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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)

CONTINUING CONNECTED TRANSACTIONS

The First Master Agreement

On 16 November 2017, the Company entered into the First Master Agreement with Shougang Group in respect of certain continuing connected transactions to be entered into between the Group and Shougang Group and/or its associates from the date of the First Master Agreement to 31 December 2017.

The Second Master Agreement

On 16 November 2017, the Company entered into the Second Master Agreement with Shougang Group in respect of certain continuing connected transactions to be entered into between the Group and Shougang Group and/or its associates for the three financial years ending 31 December 2020.

Listing Rules Implications

Rule 14A.60

Prior to 16 November 2017, Shougang Group indirectly held approximately 2.24% interest in the Company. Shougang International, a 47.78% held associate of Shougang Group, held approximately 27.61% interest in the Company. The transactions with Shougang Group and/or its associates were not continuing connected transactions for the Company for the purpose of Chapter 14A of the Listing Rules.

Shougang International conducted an open offer in September 2017 where Shougang Holding, a wholly-owned subsidiary of Shougang Group, was the underwriter of the open offer. Through Shougang Holding taking up the underwritten shares of Shougang International in the open offer, Shougang International became a subsidiary of Shougang Group upon completion of the open offer on 16 November 2017. As Shougang International is a substantial shareholder of the Company, Shougang Group also became a substantial shareholder of the Company from 16 November 2017 and the transactions between the Group

and Shougang Group and/or its associates become continuing connected transactions for the Company for the purpose of the Listing Rules.

The First Master Agreement

The First Master Agreement was entered into to address the immediate business requirements of the Group. As one or more of the applicable ratios under Rule 14.07 of the Listing Rules in respect of the transaction amount under the First Master Agreement is/are expected to exceed 0.1% threshold under Rule 14A.76(1)(a) while all such ratios are less than 5% threshold under Rule 14A.76(2)(a) of the Listing Rules, the First Master Agreement is subject to the reporting and announcement requirements but exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

The Second Master Agreement

The Second Master Agreement was entered into to govern the continuing connected transactions between the Group and Shougang Group and/or its associates for the three financial years ending 31 December 2020. As one or more of the applicable ratios in respect of the annual transaction amounts under the Second Master Agreement is/are expected to exceed 5% threshold under Rule 14A.76(2)(a) of the Listing Rules, the Second Master Agreement is subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders on the terms of the Second Master Agreement.

Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the Second Master Agreement.

A circular containing, among other things, (i) further details about the Second Master Agreement; (ii) the recommendations of the Independent Board Committee in relation to the Second Master Agreement; (iii) a letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders in relation to the Second Master Agreement; and (iv) the notice convening the GM, will be dispatched to the Shareholders in accordance with the requirements of the Listing Rules on or before 4 December 2017.

INTRODUCTION

The Group has supplied coking coal products to Shougang Group and/or its associates since 2010 and has purchased steel materials from Shougang Group and/or its associates since 2015 in its usual and ordinary course of business.

On 16 November 2017, the Company and Shougang Group entered into the First Master Agreement and the Second Master Agreement to regulate the continuing connected transactions between the Group and Shougang Group and/or its associates in compliance with the Listing Rules.

THE FIRST MASTER AGREEMENT

Date

16 November 2017

Parties

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

Subject matter

The Group will supply the Fushan Products to Shougang Group and/or its associates and Shougang Group and/or its associates will supply the Shougang Group Products to the Group.

Pricing terms

The pricing terms under the First Master Agreement will be determined based on an arm's length basis, on normal commercial terms and in accordance with the following principles:

- (i) by reference to the prevailing market prices of the same 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 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 quantities; and
- (iii) if both (i) and (ii) above are not applicable, by reference to the average price of similar products previously supply by a party, and on normal commercial terms comparable to those offered by the relevant party to independent third parties.

Term

The First Master Agreement has a term from the date of the First Master Agreement to 31 December 2017.

Payment terms

The payment terms for the continuing connected transactions under the First Master Agreement will be on normal commercial terms which will be no less favourable to the Company than those available from independent third parties.

Cap amount

The transaction amount under the First Master Agreement during the term of the agreement will not exceed the following maximum amount (net of value added tax (“VAT”)):

	<i>RMB' 000</i>
Supply of Fushan Products	76,900
Purchase of Shougang Group Products	4,000

The caps under the First Master Agreement were determined based on the projected sales of the Fushan Products to Shougang Group and/or its associates and the projected purchases of the Shougang Group Products from Shougang Group and/or its associates during the term of the First Master Agreement.

THE SECOND MASTER AGREEMENT

Date

16 November 2017

Parties

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

Subject matter

The Group will supply the Fushan Products to Shougang Group and/or its associates and Shougang Group and/or its associates will supply the Shougang Group Products to the Group.

Condition precedent

The obligations of the parties to the Second Master Agreement are conditional upon approval of the Second Master Agreement and the annual caps of the continuing connected transactions by the Independent Shareholders in compliance with the Listing Rules.

If the condition precedent under the Second Master Agreement is not satisfied on or before 31 January 2018 or such other date as the parties may agree in writing, the Second Master Agreement will terminate and no party will be entitled to any rights or benefits or be under any obligations under or in respect of the Second Master Agreement.

Pricing terms

The pricing terms under the Second Master Agreement will be determined based on an arm's length basis, on normal commercial terms and in accordance with the following principles:

- (i) by reference to the prevailing market prices of the same 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 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 quantities; and
- (iii) if both (i) and (ii) above are not applicable, by reference to the average price of similar products previously supply by a party, and on normal commercial terms comparable to those offered by the relevant party to independent third parties.

Term

Subject to the satisfaction of the condition precedent under the Second Master Agreement, the Second Master Agreement has a term of three financial years ending on 31 December 2020.

Payment terms

The payment terms for the continuing connected transactions under the Second Master Agreement will be on normal commercial terms which will be no less favourable to the Company than those available from independent third parties.

Cap amount

The transaction amounts under the Second Master Agreement during the term of the agreement will not exceed the following annual caps (net of VAT):

	For the year ending 31 December 2018	For the year ending 31 December 2019	For the year ending 31 December 2020
	<i>RMB' 000</i>	<i>RMB' 000</i>	<i>RMB' 000</i>
Supply of Fushan Products	870,000	1,310,000	1,510,000
Purchase of Shougang Group Products	50,000	52,000	54,000

The annual caps under the Second Master Agreement were determined based on the historical transaction amounts between the Group and Shougang Group and/or its associates and the expected growth in demand for both the Fushan Products and the Shougang Group Products.

The historical transaction amount (net of VAT) between the Group and Shougang Group and/or its associates for the three financial years ended 31 December 2016 and the ten months ended 31 October 2017 are as follows:

	For the year ended 31 December 2014 <i>RMB' 000</i>	For the year ended 31 December 2015 <i>RMB' 000</i>	For the year ended 31 December 2016 <i>RMB' 000</i>	For the ten months ended 31 October 2017 <i>RMB' 000</i>
Supply of Fushan Products	453,659	412,441	520,298	483,453
Purchase of Shougang Group Products	-	2,739	4,163	8,561

REASONS FOR THE FIRST MASTER AGREEMENT AND THE SECOND MASTER AGREEMENT

The Group supplied coking coal products to Shougang Group and/or its associates since 2010 and purchased steel materials from Shougang Group and/or its associates since 2015 in its usual and ordinary course of business. As Shougang Group became a substantial shareholder of the Company from 16 November 2017 as explained in the section headed “LISTING RULES IMPLICATIONS” below, the First Master Agreement and the Second Master Agreement were entered into to regulate the continuing connected transactions between the Group and Shougang Group and/or its associates for the remaining of 2017 and the three financial years ending 31 December 2020, respectively in compliance with the Listing Rules.

As the transactions under the First Master Agreement and the Second Master Agreement will be carried out in the ordinary course of business of the Group, and the terms have been based on an arm’s length basis and on normal commercial terms, the Directors (excluding Mr. Li Shaofeng, Mr. Ding Rucai and Mr. Leung Shun Sang, Tony) are of the view that it is in the interests of the Company to enter into the First Master Agreement and the Second Master Agreement to continue the transactions with Shougang Group and/or its associates.

Mr. Li Shaofeng, Mr. Ding Rucai and Mr. Leung Shun Sang, Tony are common directors of the Company and Shougang International which is a subsidiary of Shougang Group. They might be considered to be interested in the continuing connected transactions and have abstained from voting for the Board resolution for approving the continuing connected transactions under the First Master Agreement and the Second Master Agreement.

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) The Company will conduct regular checks on a monthly basis to review and assess whether the relevant continuing connected transactions are conducted in accordance with the terms of its respective agreements 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 purchases and ensures the transactions are within the annual cap;
 - (iii) the Group would also work closely with customers with a view to obtaining information on the demand of the customers. As long as it is permissible under law, the Company would consider adjust or negotiate the prices of the transaction as and when necessary to ensure price fairness.
- (b) 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 annual 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.
- (c) The independent non-executive Directors will review the transactions contemplated under the continuing connected transactions of the Company pursuant to Listing Rule 14A.55, and confirm in the annual report whether the transactions have been entered 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.

The independent auditor of the Group will also conduct an annual review on the pricing terms and annual caps under the First Master Agreement and the Second Master Agreement.

LISTING RULES IMPLICATIONS

Rule 14A.60

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The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders on the terms of the Second Master Agreement.

Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the Second Master Agreement.

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GENERAL

The Group is principally engaged in coking products production and sale in the PRC.

DEFINITION

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

“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;

“connected person”	has the meaning ascribed to it under the Listing Rules;
“Director(s)”	the director(s) of the Company;
“First Master Agreement”	the agreement dated 16 November 2017 entered into between the Company and Shougang Group;
“Fushan Products”	coking coal products;
“GM”	the general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving the Second Master Agreement and the transactions contemplated thereunder;
“Group”	the Company and its subsidiaries from time to time;
“Hong Kong”	the Hong Kong Special administrative Region of the PRC;
“Independent Board Committee”	the independent board committee of the Board comprising all the independent non-executive Directors established to advise the Independent Shareholders in respect of the terms of the continuing connected transactions under the Second Master Agreement;
“Independent Financial Adviser” or “Gram Capital”	Gram Capital limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Second Master Agreement;
“Independent Shareholders”	any Shareholder other than Shougang Group and its associates;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan;
“RMB”	Renminbi, the lawful currency of the PRC;
“Second Master Agreement”	the agreement dated 16 November 2017 entered into between the Company and Shougang Group;
“Shareholders”	holders of the Shares of the Company;
“Shares”	ordinary shares of the Company;

“Shougang Group”	Shougang Group Co., Ltd.* (首鋼集團有限公司), a solely stated-owned company established in the PRC, the holding company of Shougang Holding;
“Shougang Group Products”	steel materials;
“Shougang Holding”	Shougang Holding (Hong Kong) Limited, a company incorporated in Hong Kong, the controlling shareholder of Shougang International;
“Shougang International”	Shougang Concord International Enterprises Company Limited, a company incorporated in Hong Kong with limited liability whose shares are listed on the Stock Exchange (stock code: 697);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules; and
“%”	per cent.

By order of the Board
Shougang Fushan Resources Group Limited
Li Shaofeng
Chairman

Hong Kong, 16 November 2017

As at the date of this announcement, the Board comprises Mr. Li Shaofeng (Chairman), Mr. Ding Rucai (Vice-chairman and Managing Director), Mr. So Kwok Hoo (Deputy Managing Director), Mr. Chen Zhaoqiang (Deputy Managing Director), Mr. Liu Qingshan (Deputy Managing Director), Mr. Leung Shun Sang, Tony (Non-executive Director), Mr. Dong Yansheng (Non-executive Director), Mr. Kee Wah Sze (Independent Non-executive Director), Mr. Choi Wai Yin (Independent Non-executive Director), Mr. Chan Pat Lam (Independent Non-executive Director) and Mr. Japhet Sebastian Law (Independent Non-executive Director).

** for identification purpose only.*