purchase Agreement to regulate the possible continuing connected transactions between the Group and Shougang Group and/or its associates.

In line with market practice and the Company's past practices, the Company consider it necessary for compliance purposes and administrative convenience to enter into a master agreement with relevant contract counterparties in order to better document and manage its continuing connected transactions. The 2021 Master Sales and Purchase Agreement serves to streamline the Sales and Purchase between the Group and Shougang Group and/or its associates by providing a single basis upon which the Company could comply with the relevant requirements under Chapter 14A of the Listing Rules and thereby reducing the administrative burden and costs of the Company. At the same time, the Company continues to carry out its normal business with its customers without any interruption.

Shougang Group and its associates have respectable experience and reputation in their respective areas of businesses and solid financial standing, and have demonstrated themselves as reliable customers and suppliers of the Group over the past years. The Directors believe that maintaining strategic business relationships with them will not only allow the realisation of synergies and economies of scale but will also continue to bring sustainable contribution to the Group's growth in the long run. As such, the Company considers that there is no material disadvantage in entering into of the 2021 Master Sales and Purchase Agreement.

The Sales and Purchase contemplated under the 2021 Master Sales and Purchase Agreement are of a recurrent nature and, subject to completion of Shoucheng's Proposed Restructuring having taken place, will occur on a regular and continuing basis in the ordinary and usual course of business of the Group.

LETTER FROM THE BOARD

The Directors (excluding the independent non-executive Directors whose views are set out on pages 18 to 19 of this circular, and Mr. Ding Rucai who might be considered to have material interest) are of the view that the 2021 Master Sales and Purchase Agreement is entered into in the ordinary and usual course of business of the Group and the terms contained therein are on normal or better commercial terms, which are arrived at after arm's length negotiations between the parties, and that the Proposed Caps and the terms of the 2021 Master Sales and Purchase Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INTERNAL CONTROL FOR CONTINUING CONNECTED TRANSACTIONS

In order to ensure that the prices of the Fushan Products and the Shougang Group Products are fair and reasonable, and are in line with the market average, the Group adopts the following internal control methods and procedures:

- (a) In the event that the Group encounters contracts consisting of similar terms with both Shougang Group and/or its associates and independent third parties of equal caliber, in consideration of (i) the long-term relationship between the Group and Shougang Group; (ii) the reputation, experience and financial standing of Shougang Group; and (iii) the track record of Shougang Group proving that they are no less reliable and of no lesser quality, as both customer and supplier, than other independent third parties that the Group has transacted with, the Group shall give priority to Shougang Group and/or its associates, which is in line with normal commercial practice and of commercial sense. This will however always be subject to compliance with the Listing Rules, the Proposed Caps and the 55% limitation of total sales volume as aforementioned. The Company will conduct regular reviews to ensure continued compliance.
- (b) The Company will conduct regular checks on a monthly basis to review and assess whether the transactions contemplated under the Individual Agreements are conducted in accordance with the terms thereunder and will also regularly update the market price for the purpose of considering if the price charged for a specific transaction is fair and reasonable, and in accordance with the aforesaid pricing policy:
 - (i) the sales team will from time to time (on a regular bi-weekly basis and/or prior to price negotiation) gather market intelligence by way of research and investigation to determine the reference price of each type of products in the market;
 - (ii) the Company will conduct regular reviews of the Sales and Purchase and ensures the transactions contemplated under the Individual Agreements are within the Proposed Caps; and
 - (iii) the Group will also work closely with customers/suppliers with a view to obtain information on the demand of the customers/the supply of the suppliers. As long as it is permissible under law, the Company will consider adjusting or negotiating the prices of the transactions contemplated under the Individual Agreements as and when necessary to ensure price fairness.

LETTER FROM THE BOARD

- (c) The Company will conduct annual internal reviews of the continuing connected transactions of the Company, to consider:
 - (i) effective implementation of the pricing policies and the payment methods, evaluation of balances of the Proposed Caps; and
 - (ii) identification of management weaknesses, and recommendation of improvement measures to ensure that the internal control measures in respect of the continuing connected transactions remain complete and effective and where any weaknesses are identified, the Company will take measures to address them as soon as practicable.
- (d) The independent non-executive Directors will review the continuing connected transactions of the Company pursuant to Rule 14A.55 of the Listing Rules, and confirm in the annual report as to whether such transactions have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better and according to the agreement governing the transactions on terms that are fair and reasonable and in the interests of the Shareholders as a whole.
- (e) The independent auditor of the Group will also conduct an annual review on the pricing terms under the 2021 Master Sales and Purchase Agreement and Proposed Caps.

Further, in order to ensure that the proportion of the actual sales volume of Fushan Products supplied to Shougang Group and/or its associates is limited to no more than 55% of the total sales volume of clean coking coal products of the Group, the Group will also adopt the following internal control methods and procedures:

- (a) The Production Department of the Group shall report the daily production volume of coking coal products to the Sales Department of the Group; and
- (b) Based on such data on daily production volume, as well as the data on sales volume to all customers recorded in its order and sales book, the Sales Department shall monitor and control the actual sales volume of Fushan Products supplied to Shougang Group and/or its associates, and shall provide the Group's management with regular reports.

The Company shall manage the Sales and Purchase so that when total transaction amounts approaches the Proposed Caps or the 55% limitation for the sales volume of Fushan Products, the Company will pay particular attention to make sure that it does not accept further orders from, place further orders with, or enter into further relevant contracts with Shougang Group and/or its associates that would result in the Proposed Caps or the 55% limitation being exceeded unless exceptional circumstances occurs as disclosed above. In such case, the Company shall continue to sell its coking coal products to other customers and purchase materials and services from other suppliers.

LETTER FROM THE BOARD

The Board shall ensure that Shougang Group does not become the Company's sole or primary source of revenue, so that there is no issue of extreme reliance. Further, to ensure that any risk from transacting with Shougang Group and/or its associates is minimised, the Group will take appropriate measures to consider, among others, the latest financial position of Shougang Group before confirming each sales order. Except Shougang Group, the Group also has a number of other existing well-known sizable customers, and the Group will be able to sell Fushan Products to such other existing customers or procure new customers to effectively mitigate its risk exposure in case of any material adverse change to or termination of the relationship with Shougang Group for any reasons. In any event, the Board considers that any such material adverse change or termination is relatively unlikely given Shougang Group's state-owned status, substantial shareholding in the Group, as well as the mutual nature and length of the business relationship between the Group and Shougang Group.

INFORMATION OF THE PARTIES

The Company and the Group

The Company is an investment holding company and the Group is principally engaged in coking coal mining, production and sales of coking coal products in the PRC.

Shougang Group

Shougang Group is a state-owned enterprise established in the PRC and a controlling shareholder of Shoucheng and the Company, which is principally engaged a wide variety of businesses such as steel industry, mining, machinery and equipment development, electronics, building, real estate, and related services, etc. Shougang Group is currently the largest customer of the Group.

LISTING RULES IMPLICATIONS

The Company notices that on 15 January 2021, the Vendor and the Purchaser entered into the Shoucheng Share Sale Agreement. Pursuant to the terms of the Shoucheng Share Sale Agreement, the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, the entire issued share capital of Excel Bond, a company indirectly holding approximately 11.88% in aggregate of all issued Shares. Completion of Shoucheng's Proposed Restructuring is subject to the fulfilment of the conditions precedent stated in the Shoucheng Share Sale Agreement.

Prior to the completion of Shoucheng's Proposed Restructuring, Shougang Group, through its wholly-owned subsidiaries, indirectly held approximately 4.11% interest in the Company. Shoucheng, a 34.91% held associate of Shougang Group, indirectly held approximately 28.98% interest in the Company. As Shougang Group is not a connected person of the Company, the transactions with Shougang Group and/or its associates are not connected transactions of the Company for the purpose of Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

Upon the completion of Shoucheng's Proposed Restructuring, Shougang Group, through its wholly-owned subsidiaries, will indirectly hold approximately 15.99% interest in the Company. Shoucheng, a 34.91% held associate of Shougang Group, will indirectly hold approximately 17.10% interest in the Company. Accordingly, Shougang Group will become a substantial shareholder, and thus a connected person, of the Company and the transactions between the Group and Shougang Group and/or its associates will thereafter constitute connected transactions of the Company, and therefore the 2021 Master Sales and Purchase Agreement and the transactions contemplated thereunder will constitute continuing connected transactions of the Company, for the purpose of Chapter 14A of the Listing Rules.

The 2021 Master Sales and Purchase Agreement was entered into to govern the possible continuing connected transactions between the Group and Shougang Group and/or its associates for the period commencing from the Completion Date and ending on 31 December 2023 (both days inclusive). As one or more of the applicable ratios (as set out in Rule 14.07 of the Listing Rules) calculated with reference to the Proposed Caps under the 2021 Master Sales and Purchase Agreement exceed 5%, the transactions contemplated under the 2021 Master Sales and Purchase Agreement are subject to the reporting, announcement, circular, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

GM

The GM will be convened for the purposes of seeking the Independent Shareholders' approval on the 2021 Master Sales and Purchase Agreement and the transactions contemplated thereunder.

Pursuant to Rule 14A.36 of the Listing Rules, any Shareholder with a material interest in the 2021 Master Sales and Purchase Agreement and the transactions contemplated thereunder is required to abstain from voting on the relevant resolution at the GM. Shougang Group and its associates which in aggregate indirectly hold 1,671,726,490 Shares (approximately 33.09% interest in the Company) and Mr. Ding who holds 120,000 Shares (approximately 0.002% interest in the Company) as at the Latest Practicable Date, will abstain from voting on the resolution to be proposed at the GM. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no other Shareholder is required to abstain from voting at the GM.

The Independent Board Committee comprising all the independent non-executive Directors has been formed by the Company to consider whether the terms of the 2021 Master Sales and Purchase Agreement and the transactions contemplated thereunder, including the Proposed Caps, are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders in respect of the same. Rainbow Capital has been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

As Mr. Ding Rucai is currently a director of the Company and certain subsidiaries of Shougang Group, he might be considered to be materially interested in the transactions contemplated under the 2021 Master Sales and Purchase Agreement and has abstained from voting on the Board resolution(s) approving the transactions contemplated under the 2021 Master Sales and Purchase Agreement. Save for Mr. Ding Rucai, none of the Directors has any material interest in the 2021 Master Sales and Purchase Agreement, and therefore they are not required to abstain from voting on such Board resolution(s).

LETTER FROM THE BOARD

A notice convening the GM to be held at 10:50 a.m. on Wednesday, 30 June 2021 or immediately after the conclusion of the annual general meeting of the Company to be held on the same day, whichever is later, at Empire Grand Room, 1st Floor, The Empire Hotel Hong Kong, 33 Hennessy Road, Wanchai, Hong Kong is set out on pages 42 to 44 of this circular. A form of proxy for use by the Shareholders at the GM is enclosed herewith. Whether or not you are able to attend the GM in person, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the share registrar of the Company, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the GM (i.e., at or before 10:50 a.m. on Monday, 28 June 2021 (Hong Kong time)), or any adjourned meeting thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the GM or any adjourned meeting thereof (as the case may be) should you so wish.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll. Accordingly, the Company will procure that the chairman of the GM shall demand voting on the resolution set out in the notice of GM be taken by way of poll.

CLOSURE OF REGISTER

The register of members of the Company will be closed from Friday, 25 June 2021 to Wednesday, 30 June 2021 (both days inclusive) to determine the entitlement to attend and vote at the above meeting. During such period no transfer of shares of the Company will be registered. In order to qualify for the entitlement to attend and vote at the GM, all transfer forms accompanied by the relevant share certificates must be lodged with the share registrar of the Company, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 24 June 2021 for registration.

RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee as set out on pages 18 to 19 of this circular which contains its recommendations to the Independent Shareholders in respect of the terms of the 2021 Master Sales and Purchase Agreement and the transactions contemplated thereunder. Your attention is also drawn to the letter of advice from Rainbow Capital which contains, amongst other matters, its advices to the Independent Board Committee and the Independent Shareholders on the terms of the 2021 Master Sales and Purchase Agreement and the transactions contemplated thereunder. The letter from Rainbow Capital is set out on pages 20 to 36 of this circular.

The Directors (other than the members of the Independent Board Committee whose view is set out in the letter from the Independent Board Committee after reviewing and considering the advice from the Independent Financial Adviser) consider that the terms of the 2021 Master Sales and Purchase Agreement and the transactions contemplated thereunder are in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the relevant ordinary resolution to be proposed at the GM.

LETTER FROM THE BOARD

Your attention is also drawn to the general information set out in the appendix of this circular.

Shareholders and potential investors should note that the 2021 Master Sales and Purchase Agreement is subject to Independent Shareholders' approval and therefore may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the Shares.

By Order of the Board
Shougang Fushan Resources Group Limited
Ding Rucai
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter of recommendations, prepared for the purpose of incorporation in the circular, from the Independent Board Committee to the Independent Shareholders regarding the terms of the 2021 Master Sales and Purchase Agreement and the transactions contemplated thereunder.



首鋼福山資源集團有限公司
SHOUGANG FUSHAN RESOURCES GROUP LIMITED
(Incorporated in Hong Kong with limited liability)
(Stock Code: 639)

15 June 2021

To the Independent Shareholders

Dear Sir or Madam,

**POSSIBLE CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO THE
2021 MASTER SALES AND PURCHASE AGREEMENT**

We refer to the circular of the Company to the Shareholders dated 15 June 2021 (the “**Circular**”), in which this letter forms a part. Unless the context requires otherwise, capitalised terms used in this letter will have the same meanings given to them in the section headed “Definitions” of the Circular.

We have been authorised by the Board to form the Independent Board Committee to advise the Independent Shareholders on whether the terms of the 2021 Master Sales and Purchase Agreement and the transactions contemplated thereunder, including the Proposed Caps, are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

We wish to draw your attention to the letter of advice from Rainbow Capital, the Independent Financial Adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the terms of the 2021 Master Sales and Purchase Agreement and the transactions contemplated thereunder as set out on pages 20 to 36 of the Circular and the letter from the Board as set out on pages 5 to 17 of the Circular, as well as the additional information set out in the appendix to the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered, among other matters, the factors and reasons considered by, and the opinions of Rainbow Capital as stated in its letter of advice, we consider that the terms of the 2021 Master Sales and Purchase Agreement and the transactions contemplated thereunder, including the Proposed Caps, are on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution in relation to the 2021 Master Sales and Purchase Agreement and the transactions contemplated thereunder to be proposed at the GM.

Yours faithfully,
For and on behalf of
Independent Board Committee

Mr. Kee Wah Sze
Independent
Non-executive Director

Mr. Choi Wai Yin
Independent
Non-executive Director

Mr. Japhet Sebastian Law
Independent
Non-executive Director

Mr. Chen Jianxiong
Independent
Non-executive Director

LETTER FROM RAINBOW CAPITAL

The following is the full text of a letter of advice from Rainbow Capital to the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the 2021 Master Sales and Purchase Agreement which has been prepared for the purpose of inclusion in this circular.

Rainbow Capital (HK) Limited

Room 5B, 12/F
Tung Ning Building
No. 2 Hillier Street
Sheung Wan, Hong Kong

15 June 2021

To the Independent Board Committee and the Independent Shareholders

Shougang Fushan Resources Group Limited
6th Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai, Hong Kong

Dear Sir or Madam,

POSSIBLE CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE 2021 MASTER SALES AND PURCHASE AGREEMENT

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the 2021 Master Sales and Purchase Agreement (the “**Transactions**”) and the proposed caps (the “**Proposed Caps**”) for the Transactions for the period from the Completion Date to 31 December 2023, details of which are set out in the “Letter from the Board” (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 15 June 2021 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 17 May 2021 (after trading hours), the Company entered into the 2021 Master Sales and Purchase Agreement with Shougang Group, pursuant to which (i) the Group agreed to supply the Fushan Products to Shougang Group and/or its associates; and (ii) Shougang Group and/or its associates agreed to supply Shougang Group Products to the Group, for a term commencing from the Completion Date to 31 December 2023 (both days inclusive).

Upon completion of Shoucheng’s Proposed Restructuring, Shougang Group will become a substantial shareholder and thus a connected person of the Company. As such, the Transactions will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules, upon completion of Shoucheng’s Proposed Restructuring.

LETTER FROM RAINBOW CAPITAL

As one or more of the applicable ratio for the Proposed Caps is/are more than 5%, the Transactions constitute non-exempt continuing connected transactions under Chapter 14A of the Listing Rules, which are subject to the reporting, announcement, circular, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Shougang Group, its associates and Mr. Ding Rucai will abstain from voting on the resolution approving the Transactions and the Proposed Caps at the GM.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Kee Wah Sze, Mr. Choi Wai Yin, Mr. Japhet Sebastian Law and Mr. Chen Jianxiong, has been formed to advise the Independent Shareholders on whether (i) the Transactions are in the ordinary and usual course of business of the Group; (ii) the Transactions are on normal commercial terms which are fair and reasonable; (iii) the entering into of the 2021 Master Sales and Purchase Agreement is in the interests of the Company and the Shareholders as a whole; and (iv) the Proposed Caps are fair and reasonable. We, Rainbow Capital, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

As at the Latest Practicable Date, we did not have any relationships or interests with the Group and Shougang Group that could reasonably be regarded as relevant to our independence. There was no engagement or connection between the Group or Shougang Group and us in the last two years. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received any fees or benefits from the Group or Shougang Group. As such, we are qualified to give independent advice in respect of the Transactions (including the Proposed Caps).

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the Circular.

LETTER FROM RAINBOW CAPITAL

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the businesses, affairs, operations, financial position or future prospects of the Group, Shougang Group or any of their respective substantial shareholders, subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of the 2021 Master Sales and Purchase Agreement (including the Proposed Caps) are fair and reasonable, we have taken into account the principal factors and reasons set out below:

1. Information on the Group and Shougang Group

(i) *The Group*

The Group is principally engaged in coking coal mining, production and sales of coking coal products in the PRC. Taking Shanxi Province as its major investment base, the Group has three operating coking coal mines and three coal preparation plants.

The Group generates its revenue from sales of raw and clean coking coal. For the three years ended 31 December 2020, revenue of the Group amounted to approximately HK\$3.7 billion, HK\$3.9 billion and HK\$4.0 billion, of which approximately HK\$3.1 billion, HK\$3.8 billion and HK\$3.9 billion were generated from sales of clean coking coal, respectively. Sales of clean coking coal increased at a compound annual growth rate (“CAGR”) of approximately 13.0% between 2018 and 2020. For each of the three years ended 31 December 2020, profit attributable to the Shareholders amounted to approximately HK\$1.1 billion. The Group had total assets of approximately HK\$21.4 billion and net assets attributable to the Shareholders of approximately HK\$15.8 billion as at 31 December 2020.

(ii) *Shougang Group*

Shougang Group is a state-owned enterprise established in the PRC and a controlling shareholder of Shoucheng and the Company, which is principally engaged a wide variety of businesses such as steel industry, mining, machinery and equipment development, electronics, building, real estate, and related services etc. Currently, Shougang Group is the largest customer of the Company for the two years ended 31 December 2020, accounting for approximately 22%, 31% and 36% of the Group’s total revenue for the three years ended 31 December 2020, respectively.

LETTER FROM RAINBOW CAPITAL

2. Reasons for, and benefits of, entering into the Transactions

As stated in the Letter from the Board, the Group has been supplying coking coal products to Shougang Group and/or its associates since 2010 and purchasing steel products from Shougang Group and/or its associates since 2015 in its usual and ordinary course of business. Moreover, the Group has engaged Shougang Group and/or its associates as contractors for certain construction, exploration and design projects in its usual and ordinary course of business.

As the Transactions will become connected transactions of the Company following completion of Shoucheng's Proposed Restructuring and the Company is expected to continue to conduct such transactions on or after the Completion Date, the Company and Shougang Group entered into the 2021 Master Sales and Purchase Agreement to regulate the possible continuing connected transactions between the Group and Shougang Group and/or its associates.

As disclosed in the Letter from the Board, Shougang Group and its associates have respectable experience and reputation in their respective areas of business and solid financial standing and have demonstrated themselves as reliable customers and suppliers of the Group over the past years. We consider that while the supply of Shougang Group Products by Shougang Group and/or its associates to the Group can support the business operation of the Group, the sales of Fushan Products by the Group to Shougang Group and/or its associates can further enhance the business opportunities of the Group, broaden the revenue base of the Group and increase the capacity utilisation level of the Group.

Based on the above, we consider that the Transactions are conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole.

3. Principal terms of the 2021 Master Sales and Purchase Agreement

The 2021 Master Sales and Purchase Agreement was entered into between the Company and Shougang Group on 17 May 2021. Details of the terms of the 2021 Master Sales and Purchase Agreement are set out in the Letter from the Board, which are summarised as follows:

Term	:	From the Completion Date to 31 December 2023 (both days inclusive)
Nature of the Transactions	:	(i) The Group will supply the Fushan Products, comprising coking coal products, to Shougang Group and/or its associates; and (ii) Shougang Group and/or its associates will supply Shougang Group Products, comprising materials including steel and machinery and services to be rendered within the scope of Shougang Group's businesses, to the Group.

LETTER FROM RAINBOW CAPITAL

- Pricing basis** :
- The pricing terms under the 2021 Master Sales and Purchase Agreement will be determined based on an arm's length basis, on normal commercial terms and on terms no less favourable to independent third parties and in accordance with the following principles:
- (i) by reference to the prevailing market prices of Fushan Products (which will be with reference to the well-known coal industry website www.sxcoal.com) and materials included under the Shougang Group Products (which will be with reference to the well-known steel industry website <https://index.mysteel.com/price/indexPrice.html> and prices quoted by other suppliers in the industry) or substantially similar products, taking into account of the price of the same or substantially similar products with comparable order quantities and quality being offered on the market;
 - (ii) if there are not sufficient comparable transactions including machinery, construction and services included under the Shougang Group Products in (i) above, on normal commercial terms comparable to those offered to/received from independent third parties in respect of the same or substantially similar products with comparable order quantities; and
 - (iii) if both (i) and (ii) above are not applicable, by reference to the average price of similar products previously supplied by a party, and on normal commercial terms comparable to those offered by the relevant party to independent third parties.

- Amounts and payment terms** :
- The contract amounts in respect of the Sales and Purchase shall be paid in accordance with the terms of each of the Individual Agreements.

The payment terms for the Transactions will be on normal commercial terms which will be no less favourable to the Company than those available from independent third parties.

LETTER FROM RAINBOW CAPITAL

- Conditions precedent** : The obligations of the parties to the 2021 Master Sales and Purchase Agreement are conditional upon:
- (i) approval of the 2021 Master Sales and Purchase Agreement and the Proposed Caps by the Independent Shareholders in compliance with the Listing Rules at the GM; and
 - (ii) completion of Shoucheng's Proposed Restructuring.

If the above conditions precedent are not satisfied on or before 31 December 2021 or such other date as the parties may agree in writing, the 2021 Master Sales and Purchase Agreement will terminate automatically and no party will be entitled to any rights or benefits or be under any obligations under or in respect of the 2021 Master Sales and Purchase Agreement.

In respect of sales of Fushan Products

Fushan Products mainly low-sulphur and high-sulphur clean coking coal products. The Group has been supplying Fushan Products to Shougang Group and/or its associates since 2010.

In respect of historical sales of clean coking coal products by the Group, we have obtained the sales breakdown by customers for the four months ended 30 April 2021 (the "**Review Period**") prepared by the management of the Group and noted that Shougang Group was the Group's largest customer during the Review Period and the remaining customers are independent third parties. Shougang Group and the top five customers (including Shougang Group) accounted for approximately 45% and 85% of the Group's total revenue generated from sales of clean coking coal products during the Review Period. Given the Review Period allows us to obtain sample contracts which could reflect the Group's latest practice on its sales of clean coking coal products, we consider the Review Period to be fair and reasonable.

We have obtained and reviewed (i) eight sales contracts of clean coking coal products entered into between the Group and Shougang Group (the "**Shougang Sales Contracts**"); and (ii) one sales contract of clean coking coal products entered into between the Group and each of the other top five customers (i.e. four contracts in total) (the "**Independent Sales Contracts**") during the Review Period. Given (i) the Shougang Sales Contracts have covered all the sales made to Shougang Group for the Review Period; (ii) the Independent Sales Contracts have covered the remaining top five customers; and (iii) sales to the top five customers accounted for a majority of the total sales during the Review Period, we consider that the Shougang Sales Contracts and the Independent Sales Contracts are fair and representative.

LETTER FROM RAINBOW CAPITAL

In reviewing the sample sales contracts selected above, we noted that (i) the base prices stated in the Shougang Sales Contracts were not lower than those in the Independent Sales Contracts entered into in the same period, subject to adjustments in accordance with the change in market prices; and (ii) other terms in Shougang Sales Contracts were similar to those in Independent Sales Contracts. As such, we are of the view that the pricing and other terms of the Shougang Sales Contracts were no less favourable to the Group than those of the Independent Sales Contracts.

In respect of procurement of Shougang Group Products

Shougang Group Products include steel, machinery and services (including construction, design and geological survey). The Group has been purchasing Shougang Group Products from Shougang Group and/or its associates since 2015. The Group has also engaged Shougang Group and/or its associates as contractors for certain construction, exploration and design projects in its usual and ordinary course of business.

In respect of historical procurement of materials (including steel and machinery) and services by the Group, we have obtained the contract lists for the year ended 31 December 2020 and the four months ended 30 April 2021 (the “**Contract Lists**”).

In respect of the procurement of materials (including steel and machinery), based on the Contract List, we have randomly selected and obtained (i) three contracts entered into between the Group and Shougang Group (the “**Shougang Materials Contracts**”); and (ii) three contracts entered into between the Group and other independent suppliers (the “**Independent Materials Contracts**”). In reviewing the aforesaid contracts, we noted that (i) the unit prices stated in the Shougang Materials Contracts were not higher than those in the Independent Materials Contracts entered into in the same period; and (ii) other terms in the Shougang Materials Contracts were similar to the Independent Materials Contracts. As such, we are of the view that the pricing and other terms of the Shougang Materials Contracts were no less favourable to the Group than those of the Independent Materials Contracts.

In respect of the procurement of construction and services, based on the Contract Lists, we have (i) randomly selected and obtained three contracts entered into between the Group and Shougang Group (the “**Shougang Services Contracts**”); and (ii) reviewed the corresponding tendering documents or fee quotes from other independent suppliers (the “**Independent Proposals**”) at that time for the same construction and services. In reviewing the contracts and documents stated above, we noted that (i) the Group would compare the fee quotes from Shougang Group with those from other independent suppliers; (ii) the services fees stated in the Shougang Services Contracts were lower than those stated in the Independent Proposals; (iii) other terms in the Shougang Services Contracts were similar to those in the Independent Proposals. As such, we are of the view that the pricing and other terms of the Shougang Services Contracts were no less favourable to the Group than those of the Independent Proposals.

Given (i) the Shougang Materials Contracts, the Independent Materials Contracts, the Shougang Services Contracts and the Independent Proposals (collectively, the “**Procurement Documents**”) have covered the major materials and services of the Shougang Group Products; and (ii) the Procurement Documents represented the historical procurements in recent periods which could reflect the Group’s latest practice, we are of the view that the Procurement Documents are fair and representative.

LETTER FROM RAINBOW CAPITAL

Handling of contracts with similar terms with Shougang Group and independent third parties

As disclosed in the Letter from the Board, when handling contracts with similar terms with Shougang Group and with independent third parties, the Group will give priority to Shougang Group. We consider that such arrangement is fair and reasonable and is in the interests of the Company and the Shareholders as a whole after taking into account that (i) Shougang Group has high credibility given it is a long-established state-owned enterprise and ranks the second among iron and steel enterprises in the PRC in terms of total assets according to the company website; (ii) the Group has established a business relationship with Shougang Group since 2010; and (iii) the terms to be offered to/ from Shougang Group shall be no less favourable to the Group than those available to/ from independent third parties.

Internal control

The Group has adopted certain internal control measures to ensure the prices of the Fushan Products and the Shougang Products are fair and reasonable and are in line with the market rates, details of which are set out in the section headed “Internal control for continuing connected transactions” in the Letter from the Board.

As advised by the management of the Group, (i) the Group’s sales team will from time to time (on a regular bi-weekly basis and/or prior to price negotiation) gather market intelligence by way of research and investigation to determine the reference price of each type of products in the market for the purpose of assessing whether the price charged for a specific transaction is fair and reasonable and in accordance with the Group’s pricing policy; and (ii) the procurement of materials and services for certain amounts by the Group will normally be processed through tendering and the Group will procure Shougang Group Products from Shougang Group only when the prices and terms provided by Shougang Group are no less favourable to the Group than those provided by other independent third parties (collectively, the “**Internal Control Measures**”).

In assessing whether the Internal Control Measures are put in place and effectively implemented, we have (i) randomly selected three transactions in relation to the sales of Fushan Products for the Review Period and reviewed the relevant documentation regarding the collection of the market prices of the products, and noted that the prices of Fushan Products were determined based on the then prevailing market prices of similar products; (ii) obtained and reviewed the tendering policy of the Group, and noted that procurement of Shougang Group Products for a specified amount or above will be processed through tendering; and (iii) reviewed the Independent Proposals and noted that the aforesaid tendering policy was properly implemented. Coupled with the annual review requirements under the Listing Rules as set out in the section headed “5. Reporting requirements and conditions of the Transactions” below, we consider the Internal Control Measures are adequate and effective in ensuring the fairness of the transactions between the Group and Shougang Group and/its associates.

Based on the above, we consider that the terms of the 2021 Master Sales and Purchase Agreement are on normal commercial terms which are fair and reasonable.

LETTER FROM RAINBOW CAPITAL

4. Assessment of the Proposed Caps

The Proposed Caps (exclusive of VAT) in respect of the 2021 Master Sales and Purchase Agreement are set out below:

	For the period from the Completion Date to 31 December 2021 (Note) (RMB'000)	For the year ending 31 December 2022 (RMB'000)	For the year ending 31 December 2023 (RMB'000)
Supply of Fushan Products	1,350,000	2,570,000	2,840,000
Purchase of Shougang Group Products	50,000	100,000	110,000

Note: the Completion Date is assumed to be 30 June 2021

As stated in the Letter from the Board, the Proposed Caps were determined mainly based on (i) the historical transaction amounts between the Group and Shougang Group and/or its associates; (ii) the expected growth in demand for both Fushan Products and Shougang Group Products; (iii) the expected production volume of the products; and (iv) the current and expected future prices.

(i) Supply of Fushan Products

The Proposed Caps for the supply of Fushan Products (the “**Supply Caps**”) represent the estimated transaction amounts of low-sulphur and high-sulphur clean coking coal. In assessing the fairness and reasonableness of the Supply Caps, we have reviewed the calculation of the Supply Caps, discussed with the management of the Group and noted the followings:

(a) In respect of sales of clean coking coal

(1) Estimated sales volume

- (i)* the estimated sales volume of clean coking coal to Shougang Group and/or its associates for each of the three years ending 31 December 2023 is determined based on, among other things, (a) the annual and monthly sales contracts entered into between the Group and Shougang Group as at the Latest Practicable Date for the supply of clean coking coal for the year ending 31 December 2021; and (b) the actual sales volume of clean coking coal to Shougang Group and/or its associates for the four months ended 30 April 2021;

LETTER FROM RAINBOW CAPITAL

- (ii) the estimated sales volume of clean coking coal to Shougang Group and/or its associates for the three years ended 31 December 2023 are determined with reference to the annual sales contracts between the Group and Shougang Group for the year ending 31 December 2021 and the historical growth in sales volume of clean coking coal to Shougang Group for the three years ended 31 December 2020, as follows:
 - (a) the estimated sales volume of clean coking coal to Shougang Group and/or its associates for the year ending 31 December 2021 represents an increase of approximately 17% from the ordered sales volume as stated in the annual sales contracts between the Group and Shougang Group for the year ending 31 December 2021. We consider such growth fair and reasonable as the Group's sales volumes of clean coking coal to Shougang Group and/or its associates for the two years ended 31 December 2020 represented an increase of approximately 14% and 27% from the ordered sales volumes as stated in the relevant annual sales contracts between the Group and Shougang Group, respectively. As advised by the management of the Group, the ordered sales volume as stated in the annual sales contracts between the Group and Shougang Group represent the minimum sales volume of clean coking coal to be sold by the Group to Shougang Group up to 30 April 2021 and Shougang Group will place new orders from time to time and thus the actual sales volume for the whole year will exceed the ordered sales volumes up to 30 April 2021; and
 - (b) the estimated sales volume of clean coking coal to Shougang Group and/or its associates for the two years ending 31 December 2023 represent an increase of 5.1% and 5.4% as compared to the previous year, respectively. We consider such growth rates prudent after taking into account the growth in sales volume of clean coking coal to Shougang Group and/or its associates at a CAGR of approximately 35.8% between 2018 and 2020; and
- (iii) as advised by the management of the Group, the production volume of raw coking coal (from which clean coking coal is made) of one of the Group's three operating coking coal mines did not reach its approved production capacity in 2019 and 2020 due to the running period for its lower coal seams. As the production of the aforesaid coking coal mine had resumed production in the second half of 2019 and its running period was completed by the end of 2020, it is expected that the approved production capacity of 1,750,000 tonnes per annum for each operating coking coal mine of the Group will be reached for the year ending 31 December 2021. As a result, the Company expects the production volume of raw coking coal could reach 5,250,000 tonnes per annum. Together with the expected increase in purchase of clean coking coal from third parties for blending and sales, the overall sales volume of clean coking coal products (including Fushan Products) is expected to increase for the three years ending 31 December 2023;

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Taking into account (i) the agreed sales volume as stated in the existing sales contracts entered into between the Group and Shougang Group for the supply of clean coking coal for the year ending 31 December 2021; (ii) the actual sales volume of clean coking coal to Shougang Group and/or its associates for the four months ended 30 April 2021; (iii) the Group's historical sales volume of clean coking coal to Shougang Group and/or its associates; and (iv) the expected increase in the Group's production volume of raw coking coal as mentioned above, we consider the estimated sales volume of clean coking coal to Shougang Group and/or its associates for each of the three years ending 31 December 2023 to be fair and reasonable.

(2) Estimated selling prices

- (i) the estimated selling prices of clean coking coal products, being low-sulphur and high-sulphur clean coking coal, for the period from the Completion Date to 31 December 2021 are based the market selling price (inclusive of VAT) of RMB1,780 and RMB1,388 per tonne in early May 2021, respectively, as extracted from www.sxcoal.com, an industry website providing market information on coal (the "**Industry Website**"); and
- (ii) the estimated selling prices of clean coking coal products for each of the two years ending 31 December 2023 is based on a growth rate of 5% from that in the previous year.

The Industry Website was established in 1998 and has been one of the most well-known coal industry websites. According to the introduction on the Industry Website, it provides first-hand price movement, industrial news as well as in-depth analysis prepared. It also hosts the one of the most comprehensive, accurate and exclusive China coal databases. We have also cross-checked the historical selling prices to other independent source such as www.mysteel.com, an industry website providing market information on steel and coal.

In assessing the fairness and reasonableness of the estimated selling prices above, we have considered the historical growth of the average daily market selling prices of low-sulphur and high-sulphur clean coking coal for the period from 2016 and 2020 as extracted from the Industry Website, which are detailed below.

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We consider the estimated selling prices of low-sulphur clean coking coal for each of the period the Completion Date to 31 December 2021 and the two years ending 31 December 2023 to be fair and reasonable after considering (i) the historical growth of the average daily market selling prices of low-sulphur clean coking coal from approximately RMB810 per tonne in 2016 to approximately RMB1,369 per tonne in 2020, representing a CAGR of approximately 14.0%; and (ii) the significant growth in the market selling prices of low-sulphur clean coking coal in 2021, from approximately RMB1,530 per tonne at the beginning of 2021 to the market selling price of approximately RMB1,780 per tonne in early May 2021, representing an increase of approximately 16.3%. Based on the aforesaid, the selling price of low-sulphur clean coking coal would increase from the average daily market selling price of approximately RMB1,369 per tonne in 2020 to approximately RMB1,962 per tonne in 2023, representing a CAGR of approximately 12.7% which we consider comparable to the historical growth.

We also consider the estimated selling price of high-sulphur clean coking coal for each of the period the Completion Date to 31 December 2021 and the two years ending 31 December 2023 to be fair and reasonable after considering (i) the historical growth of the average daily market selling prices of high-sulphur clean coking coal from approximately RMB699 per tonne in 2016 to approximately RMB1,096 per tonne in 2020, representing a CAGR of approximately 11.9%; and (ii) the significant growth in the market selling prices of high-sulphur clean coking coal in 2021, from approximately RMB1,178 per tonne at the beginning of 2021 to the market selling price of approximately RMB1,388 per tonne in early May 2021, representing an increase of approximately 17.8%. Based on the aforesaid, the selling price of high-sulphur clean coking coal would increase from the average daily market selling price of approximately RMB1,096 per tonne in 2020 to approximately RMB1,530 per tonne in 2023, representing a CAGR of approximately 11.8% which we consider comparable to the historical growth.

As stated in the Letter from the Board, the Group estimated the selling prices of Fushan Products for the three years ending 31 December 2023 after taking into account the recent market selling prices and a reasonable growth rate of 5% per annum. Given (i) the estimated selling prices (inclusive of VAT) of low-sulphur and high-sulphur clean coking coal for the period from the Completion Date to 31 December 2021 are RMB1,780 and RMB1,388 per tonne, respectively, which are the same as the recent market selling prices as stated in the Letter from the Board; and (ii) the growth rate of 5% per annum is prudent based on the fact that (a) the average market selling prices of low-sulphur and high-sulphur clean coking coal have increased at CAGRs of approximately 14.0% and 11.9%, respectively, during the period from 2016 to 2020; and (b) the overall consumer price index in China has increased at around 2.1% on average in the past 5 years, with the highest year-on-year increase being 5.4%, we consider that the basis for determining the selling prices of Fushan Products for the three years ending 31 December 2023 is fair and reasonable.

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(3) Estimated additional freight costs

In estimating the transaction amounts of sales of clean coking coal, the Company has also considered estimated additional freight costs which represent additional railway transportation costs and ocean freight costs based on the current logistic arrangement for the year ending 31 December 2021 and a growth rate of 5% per annum for the two years ending 31 December 2023. Such growth has taken into account the inflation in the PRC which was approximately 2.9% and 2.5% in 2019 and 2020, respectively, as extracted from the National Bureau of Statistics of the PRC (Source: <https://data.stats.gov.cn/search.htm?s=CPI>) as well as a reasonable buffer to account for any unexpected fluctuation in freight costs, which we consider reasonable. We consider the estimated additional freight costs to be fair and reasonable as they are estimated based on the current logistic arrangement with an incorporation of a reasonable growth rate which is consistent with those of the estimated selling prices of clean coking coal products for the two years ending 31 December 2023 as mentioned above.

Taking into account (a) the estimated sales volume of clean coking coal products are determined with reference to the agreed sales volume as stated in the signed sales contracts between the Group and Shougang Group and the actual sales volume for the four months ended 30 April 2021; (b) the expected increase in the Group's production volume of raw coking coal as the approved production capacity of each operating coking coal mine of the Group is expected to be reached for the year ending 31 December 2021; (c) the estimated selling prices of clean coking coal products are determined based on the prevailing market prices and historical growth in average market selling prices; and (d) a certain buffer is allowed to tailor for any unexpected business growth in the future, but the sales volume to Shougang Group and/or its associates is limited to approximately 55% of the Group's total sales volume (the "55% Limit") in each year according to the basis and assumptions for the calculation of the Supply Caps, we consider the Supply Caps to be fair and reasonable.

In evaluating the fairness and reasonableness of the 55% Limit, we have obtained and reviewed the Group's revenue breakdown by customers in relation to sales of clean coking coal products during the Review Period, and noted that (a) the Group sold clean coking coal products to over 20 customers; and (b) in addition to Shougang Group, the Group also had a number of other existing sizable customers which are listed in the PRC with registered share capital ranging from approximately RMB2.9 billion to approximately RMB45.6 billion. Taking into account (a) the solid financial standing of Shougang Group as a state-owned enterprise; (b) the market position of Shougang Group which ranks the second among iron and steel enterprises in the PRC in terms of total assets according to the company website; (c) the long established business relationship between the Group and Shougang Group since 2010; (d) the number and profile of the Group's customer base as mentioned above; and (e) the terms of the sales of Fushan Products shall be no less favorable to the Group than those available to other independent customers, we consider the 55% Limit to be acceptable and that the Group's business continues to be viable and sustainable as a whole.

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(ii) Purchase of Shougang Group Products

The Proposed Caps for the purchase of Shougang Group Products (the “**Purchase Caps**”) are determined with reference to (a) the historical purchase amounts; and (b) the estimated percentage of total purchase to be procured from Shougang Group and/or its associates. In assessing the fairness and reasonableness of the Purchase Caps, we have reviewed the calculation of the Purchase Caps, discussed with the management of the Group and noted the followings:

- (a) the estimated total purchase of steel, machinery and services for the year ending 31 December 2021 is determined based on the Group’s total purchase for the two years ended 31 December 2020;
- (b) the estimated total purchase of steel, machinery and services for each of the two years ending 31 December 2023 is determined based on an annual growth rate of approximately 5% from that for the year ending 31 December 2021. Such growth rate is consistent with those of the estimated selling prices of clean coking coal products for the two years ending 31 December 2023 as mentioned above;
- (c) it is estimated that the Group would procure not more than 20% of steel, machinery and services from Shougang Group for the period from the Completion Date to 31 December 2021 and for the two years ending 31 December 2023, provided that the prices and terms provided by Shougang Group are no less favourable to the Group than those provided by other independent third parties;
- (d) as stated in the section headed “1. Information on the Group and Shougang Group” above, Shougang Group is principally engaged in a wide variety of businesses such as steel industry, mining, machinery and equipment development, electronics, building, real estate, and related services etc. We therefore consider that the Shougang Group is specialised in providing Shougang Group Products under the 2021 Master Sales and Purchase Agreement; and
- (e) after considering (1) Shougang Group is specialised in providing Shougang Group Products; (2) as the controlling shareholder of the Company, Shougang Group could provide the Group with a stable supply of Shougang Group Products, the purchase amount from Shougang Group and/or its associates is expected to be not more than 20% of its total purchase according to the basis and assumptions for the calculation of the Purchase Caps, provided that the prices and other terms provided by Shougang Group and/or its associates are no less favourable to the Group than those available from other independent third parties.

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In assessing the fairness and reasonableness of the Purchase Caps, we have considered the Group's historical purchase for the two years ended 31 December 2020 and the maximum proportion of the Group's total purchase to be made from Shougang Group and/or its associates. Given the wide variety of Shougang Group Products involved, we have not performed any research on the pricing of Shougang Group Products. Taking into account (a) the Purchase Caps for the procurement of Shougang Group Products are determined with reference to the historical purchase amount and a moderate growth rate of 5% per annum; (b) the estimated proportions of procurement from Shougang Group would slightly increase by approximately 1% for the year ending 31 December 2023 as compared to that for the year ending 31 December 2022. We consider such increase to be fair and reasonable given it (1) allows a reasonable buffer to account for any unexpected demand for Shougang Group Products; and (2) is considered immaterial as compared to estimated total purchase; (c) internal control measures are in place to regulate the terms of the transactions between the Group and Shougang Group and/or its associates, including that procurement of materials and services for certain amounts by the Group will normally be processed through tendering; (d) the Group will procure Shougang Group Products from Shougang Group only when the prices and terms provided by Shougang Group are no less favourable to the Group than those provided by other independent third parties; and (e) the advantages of purchasing from Shougang Group and/or its associates as stated above, we consider the Purchase Caps to be fair and reasonable.

(iii) Overall comment

Generally speaking, in our opinion, it is in the interests of the Group for the Proposed Caps to be as accommodating to the Group as possible. Provided that the terms of the transactions contemplated under the 2021 Master Sales and Purchase Agreement are fair and reasonable and the conduct of these transactions are subject to annual review by the independent non-executive Directors and auditors of the Company as required under the Listing Rules (details of which are set out in the following section), the Group would have flexibility in conducting and expanding its businesses if the Proposed Caps are tailored to future business growth, in particular in view of the growth for the four months ended 30 April 2021 and the expected achievement of the approved production capacity for each of the Group's operating coking coal mines for the year ending 31 December 2021. In assessing the fairness and reasonableness of the Proposed Caps, we have discussed with the management of the Group the bases of the calculation and the factors contributing to the fixing of the Proposed Caps. Given that the Proposed Caps are arrived at based on the agreed sales volume of clean coking coal between the Group and Shougang Group, historical transaction amounts and estimated prices for products, materials and services determined with reference to the prevailing market prices and a reasonable growth, we consider the bases and factors in determining the Proposed Caps to be reasonable.

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5. Reporting requirements and conditions of the Transactions

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the Transactions are subject to the following annual review requirements:

- (i) the independent non-executive Directors must review the Transactions and confirm in the annual report and accounts that the Transactions have been entered into:
 - (a) in the ordinary and usual course of business of the Group;
 - (b) on normal commercial terms or better; and
 - (c) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (ii) the Company must engage its auditors to report on the Transactions every year. The Company's auditors must provide a letter to the Board (with a copy to be provided to the Stock Exchange at least ten business days before the bulk printing of the Company's annual report) confirming whether anything has come to their attention that causes them to believe that the Transactions:
 - (a) have not been approved by the Board;
 - (b) were not, in all material respects, in accordance with the pricing policies of the Group if the Transactions involve the provision of goods or services by the Group;
 - (c) were not entered into, in all material respects, in accordance with the relevant agreement governing the Transactions; and
 - (d) have exceeded the Proposed Caps;
- (iii) the Company must allow, and ensure that the counter-parties to the Transactions allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the Transactions as set out in paragraph (ii); and
- (iv) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or auditors of the Company cannot confirm the matters as required.

In light of the reporting requirements attached to the Transactions, in particular, (i) the restriction of the value of the Transactions by way of the Proposed Caps; and (ii) the ongoing review by the independent non-executive Directors and auditors of the Company of the terms of the Transactions and the Proposed Caps not being exceeded, we are of the view that appropriate measures have been in place to monitor the conduct of the Transactions and assist in safeguarding the interests of the Independent Shareholders.

LETTER FROM RAINBOW CAPITAL

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the Transactions are conducted in the ordinary and usual course of business of the Group and on normal commercial terms which are 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 Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the GM to approve the Transactions (including the Proposed Caps).

Yours faithfully,
For and on behalf of
Rainbow Capital (HK) Limited
Larry Choi
Managing Director

Mr. Larry Choi is a licensed person and a responsible officer of Rainbow Capital (HK) Limited registered with the Securities and Futures Commission to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO. He has over ten years of experience in the corporate finance industry.

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

(a) Directors' interests

As at the Latest Practicable Date, the interests of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (a) 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 they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the Shares

Name of Director	Capacity in which interests were held	Number of Shares	Total interests as to % of the total number of Shares in issue as at the Latest Practicable Date
Chen Zhaoqiang	Beneficial owner	2,006,800	0.039%
Kee Wah Sze	Beneficial owner	700,000	0.013%
Choi Wai Yin	Beneficial owner	220,000	0.004%
Ding Rucai	Beneficial owner	120,000	0.002%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV 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 which the Directors and chief executive were taken or deemed to have under such provisions of the SFO), or were required, pursuant to Section 352 of the SFO, to be recorded in the register required to be kept by the Company, or were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor any of their spouse or minor children was granted or held options to subscribe for shares in the Company or any of its associated corporations (within the meaning of Part XV of the SFO), or had exercised such rights.

(b) Substantial Shareholders

As at the Latest Practicable Date, according to the register kept by the Company under Section 336 of the SFO, the following companies and persons had interests of 5% or more in the Shares and/or underlying Shares which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Long positions in the Shares/underlying Shares

Name of Shareholder	Capacity in which interests were held	Number of Shares /underlying Shares	Interests as to % of the total number of Shares in issue as at the Latest Practicable Date	Note
Shougang Group	Interests of controlled corporations	1,671,726,490	33.09%	I
Funde Sino Life Insurance Co., Ltd. (“ Funde Sino Life ”)	Beneficial owner	1,590,100,000	31.47%	II
Jiang Jinzhi (“ Mr. Jiang ”)	Interests of controlled corporations	282,702,904	5.60%	III

Notes:

- I The data shown in the table is based on the disclosure form dated 18 February 2021 (being the latest disclosure form filed up to the Latest Practicable Date). Shougang Group was interested in the Shares held by its associated companies, namely; (i) Shougang Holding (a company wholly-owned by Shougang Group, holding 15,492,000 Shares); (ii) King Rich Group Limited (a company wholly-owned by Shougang Holding, holding 171,862,000 Shares); (iii) Prime Success Investments Limited (a company wholly owned by Shougang Holding, holding 20,410,000 Shares); (iv) Fair Gain Investments Limited (a company wholly-owned by Shoucheng which is a company held as to 34.91% interests by Shougang Group indirectly per the latest disclosure form of Shoucheng filed by Shougang Group, holding 200,043,993 Shares); (v) Fine Power Group Limited (a company wholly-owned by Shoucheng, holding 663,918,497 Shares); and (vi) Ultimate Capital Limited (a company wholly-owned by Excel Bond, which in turn was wholly owned by Shoucheng, holding 600,000,000 Shares).
- II The data shown in the table is based on the disclosure form dated 28 September 2020 (being the latest disclosure form filed up to Latest Practicable Date).

- III The data shown in the table is based on the disclosure form dated 28 September 2020 (being the latest disclosure form filed up to the Latest Practicable Date).

Per the information provided by Mr. Jiang, as of the Latest Practicable Date, Mr. Jiang was interested in 280,303,623 Shares (5.55% of the total issued Shares) held by the companies deemed under control by him, namely, (i) Golden China Master Fund (a company deemed under control by Greenwoods Asset Management Hong Kong Limited, which replaced Greenwoods Asset Management Limited as the fund's manager effective from 1 January 2021, holding 114,500,441 Shares); (ii) Greenwoods China Alpha Master Fund (a company deemed under control by Greenwoods Asset Management Hong Kong Limited, which replaced Greenwoods Asset Management Limited as the fund's manager effective from 1 January 2021, holding 115,636,291 Shares) (thus, Greenwoods Asset Management Hong Kong Limited, a wholly-owned subsidiary of Invest Partner Group Limited which was held as to 84.5% interests by Mr. Jiang, is deemed to hold a total of 230,136,732 Shares); and (iii) Shanghai Greenwoods Asset Management Limited (a wholly-owned subsidiary of Xizang Jingning Corporate Management Company Limited which was held as to 84.5% interests by Mr. Jiang, holding 50,166,891 Shares on behalf of the funds and unit trusts managed or advised by it).

Save as disclosed above, as at the Latest Practicable Date, the Company has not been notified of any other person (other than the Directors and chief executives of the Company) who had an interest or short position in the Shares and/or underlying Shares which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

As at the Latest Practicable Date, Mr. Ding Rucai was director of certain subsidiaries of Shougang Group, including Shougang Holding, which has interests in the Shares which falls to be disclosed under Divisions 2 and 3 of Part XV of the SFO. So far as known to the Directors, save as disclosed in this paragraph, none of the Directors or proposed Director is a director or employee of a company which had an interest in the Shares and underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, there was no existing or proposed service contract between any of the Directors and any member of the Group other than service contracts that are expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

4. DIRECTORS' MATERIAL INTERESTS

As at the Latest Practicable Date, save for Mr. Ding Rucai's interests in the transactions contemplated under the 2021 Master Sales and Purchase Agreement, none of the Directors was materially interested in any contract, save for service contracts, or arrangement entered into by the Company or any of its subsidiaries which contract or arrangement is subsisting at the date of this circular and which is significant in relation to the business of the Group.

5. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at the Latest Practicable Date, none of the Directors had any interests in a business (other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or any member of the Group) which competes or may compete with the business of the Group or has any other conflict of interest with the Group which would be required to be disclosed under Rule 8.10 of the Listing Rules.

6. DIRECTORS' INTERESTS IN ASSETS

None of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group or proposed to be so acquired, disposed of by or leased to any member of the Group since 31 December 2020, being the date to which the latest published audited accounts of the Company were made up, and up to the Latest Practicable Date.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2020, being the date to which the latest audited financial statements of the Company were made up.

8. LITIGATION

So far as the Company is aware, as at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors pending or threatened by or against any member of the Group.

9. EXPERT'S QUALIFICATION AND CONSENT

As at the date of this circular, Rainbow Capital 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 it appears. The following expert's statements were issued on the date of this circular and were made for incorporation or reference (as the case may be) in this circular.

The following is the qualification of the expert who has given its opinions or advice which is contained in this circular:

Name	Qualification
Rainbow Capital Limited	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, Rainbow Capital did not have any direct or indirect interest in any asset which had been acquired, disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group, since 31 December 2020, being the date to which the latest audited financial statements of the Group was made up; and was not beneficially interested in the share capital of any member of the Group and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

10. GENERAL

- (a) The company secretary of the Company is Ms. Kong Ling Yan, an associate member of both The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in United Kingdom and The Hong Kong Institute of Chartered Secretaries. She holds a Master's degree in Corporate Governance, a Bachelor's degree in Law and a Bachelor's degree in Economics.
- (b) The share registrar of the Company is Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (c) The registered office and principal place of business of the Company in Hong Kong is 6th Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (d) The English text of this circular shall prevail over their respective Chinese text for the purpose of interpretation.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the registered office of the Company during normal business hours from the date of this circular up to and including the date of the GM:

- (a) the articles of association of the Company;
- (b) the "Letter from the Independent Board Committee", the text of which is set out in on pages 18 to 19 of this circular;
- (c) the "Letter from Rainbow Capital", the text of which is set out on pages 20 to 36 of this circular;
- (d) the written consent from Rainbow Capital referred to in the paragraph headed "Expert's Qualification and Consent" in this appendix;
- (e) the 2021 Master Sales and Purchase Agreement; and
- (f) this circular.

NOTICE OF GM



首鋼福山資源集團有限公司
SHOUGANG FUSHAN RESOURCES GROUP LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 639)

NOTICE IS HEREBY GIVEN that a general meeting of Shougang Fushan Resources Group Limited (the “**Company**”) will be held at 10:50 a.m. on Wednesday, 30 June 2021 or immediately after the conclusion of the annual general meeting of the Company to be held on the same day, whichever is later, at Empire Grand Room, 1st Floor, The Empire Hotel Hong Kong, 33 Hennessy Road, Wanchai, Hong Kong for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution as an ordinary resolution of the Company. Unless otherwise specified, capitalised terms herein shall have the same meanings as those terms defined in the circular dated 15 June 2021 issued by the Company of which this notice forms part.

ORDINARY RESOLUTION

“THAT

- (a) the execution of the 2021 Master Sales and Purchase Agreement (a copy of which has been produced to this meeting marked “A” and initialled by the chairman of this meeting for the purpose of identification) by any one of the Directors of the Company, and the continuing connected transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;
- (b) the Proposed Caps under the 2021 Master Sales and Purchase Agreement and the implementation thereof be and are hereby approved, confirmed and ratified; and
- (c) any one Director of the Company, or any two Directors 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 or things deemed by him/her to be necessary, appropriate, desirable or expedient to implement or give effect to, or are incidental to, ancillary to or in connection with the 2021 Master Sales and Purchase Agreement and the transactions contemplated thereunder.”

By order of the Board
Shougang Fushan Resources Group Limited
Ding Rucai
Chairman

Hong Kong, 15 June 2021

NOTICE OF GM

Notes:

- (1) Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company.
- (2) The instrument appointing a proxy shall be in writing under the hand of the appointer or of his/her attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of any officer, attorney or other person authorised to sign the same.
- (3) In order to be valid, the form of proxy in the prescribed form together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority, must be deposited with the share registrar of the Company, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as practicable but in any event not less than 48 hours before the time appointed for holding the meeting (i.e., at or before 10:50 a.m. on Monday, 28 June 2021 (Hong Kong time)), or any adjourned meeting thereof (as the case may be).
- (4) The register of members of the Company will be closed from Friday, 25 June 2021 to Wednesday, 30 June 2021 (both days inclusive) to determine the entitlement to attend and vote at the above meeting. During such period no transfer of shares of the Company will be registered. In order to qualify for the entitlement to attend and vote at the above meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the share registrar of the Company, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 24 June 2021 for registration
- (5) Completion and return of the form of proxy will not preclude members of the Company from attending and voting in person at the meeting or at any adjourned meeting thereof (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.
- (6) Where there are joint registered holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the meeting, whether in person or by proxy, the joint registered holder present whose name stands first on the register of members of the Company in respect of the shares shall be accepted to the exclusion of the votes of the other registered holders.
- (7) Taking into account of the recent development of the pandemic caused by novel coronavirus pneumonia (COVID-19), the Company will implement the following prevention and control measures at the meeting against the pandemic to protect the shareholders of the Company from the risk of infection:
 - (i) Compulsory body temperature check will be conducted for every shareholder or proxy at the entrance of the venue. Any person with a body temperature of over 37.5 degrees Celsius will not be admitted to the venue;
 - (ii) Every shareholder or proxy is required to wear surgical facial mask throughout the meeting;
 - (iii) No refreshment will be served.

The Company wishes to advise the shareholders, particularly the shareholders who are subject to quarantine in relation to COVID-19, that they may appoint any person or the chairman of the meeting as a proxy to vote on the resolution, instead of attending the meeting in person.

Furthermore, no corporate gifts or coupons will be distributed in the GM.

- (8) The Company will keep the shareholders of the Company informed by way of further announcement if there are any material updates on the regulation which would affect this general meeting of the Company. If any Shareholder has any question relating to this general meeting, please contact the Registrar as follows:

Tricor Tengis Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong
Email: is-enquiries@hk.tricorglobal.com
Tel: (852)2980 1333
Fax: (852)2810 8185

NOTICE OF GM

As at the date of this notice, the Board comprises Mr. Ding Rucai (Chairman), Mr. Fan Wenli (Managing Director), Mr. Chen Zhaoqiang (Deputy Managing Director), Mr. Liu Qingshan (Deputy Managing Director), Mr. Wang Dongming (Executive Director), Ms. Chang Cun (Non-executive Director), Mr. Shi Yubao (Non-executive Director), Mr. Kee Wah Sze (Independent Non-executive Director), Mr. Choi Wai Yin (Independent Non-executive Director), Mr. Japhet Sebastian Law (Independent Non-executive Director) and Mr. Chen Jianxiong (Independent Non-executive Director).