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If you have sold or transferred all your shares in Shougang Concord International Enterprises Company Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or the transferee.

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首長國際企業有限公司
SHOUGANG CONCORD INTERNATIONAL ENTERPRISES COMPANY LIMITED
(Incorporated in Hong Kong with limited liability)
(Stock Code: 697)

CONTINUING CONNECTED TRANSACTIONS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

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



A letter from the Board is set out on pages 3 to 9 of this circular and a letter from the Independent Board Committee containing its recommendations to the Independent Shareholders is set out on page 10 of this circular. A letter from Optima Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, containing its advices to the Independent Board Committee and the Independent Shareholders on the Master Agreement and the cap amounts in relation to the Continuing Connected Transactions is set out on pages 11 to 22 of this circular.

A notice convening an EGM to be held at 3:00 p.m. on Friday, 27 December 2013, at 2nd Floor, The Function Room, The Harbourview, 4 Harbour Road, Wanchai, Hong Kong is set out on pages 29 to 30 of this circular. A form of proxy for the EGM for use by the Shareholders is enclosed with this circular. Whether or not you are able to attend the EGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit with the share registrars of the Company, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any 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 EGM or any adjourned meeting thereof (as the case may be) should you so wish.

9 December 2013

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DEFINITIONS

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

“associate(s)”	has the same meaning ascribed to it under the Listing Rules;
“Board”	the board of Directors;
“Company”	Shougang Concord International Enterprises Company Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange;
“Continuing Connected Transactions”	the transactions contemplated under the Master Agreement;
“controlling shareholder”	has the same meaning ascribed to it under the Listing Rules;
“Director(s)”	the director(s) of the Company;
“EGM”	the extraordinary general meeting of the Company to be held at 3:00 p.m. on Friday, 27 December 2013 at 2nd Floor, The Function Room, The Harbourview, 4 Harbour Road, Wanchai, Hong Kong for the Independent Shareholders to consider and if thought fit, approve the Master Agreement and the cap amounts in relation to the Continuing Connected Transactions, or any adjournment thereof;
“Existing Master Agreement”	the master agreement entered into between the Company and Shougang Corporation on 11 November 2010;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	the independent committee of the Board, comprising all the independent non-executive Directors, which has been appointed by the Board to advise the Independent Shareholders on the Continuing Connected Transactions;
“Independent Shareholder(s)”	the Shareholder(s) other than Shougang Holding and its associates;
“Latest Practicable Date”	5 December 2013, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular;

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Master Agreement”	the master agreement entered into between the Company and Shougang Corporation on 4 December 2013 in respect of the Continuing Connected Transactions;
“Optima” or “Independent Financial Adviser”	Optima Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Master Agreement and the cap amounts in relation to the Continuing Connected Transactions;
“PRC”	the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macao Special Administrative Region and Taiwan;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Share(s)”	ordinary share(s) of HK\$0.20 each in the share capital of the Company;
“Shareholder(s)”	holder(s) of the Shares;
“Shougang Corporation”	Shougang Corporation, a state-owned enterprise in the PRC and the holding company of the entire interest of Shougang Holding;
“Shougang Holding”	Shougang Holding (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of Shougang Corporation and the controlling shareholder of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“%”	per cent.

LETTER FROM THE BOARD



首長國際企業有限公司
SHOUGANG CONCORD INTERNATIONAL ENTERPRISES COMPANY LIMITED
(Incorporated in Hong Kong with limited liability)
(Stock Code: 697)

Directors:

Mr. Xu Ning (*Chairman*)
Mr. Li Shaofeng (*Managing Director*)
Mr. Zhang Wenhui (*Deputy Managing Director*)
Mr. Chen Zhouping (*Non-executive Director*)
Mr. Ip Tak Chuen, Edmond (*Non-executive Director*)
Mr. Leung Shun Sang, Tony (*Non-executive Director*)
Ms. Kan Lai Kuen, Alice
(*Independent Non-executive Director*)
Mr. Wong Kun Kim
(*Independent Non-executive Director*)
Mr. Leung Kai Cheung
(*Independent Non-executive Director*)

Registered Office:

7th Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

9 December 2013

To the Shareholders

Dear Sir/Madam,

**CONTINUING CONNECTED TRANSACTIONS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

On 4 December 2013, the Company entered into the Master Agreement with Shougang Corporation in respect of the Continuing Connected Transactions. Shougang Corporation is the holding company of Shougang Holding which in turn is the controlling shareholder of the Company. Accordingly, the transactions between the Group and Shougang Corporation and/or its associates under the Master Agreement constitute continuing connected transactions for the Company under the Listing Rules.

As the applicable percentage ratios in respect of the Continuing Connected Transactions on an annual basis are more than 5%, the Continuing Connected Transactions are subject to the reporting, announcement, the Independent Shareholders' approval and annual review requirements under Rule 14A.35 of the Listing Rules.

LETTER FROM THE BOARD

An Independent Board Committee comprising the independent non-executive Directors has been formed to advise the Independent Shareholders on the terms of the Master Agreement. Optima has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the Master Agreement and the cap amounts in relation to the Continuing Connected Transactions under the Master Agreement.

The purpose of this circular is:

- (i) to provide the Shareholders with details of the Master Agreement and the cap amounts in relation to the Continuing Connected Transactions;
- (ii) to set out the opinion of the Independent Financial Adviser in respect of the Master Agreement and the cap amounts in relation to the Continuing Connected Transactions;
- (iii) to set out the recommendation of the Independent Board Committee in respect of the Master Agreement and the cap amounts in relation to the Continuing Connected Transactions; and
- (iv) to give the Shareholders notice of the EGM to consider and, if thought fit, to approve the Master Agreement and the cap amounts in relation to the Continuing Connected Transactions.

THE MASTER AGREEMENT

Date: 4 December 2013

Parties: The Company
Shougang Corporation

Subject: Pursuant to the Master Agreement, Shougang Corporation and/or its associates will provide raw materials, materials, fuel, energy, equipment, spare parts, steel products, leasing and services to the Group (the “**Purchases**”) and the Group will provide raw materials, scrap materials, steel products, leasing and services to Shougang Corporation and/or its associates (the “**Sales**”).

In the past few years, purchases from Shougang Corporation and its associates pursuant to the Existing Master Agreement include primarily iron ore and coke, which are essential raw materials for steel production, and steel production and related equipments, together with their parts and components, furnaces, boilers, and services including inspection and maintenance services, labour services, sampling charges, warehousing services and other related services.

In the past few years, sales to Shougang Corporation and its associates pursuant to the Existing Master Agreement include primarily steel slabs, steel plates and pellets produced by the Group, together with wastes and scraps.

LETTER FROM THE BOARD

Cap amounts: The cap amounts of the Purchases and the Sales for each of the three financial years ending 31 December 2016 will be as follows:

	2014	2015	2016
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Cap amount for the Purchases	16,800	18,700	21,000
Cap amount for the Sales	18,000	20,800	24,100

In determining the annual caps for the Sales, the Company has taken into consideration the Group's maximum annual production capacity, the increased proportion of sales of products to Shougang Corporation and its associates, and the quantity of iron ore that may possibly be sold to Shougang Corporation and its associates by the Group procured from its offtake arrangement with Mount Gibson Iron Limited. The annual caps for the Purchases on the other hand have taken into consideration the maximum annual production capacity of the Group, the historical ratio for raw material usage per tonne of product output, and the increased proportion of purchases of materials from Shougang Corporation and its associates. The projected proportion of sales and purchases to/from Shougang Corporation and its associates were estimated with reference to (i) the historical proportion of sales and purchases to/from Shougang Corporation and its associates; and (ii) the anticipated increase in demand from Shougang Corporation and its associates as a result of the possible recovery of the steel industry. In determining the assumptions in estimating the annual caps, for prudent purpose, the Company uses the Group's maximum annual production capacity given that there is possibility that it will be fully utilised.

The Company has also considered the possible recovery of demand for raw materials after the steel industry in the PRC underwent a downturn during the previous years. The Company has anticipated increase in the price of raw materials and the selling price of steel products as a result of the anticipated increase in demand. For the purpose of determining the annual caps for the year ending 31 December 2014, the Company has adopted the average sales or purchases price of the products or raw materials for the first half of year 2013, plus a 3% to 20% buffer for possible price increment for different types of products or raw materials. For the years ending 31 December 2015 and 31 December 2016, further buffer for possible price increment ranging from 6% to 16% are provided for on top of the projected price in the preceding year. The setting of the annual increment of the projected price is by reference to the historical price fluctuation of products and raw materials in recent years.

Given that the Continuing Connected Transactions are mainly transacted in Renminbi whereas the caps as well as the financial statements of the Group are denominated in Hong Kong dollar, the effect of exchange rate fluctuation in Renminbi against the Hong Kong dollar is relevant to the determination of

LETTER FROM THE BOARD

the annual caps. The annual caps in the Master Agreement have provided for the anticipated appreciation of Renminbi against the Hong Kong dollar with an anticipated compound annual growth rate of approximately 2.6%, which was set based on the historical trend of the exchange rate of Renminbi against the Hong Kong dollar in recent years.

In the view of the Directors, the proposed cap amounts are fair and reasonable.

Term: The Master Agreement has a fixed term of three financial years ending on 31 December 2016.

Condition: The Master Agreement is subject to approval by the Independent Shareholders.

Price: The basis of determining the prices for the Continuing Connected Transactions will be in accordance with: (1) comparable market price; or (2) if no comparable market price can be taken as a reference, a price reasonably agreed between the parties on normal commercial terms and such price should be no less favourable to the Company than that available to/from (as appropriate) independent third parties.

In determining the prices for the Purchases, the Group will obtain information of the transaction prices of similar products in the market by making enquiry with industry players and conducting researches on industry websites to determine the reference prices, which will then be compared against the prices quoted by Shougang Corporation and its associates to ensure that prices for the Purchases will be no less favourable to the Company than that available from independent suppliers. The prices of the key items for the Purchases and the Sales are available highly transparent in the open market. In the unlikely event that no comparable market price can be taken, experts in the Group with sufficient industry experience could opine on the fairness and reasonableness of the price by reference to the comparable price and/or historical transaction price of the most similar items to ensure that the price would be fair and reasonable to the Group and no less favourable to the Company than that available to/from (as appropriate) independent third parties.

The Group has a standard pricing policy for its sales which is applicable to all customers. In setting or revising the pricing for the products, market prices are obtained through, among other things, recent transaction prices of the Group in the market, enquiry with industry players and researches on industry websites. The prices for the Sales to be charged by the Group to Shougang Corporation and its associates will be determined in accordance with such pricing policy and will not be less favourable than the price of similar products and services provided by the Group to independent customers.

LETTER FROM THE BOARD

To ensure that the actual selling/purchase prices for the transactions under the Master Agreement will be no less favourable to the Group than that available to or from independent third parties, the Company will conduct regular checkings on a monthly basis to review and assess whether the Continuing Connected Transactions have been entered into in accordance with the terms of the Master Agreement. In addition, the auditors of the Company will be engaged to review the Continuing Connected Transactions to assess whether the Continuing Connected Transactions have been carried out in accordance with the pricing policies of the Company.

Terms of Payment: Terms of payments for the Continuing Connected Transactions shall be on normal commercial terms and customary terms, which will be no less favourable to the Company than those available to/from independent third parties.

REASONS FOR ENTERING INTO OF THE MASTER AGREEMENT

On 11 November 2010, the Company and Shougang Corporation entered into the Existing Master Agreement in respect of the Purchases and the Sales for a fixed term of three financial years ending 31 December 2013. The cap amounts of the transactions contemplated under the Existing Master Agreement for each of the three financial years ending 31 December 2013 are as follows:

	For the year ended 31 December 2011 <i>HK\$ million</i>	For the year ended 31 December 2012 <i>HK\$ million</i>	For the year ending 31 December 2013 <i>HK\$ million</i>
Cap amount for the Purchases	24,100	25,400	27,900
Cap amount for the Sales	23,200	30,100	33,400

The actual amounts of the transactions contemplated under the Existing Master Agreement for the two financial years ended 31 December 2011 and 31 December 2012 and for the six months ended 30 June 2013 are as follows:

	For the year ended 31 December 2011 <i>HK\$ million</i>	For the year ended 31 December 2012 <i>HK\$ million</i>	For the six months ended 30 June 2013 <i>HK\$ million</i>
Actual amount of the Purchases	11,384	9,572	3,854
Actual amount of the Sales	4,997	3,458	937

LETTER FROM THE BOARD

Details of the Existing Master Agreement were disclosed in the circular of the Company dated 1 December 2010 and the Existing Master Agreement was approved by the then independent shareholders of the Company at the extraordinary general meeting held on 17 December 2010. As the Existing Master Agreement is due to expire on 31 December 2013, the Company has entered into the Master Agreement for governing the Continuing Connected Transactions.

The Company, through its subsidiaries, is engaged in the production, sale and trading of steel slabs, steel products, steel related processed products and by-products and will need to purchase raw materials and materials to satisfy its production requirements. As Shougang Corporation is one of the largest steel producers in the PRC, the Continuing Connected Transactions would guarantee a stable source of supply of raw materials, materials and related products from, and regular sales of materials and steel products to, one of the largest steel companies in the PRC. Accordingly, the Directors consider that the Continuing Connected Transactions with Shougang Corporation are in the ordinary and usual course of business of the Group, on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

GENERAL

The Group is principally engaged in the manufacture and sale of steel products, commodity trading and mineral exploration. As at the Latest Practicable Date, Shougang Holding and its associates were beneficially interested as to approximately 47.78% of the issued share capital of the Company and was entitled to exercise control over approximately 47.78% of the voting rights in the Company.

Shougang Corporation is principally engaged in the manufacture and sale of steel products. Shougang Corporation is the holding company of Shougang Holding which in turn is the controlling shareholder of the Company. Accordingly, the transactions between the Group and Shougang Corporation and/or its associates under the Master Agreement constitute continuing connected transactions for the Company under the Listing Rules.

Mr. Li Shaofeng, Mr. Zhang Wenhui and Mr. Chen Zhouping, all Directors, are also directors of Shougang Holding. Each of Mr. Li Shaofeng, Mr. Zhang Wenhui and Mr. Chen Zhouping has abstained from voting for the Board resolution for approving the Master Agreement. The remaining Directors present at the Board meeting for approving the Master Agreement are of the view that the terms of the Master Agreement are fair and reasonable and in the interests of the Group and the Independent Shareholders as a whole.

As the applicable percentage ratios in respect of the Continuing Connected Transactions on an annual basis are more than 5%, the Continuing Connected Transactions are subject to the reporting, announcement, the Independent Shareholders' approval and annual review requirements under Rule 14A.35 of the Listing Rules.

The Company will therefore seek the approval by the Independent Shareholders of the Master Agreement and the proposed cap amounts in relation to the Continuing Connected Transactions under the Master Agreement. Shougang Holding and its associates, who are interested in approximately 47.78% of the issued share capital of the Company, will abstain from voting for the resolutions proposed at the EGM on a vote by way of poll.

LETTER FROM THE BOARD

EGM

A notice convening the EGM to be held at 3:00 p.m. on Friday, 27 December 2013 at 2nd Floor, The Function Room, The Harbourview, 4 Harbour Road, Wanchai, Hong Kong is set out on pages 29 to 30 of this circular for the purpose of considering and, if thought fit, passing the resolution as set out therein.

A form of proxy for use by the Shareholders at the EGM is enclosed herewith. Whether or not you are able to attend the EGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit with the share registrars of the Company, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any 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 EGM or any adjourned meeting thereof (as the case may be) should you so wish.

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

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 10 of this circular which contains its recommendation to the Independent Shareholders on the Master Agreement and the cap amounts in relation to the Continuing Connected Transactions. Your attention is also drawn to the letter of advice from Optima which contains, amongst other matters, its advices to the Independent Board Committee and the Independent Shareholders in relation to the Master Agreement and the cap amounts in relation to the Continuing Connected Transactions. The letter from Optima is set out on pages 11 to 22 of this circular.

The Directors consider that the Master Agreement and the cap amounts in relation to the Continuing Connected Transactions 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 EGM.

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

By Order of the Board
Shougang Concord International Enterprises Company Limited
Li Shaofeng
Managing Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



首長國際企業有限公司
SHOUGANG CONCORD INTERNATIONAL ENTERPRISES COMPANY LIMITED
(Incorporated in Hong Kong with limited liability)
(Stock Code: 697)

9 December 2013

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular of the Company to the Shareholders dated 9 December 2013 (the “Circular”), in which this letter forms a part. Unless the context requires otherwise, capitalized 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 Master Agreement and the cap amounts in relation to the Continuing Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned.

We wish to draw your attention to the letter of advice from Optima, the Independent Financial Adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the Master Agreement and the cap amounts in relation to the Continuing Connected Transactions as set out on pages 11 to 22 of the Circular and the letter from the Board set out on pages 3 to 9 of the Circular.

Having considered, among other matters, the factors and reasons considered by, and the opinion of Optima as stated in its letter of advice, we consider that the Master Agreement was entered into in the ordinary and usual course of business of the Company, the terms of which and the cap amounts in relation to the Continuing Connected Transactions are on normal commercial terms, and are fair and reasonable so far as the Independent Shareholders are concerned and are 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 Master Agreement and the cap amounts in relation to the Continuing Connected Transactions to be proposed at the EGM.

Yours faithfully,

For and on behalf of

**The Independent Board Committee of
Shougang Concord International Enterprises Company Limited**

Kan Lai Kuen, Alice

Wong Kun Kim

Leung Kai Cheung

Independent Non-executive Directors

LETTER FROM OPTIMA

The following is the text of the letter from Optima setting out its advice to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



Suite 1501, 15th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

9 December 2013

*To: the Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Master Agreement and the transactions contemplated thereunder, including the proposed annual caps (the “Caps”) of the Continuing Connected Transactions. Details of the Master Agreement and the Caps are set out in the letter from the Board contained in the circular of the Company dated 9 December 2013 (the “Circular”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined.

On 4 December 2013, the Company entered into the Master Agreement with Shougang Corporation in respect of the Continuing Connected Transactions. Pursuant to the Master Agreement, Shougang Corporation and/or its associates (the “Shougang Corporation Group”) will provide raw materials, materials, fuel, energy, equipment, spare parts, steel products, leasing and services to the Group and the Group will provide raw materials, scrap materials, steel products, leasing and services to the Shougang Corporation Group.

Shougang Holding and its associates were beneficially interested in approximately 47.78% of the issued share capital of the Company as at the Latest Practicable Date. Shougang Corporation is the holding company of Shougang Holding which is in turn the controlling Shareholder. Accordingly, Shougang Corporation is a connected person of the Company and the transactions between the Group and the Shougang Corporation Group under the Master Agreement constitute continuing connected transactions for the Company under the Listing Rules. As the applicable percentage ratios in respect of the Caps exceed 5%, the Continuing Connected Transactions are subject to the reporting, announcement, Independent Shareholders’ approval and annual review requirements pursuant to Rule 14A.35 of the Listing Rules. The Company will seek the Independent Shareholders’ approval for the Master Agreement and the Caps at the EGM by way of poll. Shougang Holding and its associates will be required to abstain from voting on the ordinary resolution (the “Resolution”) to be proposed at the EGM for approving the Master Agreement and the Caps.

LETTER FROM OPTIMA

The Independent Board Committee, comprising all the independent non-executive Directors, namely Ms. Kan Lai Kuen, Alice, Mr. Wong Kun Kim and Mr. Leung Kai Cheung, has been established to advise the Independent Shareholders on the terms of the Master Agreement (including the Caps) as to whether they are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders, and to give a recommendation to the Independent Shareholders in respect of the voting on the Resolution. We, Optima Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the management of the Group and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects at the time they were made and up to the date of the EGM. We have also sought and received confirmation from the management of the Group that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information have been withheld, nor doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the businesses and affairs of the Group, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of the Master Agreement and the Caps are fair and reasonable so far as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below:

1. Background to and reasons for the Master Agreement

On 11 November 2010, the Company and Shougang Corporation entered into the Existing Master Agreement in respect of the Purchases and the Sales for a fixed term of three financial years ending 31 December 2013. The Existing Master Agreement was approved by the then independent Shareholders at the extraordinary general meeting held on 17 December 2010. As the Existing Master Agreement will expire on 31 December 2013, it is proposed that the Master Agreement be entered into to govern the Continuing Connected Transactions for a fixed term of three financial years ending 31 December 2016. The entering into of the Master Agreement is a renewal of the Existing Master Agreement.

The principal activities of the Group include steel manufacturing, mineral exploration and commodity trading. The Group's steel manufacturing operation is carried out through Qinhuangdao Shouqin Metal Materials Co., Ltd. ("Shouqin"), an indirect non-wholly owned subsidiary of the Company, and Qinhuangdao Shougang Plate Mill Co., Ltd ("QHD Plate Mill"), an indirect wholly-owned subsidiary of the Company. Shouqin is a fully integrated mill encompassing the entire manufacturing process from processing iron, steel, slab to plate production, while QHD Plate Mill is mainly involved in the production of steel plates. Shouqin and QHD Plate Mill are required to source supply of raw materials, mainly iron ore and coke, for their production process and members of the Shougang Corporation Group are suppliers of the Group. Shougang Corporation, as one of the largest steel producers in the PRC, is also engaged in the manufacture and sale of steel products. It sourced products such as steel slabs, steel plates and

LETTER FROM OPTIMA

pellets from the Group for further processing. Iron ore is the most important raw material in producing steel. However, the production scale of iron ore in the PRC is insufficient to meet production requirement of the PRC steel manufacturing industry and thus there is a high reliance on import of iron ore. As the Group has offtake contracts (as described under the sub-paragraph headed “The Caps” below) with an Australian company, Mount Gibson Iron Limited (“Mt. Gibson”), to undertake the purchases of iron ore from Australia regularly, Shougang Corporation may possibly purchase iron ore from the Group.

The Purchases and the Sales pursuant to the Master Agreement are significant to the core business of the Group. The total Purchases from the Shougang Corporation Group for each of the two financial years ended 31 December 2011 and 2012 amounted to HK\$11,384 million and HK\$9,572 million, representing approximately 54.0% and 54.6% respectively of the total cost of goods sold by the Group. The total Sales to the Shougang Corporation Group for each of the two financial years ended 31 December 2011 and 2012 amounted to HK\$4,997 million and HK\$3,458 million, representing approximately 23.5% and 21.3% respectively of the total revenue of the Group for the year. We understand from the management of the Group that the Group is satisfied with the quality of materials and services provided by and the payment record of the Shougang Corporation Group in the past. The entering into of the Master Agreement is to, on the one hand, secure a stable source of supply of raw materials, materials and related products from, and on the other hand, secure regular sales of materials and steel products to, Shougang Corporation, which is a state-owned enterprise under the supervision of State-owned Assets Supervision and Administration Commission of People’s Government of Beijing Municipality and one of the largest steel companies in the PRC.

Having considered that (i) the Continuing Connected Transactions are revenue in nature; (ii) the Group has maintained long term, stable and good business relationship with the Shougang Corporation Group; (iii) the Purchases from the Shougang Corporation Group enable the Group to source the required materials from a reliable supplier; (iv) the Sales to the Shougang Corporation Group enable the Group to generate return and hence increase the profitability of the Group; (v) the pricing and payment terms of the Purchases and the Sales will be on terms no less favourable to the Group than those available from/to independent third parties (as discussed in the paragraph headed “Principal terms of the Master Agreement” below); and (vi) the Master Agreement provides flexibility for the Group to capture potential growth and increase in demand of the Group’s products, we consider that the transactions contemplated under the Master Agreement are in the ordinary and usual course of business of the Group and the entering into of the Master Agreement is in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Master Agreement

(i) Purchases and Sales

Pursuant to the Master Agreement, the Shougang Corporation Group will provide raw materials, materials, fuel, energy, equipment, spare parts, steel products, leasing and services to the Group and the Group will provide raw materials, scrap materials, steel products, leasing and services to the Shougang Corporation Group. As explained in the paragraph headed “Background to and reasons for the Master Agreement” above, the products and materials are used by the Group and the Shougang Corporation Group in the ordinary and usual course of their respective businesses.

LETTER FROM OPTIMA

(ii) *Term of the Master Agreement*

The Master Agreement has a fixed term of three financial years ending 31 December 2016.

(iii) *Pricing mechanism and payment*

Pursuant to the Master Agreement, the determination of the prices for the Continuing Connected Transactions will be in accordance with (i) comparable market price; or (ii) if no comparable market price can be taken as a reference, a price reasonably agreed between the parties on normal commercial terms and such price should be no less favourable to the Company than that available to/from (as appropriate) independent third parties.

As advised by the management of the Group, the Group obtains the market prices for the Purchases through recent transaction prices in the market, enquiry with industry players, and researches on industry websites. The prices for the Purchases to be charged by the Shougang Corporation Group to the Group are then compared against the market prices to ensure that the prices shall not be less favourable than the prices of similar type of products and services offered by independent third parties to the Group before the terms of each Purchases are concluded.

We have discussed with the management of the Group and understand that the Group has a standard pricing policy for its sales which is applicable to all customers (including the Shougang Corporation Group) and is revised and updated from time to time taking into account the then prevailing market conditions. In setting or revising the standard pricing for the products, market prices are obtained through, among other things, recent transaction prices of the Group in the market, enquiry with industry players, and researches on industry websites. The prices for the Sales to be charged by the Group to the Shougang Corporation Group shall be determined in accordance with the aforesaid standard pricing policy and shall not be less favourable than the prices of similar type of products and services provided by the Group to independent third parties.

Payments for the Continuing Connected Transactions shall be on normal commercial terms and customary terms, which will be no less favourable to the Company than those available to/from independent third parties. As advised by the management of the Group, the payment terms for each of the Continuing Connected Transactions will be determined based on prevailing market practices for similar products and services with reference to transactions or potential transactions with independent third parties at the time of entering into the specific transactions under the Master Agreement.

We are advised by the management of the Group that the finance department of the Company, headed by the financial controller of the Company, will conduct sample checking on a monthly basis to review and assess whether the Continuing Connected Transactions have been entered into in accordance with the terms of the Master Agreement and the pricing policy of the Group. The financial controller of the Company will report irregular transactions, if any, to the Executive Committee of the Board to ensure compliance with the terms of the Master Agreement and the Group's standard pricing policy. In the event that there are irregular transactions reported to the Executive Committee of the Board, the management of the Group will take immediate action to rectify the transactions. Based on the abovementioned, we are of the view that sufficient internal control policies are in place to ensure that the actual selling/purchase prices for the transactions under the Master Agreement will be set in accordance with the pricing policy of the Company and on normal commercial terms.

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We have compared the terms of the Master Agreement with those of the Existing Master Agreement. We note that the principal terms of the Master Agreement are similar to the terms under the Existing Master Agreement. In particular, the terms of the Continuing Connected Transactions must be determined with reference to prevailing market terms and no less favourable to the Group than those available to/from independent third parties. As stated in the annual reports of the Company for the two years ended 31 December 2011 and 2012, the auditor of the Company has provided a letter to the Board confirming the matters stated in Rule 14A.38 of the Listing Rules in respect of the Continuing Connected Transactions took place during the years ended 31 December 2011 and 2012, which include, among other things, that the Continuing Connected Transactions (i) are in accordance with the pricing policies of the Company if the transactions involve provision of goods and services by the Company; and (ii) have been entered into in accordance with the relevant agreement governing the transactions. We have discussed with the auditor of the Company and understand that they have conducted the review of the list of the Continuing Connected Transactions provided by the management of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Review of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants. For transactions involving the provision of goods or services by the Group, the auditor made inquiries, primarily of person responsible for financial and accounting, applied analytical and other review procedures and tested transactions on a sample basis where they considered appropriate and concluded that nothing has come to their attention that cause them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company. The independent non-executive Directors have also confirmed in the 2011 and 2012 annual reports of the Company that the Continuing Connected Transactions have been conducted on normal commercial terms, or if there was no available comparison, on terms that were no less favourable than terms available to or from independent third parties.

(iv) Our view

Based on the internal control policies of the Group in respect of the Continuing Connected Transactions, the review of the historical Continuing Connected Transactions by the auditor and the independent non-executive Directors as set out above together with the obligations of the Directors to comply with the Listing Rules to conduct the Continuing Connected Transactions on normal commercial terms, there is no reason for us to doubt that the Continuing Connected Transactions under the Master Agreement will not be conducted on normal commercial terms.

On the basis that (i) the relevant terms, including the pricing mechanism and payment terms, of the Continuing Connected Transactions are on normal commercial terms; (ii) the prices for the Purchases and the Sales under the Master Agreement will be determined based on comparable market prices and will be no less favourable than those available from/to independent suppliers or customers; and (iii) payment terms for the Purchases and the Sales are in line with those available from/to independent third parties, and in light of the review of the Continuing Connected Transactions for the two financial years ended 31 December 2011 and 2012 by the auditor of the Company and the independent non-executive Directors as described above, we are of the view that the terms of the Master Agreement, including the pricing mechanism, 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.

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3. The Caps

The Purchases and the Sales contemplated under the Master Agreement are subject to the Caps for the financial years ending 31 December 2014, 2015 and 2016 as follows:

	2014	2015	2016
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Cap amount for the Purchases	16,800	18,700	21,000
Cap amount for the Sales	18,000	20,800	24,100

We have discussed with the management of the Group and understand that the relevant Caps are arrived at based on the forecast average purchase/selling prices of raw materials and products, the production capacity of the Group and the forecast Purchases and Sales with the Shougang Corporation Group, after taking into account (i) the historical amounts of transactions between the Group and the Shougang Corporation Group; (ii) the sales and production plan of the Group; (iii) the historical and anticipated increase in the prices of the raw materials and steel products; and (iv) the anticipated appreciation of Renminbi against Hong Kong dollars.

We note that the Caps represent an annual compound increment of approximately 11.8% for Purchases and approximately 15.7% for Sales. We are advised by the management of the Group that the increment is determined mainly with reference to the expected growth in the PRC economy. According to the statistics on the website of the National Bureau of Statistics of China, the gross domestic product (the "GDP") of the PRC has been growing in recent years. The GDP for 2012 was approximately RMB51,932 billion, representing a real growth rate of approximately 7.8% as compared with the GDP of approximately RMB47,310 billion in 2011. The GDP for 2011 represented a real growth rate of approximately 9.3% over the GDP in 2010 of approximately RMB40,151 billion. The economic growth in the PRC is expected to foster the demand for steel products. We note that the annual increment on the Caps for the Sales are relatively higher than that for the Purchases. We have discussed with the management of the Group the bases for the additional increment on the Caps for the Sales and were advised that it is mainly due to the anticipated increase in demand of iron ores from the Shougang Corporation Group. Under a series of the offtake agreements entered into between the Group and Mt. Gibson or its subsidiaries, Mt. Gibson has agreed to sell a certain portion of iron ore in two mines produced by it to the Company exclusively. In the event the demand of iron ores from the Shougang Corporation Group increases, the Group is able to provide the iron ores through the supply from Mt. Gibson. We note from the sales plan of the Company that this has been factored into the Caps for the Sales from 2014 to 2016.

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(i) *Historical amounts of transactions between the Group and the Shougang Corporation Group*

The historical amounts of the Continuing Connected Transactions between the Group and the Shougang Corporation Group for the two years ended 31 December 2012 and the six months ended 30 June 2013 were as follows:

	For the year ended 31 December		For the six months ended 30 June
	2011	2012	2013
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Purchases	11,384	9,572	3,854
Sales	4,997	3,458	937

As shown in the above table, (i) the Purchases have decreased from HK\$11,384 million in 2011 to HK\$9,572 million in 2012; (ii) the Sales have decreased from HK\$4,997 million in 2011 to HK\$3,458 million in 2012; and (iii) both the Purchases and the Sales for the six months ended 30 June 2013 represented less than half of the respective figures in the preceding year. We have discussed with the management of the Group the reasons for the decrease and note that such decrease was mainly due to the drop in the prices of the raw materials and steel products, and less steel plates were purchased by the Shougang Corporation Group as affected by the overall weak steel market. We note that the Caps are larger than the historical amounts of the Continuing Connected Transactions between the Group and the Shougang Corporation Group. Nevertheless, we consider that in determining the Caps, apart from the historical amounts of transactions, other factors such as the sales and production plan of the Group and the price fluctuation of the raw materials and steel related products should also be taken into consideration, which are more particularly discussed below.

(ii) *Sales and production plan*

In the past few years, the excessive production and imbalance between supply and demand led to a weak steel industry, resulting in the decrease of production. The management of the Group considered that the policies adopted by the PRC government towards urbanisation and accelerated consolidation of the steel industry in future will be conducive to the turnaround of the steel industry in the coming years. We are advised that the annual production capacities of slab and heavy plate of the Group had reached 3.6 million tonnes and 2.6 million tonnes respectively, which was utilised for about 70% for slabs and about 90% for heavy plates in 2011 and 2012. The management of the Group expects that the annual production of the Group will increase upon the recovery of the steel industry.

In determining the Caps for the Sales, the Company has taken into consideration the Group's maximum annual production capacity, the increased proportion of sales of products to the Shougang Corporation Group and the quantity of iron ore supplied by Mt. Gibson under the offtake agreements. The Caps for the Purchases on the other hand have taken into consideration the maximum annual production capacity of the Group, the historical ratio for raw material usage per tonne of product output, and the increased proportion of purchases of materials from the Shougang Corporation Group. In light of the historical utilisation of production capacity as described above which accounted for a substantial percentage of the maximum production capacity, we consider it reasonable to use the Group's maximum

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annual production capacity for the purposes of setting the Caps given that there is possibility that the capacity will be fully utilised when the steel market recovers from its downturn in recent years.

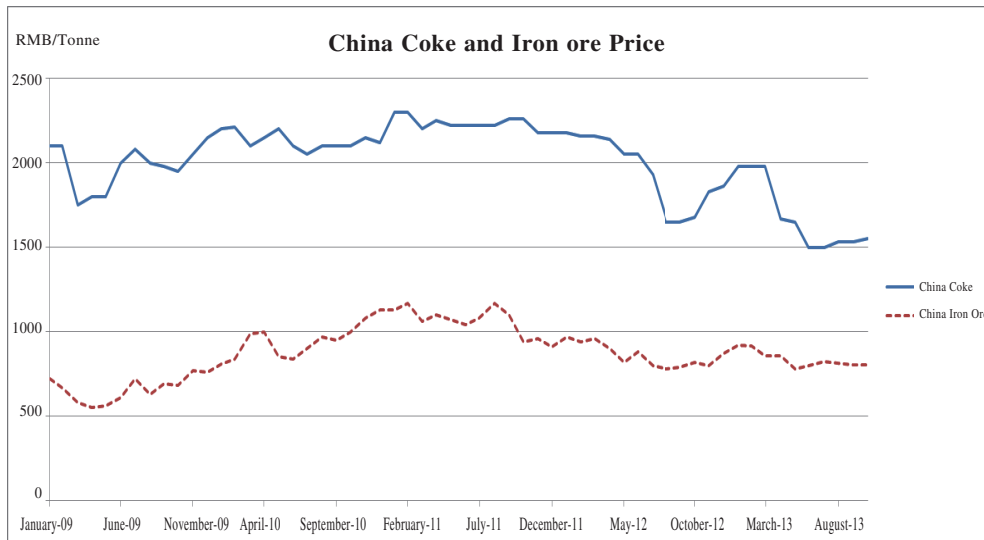
We understand from the management of the Group that the projected proportion of sales to and purchases from the Shougang Corporation Group were estimated with reference to (i) the historical proportion of sales and purchases to/from the Shougang Corporation Group; and (ii) the anticipated increase in demand from the Shougang Corporation Group as a result of the possible recovery of the steel industry. We have reviewed the historical proportion of sales to and purchases from the Shougang Corporation Group and note that the projected proportion adopted in the Caps are higher than the historical proportion. We have discussed with the management of the Group on the basis of the projected proportion, and understand that the following factors have been taken into consideration: (i) as discussed in the paragraph headed “Background to and reasons for the Master Agreement” above, production of iron ore in the PRC is not sufficient to meet demand. As iron ore is a key material used in the Group’s steel production, the Caps for the Purchases have provided for a high proportion of purchases of iron ore from the Shougang Corporation Group to cater for unexpected circumstances when the Group is unable to source iron ore from independent suppliers due to exceptionally high demand; (ii) in respect of the projected proportion of Sales, it is possible that the Group may expand its sales to the Shougang Corporation Group in light of the better payment history and strong financial background of the Shougang Corporation Group. The average age of trade receivables from the Shougang Corporation Group for 2012 is 17 days, versus 61 days for trade receivables from other customers; and (iii) the increased proportion of sales to and purchases from the Shougang Corporation Group provides buffer to cope with unforeseen events due to changes in market conditions and possible speedy recovery of the steel market.

Based on the above, we are of the view that it is in the interests of the Company to set the Caps based on the Group’s maximum production capacity and an increased proportion of sales to and purchases from the Shougang Corporation Group according to its sales and production plan for the following reasons: (i) the Continuing Connected Transactions contemplated under the Master Agreement are in the ordinary and usual course of business of the Group and the Shougang Corporation Group and will be conducted on normal commercial terms; (ii) there are sufficient internal control and review procedures in place as part of the Group’s internal policies as discussed in the sub-paragraph headed “Pricing mechanism and payment” under the paragraph headed “Principal terms of the Master Agreement” above and in compliance with the Listing Rules as discussed in the section headed “Annual review of the Continuing Connected Transactions” below to ensure that the Continuing Connected Transactions will be conducted on terms no less favourable than those available to/from independent third parties; (iii) the Caps do not impose obligations on the part of the Group to source materials or sell products to the Shougang Corporation Group on an exclusive basis. Neither are the Caps meant to be targets which the Group or the Shougang Corporation Group is obliged to achieve. Instead, the Caps serve to provide sufficient flexibility for the Group to manage its business with the Shougang Corporation Group, capture business opportunities and increase the transaction volume with the Shougang Corporation Group should the steel industry recovers in the following three financial years; (iv) the Caps will prevent the Group from being unduly restricted in conducting business with the Shougang Corporation Group as long as the Continuing Connected Transactions are conducted under proper corporate governance measures on normal commercial terms and on terms no less favourable than those available to/from independent third parties; and (v) in the event that the actual Purchases and Sales exceed the Caps during the term of the Master Agreement, the Company has to incur additional compliance cost and time to revise the Caps if it wishes to continue its businesses with the Shougang Corporation Group, which would not be in the overall interests of the Company and the Shareholders.

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(iii) *Anticipated increase in the prices of raw materials and steel products*

The charts below illustrate the trends of prices for raw materials, including iron ore and coke, and steel plates in the past five years from 2009 to 2013:



Source: Bloomberg



Source: Bloomberg

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Significant fluctuations in prices of raw materials for steel production, including iron ore and coke, and prices of steel plates were noted in recent years. Based on the latest data extracted from Bloomberg, during the five years from 2009 to 2013, (i) price of coke increased by approximately 27.8% from approximately RMB1,800 per tonne in April 2009 to approximately RMB2,300 per tonne in February 2011, and subsequently decreased to approximately RMB1,550 per tonne in October 2013, representing a decrease of approximately 32.6%; (ii) prices of iron ore reached the peak in February 2011, representing an increase of approximately 112.7% from approximately RMB550 per tonne in April 2009 to approximately RMB1,170 per tonne in February 2011, and subsequently dropped to approximately RMB805 per tonne in October 2013, representing a decrease of approximately 31.2%; and (iii) prices of steel plates reached the peak in April 2011, representing an increase of approximately 52.9% from approximately RMB3,273 per tonne in April 2009 to approximately RMB5,005 per tonne in April 2011, and subsequently decreased to approximately RMB3,421 per tonne in October 2013, representing a decrease of approximately 31.6%. The management of the Group considered that in view of the high volatility of the prices of iron ore, coke, steel and its related materials, the Company requires flexibility in setting the Caps for the Continuing Connected Transactions.

We understand from the management of the Group that in determining the Caps, the Company has also considered the possible recovery of demand for raw materials after the steel industry in the PRC underwent a downturn during the previous years and the potential increase in the price of raw materials and the selling price of steel products. For the purpose of determining the Caps for the year ending 31 December 2014, the Company has adopted the average sales or purchases price of the products or raw materials for the first half of year 2013, plus a 3% to 20% buffer for possible price increment for different types of products or raw materials. For the years ending 31 December 2015 and 31 December 2016, further buffer for possible price increment ranging from 6% to 16% are provided for on top of the projected price in the preceding year. Having considered (i) the historical price fluctuations and high volatility of coke, iron ore and steel plate prices as discussed above; and (ii) the anticipated increment in the prices of the raw materials and steel plates adopted in setting the Caps are within the range of their respective historical price fluctuations, we are of the view that it is fair and reasonable to provide buffers in setting the Caps to cater for the possible increase in the prices of the raw materials and steel products and that the pricing factor adopted by the Company in determining the Caps is reasonable.

(iv) Anticipated appreciation of Renminbi

Given that the Continuing Connected Transactions are mainly transacted in Renminbi whereas the Caps as well as the financial statements of the Group are denominated in Hong Kong dollars, the effect of exchange rate fluctuation in Renminbi against Hong Kong dollars is relevant to the determination of the Caps. The management of the Group advised that the Caps have provided for the anticipated appreciation of Renminbi against Hong Kong dollars with a forecast compound annual growth rate of approximately 2.6%. According to Bloomberg, Renminbi has appreciated against Hong Kong dollars from HK\$1 to RMB0.88 as at 1 January 2009 to approximately HK\$1 to RMB0.79 as at the Latest Practicable Date, representing a compound annual growth rate of approximately 2.2%. In light of this, we consider the currency appreciation factor adopted in estimating the Caps to be fair and reasonable, and that it is reasonable to take into consideration this factor in arriving at the Caps.

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(v) *Our view*

Although the Caps are larger as compared to the historical actual amounts of the Sales and Purchases in 2012, we are of the view that it is reasonable for the Group to set the Caps to provide sufficient flexibility for the Group to conduct business with the Shougang Corporation Group in the event that both prices and quantities of the Purchases and the Sales increase significantly at the same time. It would also be in the interests of the Company to continue or expand its business relationship with the Shougang Corporation Group, provided that there are sufficient measures in place to ensure that the Continuing Connected Transactions are to be entered into on normal commercial terms which are no less favourable to the Group than those with independent third parties and that the Master Agreement does not impose restrictions on the Group to purchase materials or sell its products to the Shougang Corporation Group on an exclusive basis.

Taking into account the above, we consider that the Caps which allow the Group to expand its business with the Shougang Corporation Group on terms no less favourable than those available to/from independent third parties are fair and reasonable and in the interest of the Company and the Shareholders as a whole. Notwithstanding the above, we would like to highlight that as the Caps relate to future events and are based upon assumptions that may or may not remain valid for the entire term of the Master Agreement up to 31 December 2016, we express no opinion as to how closely the actual Purchases and Sales from/to the Shougang Corporation Group shall correspond to the Caps.

ANNUAL REVIEW OF THE CONTINUING CONNECTED TRANSACTIONS

Pursuant to Rules 14A.37 to 14A.40 of the Listing Rules, the Continuing Connected Transactions are subject to the following annual review and reporting requirements:

- (i) each year the independent non-executive Directors must, in accordance with Rule 14A.37 of the Listing Rules, review annually the Continuing Connected Transactions and confirm in the Company's annual report and accounts that the Continuing Connected Transactions have been entered into:
 - (a) in the ordinary and usual course of business of the Company;
 - (b) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and
 - (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (ii) each year the auditor of the Company must, in accordance with Rule 14A.38 of the Listing Rules, review annually the Continuing Connected Transactions and they will confirm in a letter to the Board (a copy of which will be provided to the Stock Exchange at least 10 business days prior to the bulk printing of the annual report of the Company) whether the Continuing Connected Transactions:

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- (a) have received the approval of the Board;
 - (b) are in accordance with the pricing policies of the Group;
 - (c) have been entered into in accordance with the relevant agreements governing the Continuing Connected Transactions; and
 - (d) have not exceeded the relevant Caps;
- (iii) the Company shall promptly notify the Stock Exchange and publish an announcement in accordance with the Listing Rules if it knows or has reason to believe that the independent non-executive Directors and/or the auditor of the Company will not be able to confirm the matters set out in points (i) and/or (ii) above respectively; and
- (iv) the Company shall allow, and procure that the Shougang Corporation Group shall allow, the auditor of the Company to have sufficient access to the relevant records of the Continuing Connected Transactions for the purpose of the auditor's review as referred to in point (ii) above.

In light of the reporting requirements attached to the Continuing Connected Transactions, in particular, (i) the restriction of the amount of the Continuing Connected Transactions by way of the Caps; (ii) the ongoing review by the independent non-executive Directors and auditor of the Company regarding the terms of the Continuing Connected Transactions; and (iii) the continuing review by the auditor of the Company confirming the Caps not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the Continuing Connected Transactions and safeguard the interests of the Independent Shareholders.

OPINION

Having taking into account the above principal factors and reasons, we consider that the transactions contemplated under the Master Agreement are in the ordinary and usual course of business of the Group and the Master Agreement is on normal commercial terms. We also consider that the terms of the Master Agreement and the Caps are fair and reasonable so far as the Independent Shareholders are concerned and the entering into of the Master Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the Resolution to be proposed at the EGM to approve the Master Agreement and the Caps.

Yours faithfully,
for and on behalf of
Optima Capital Limited
Beatrice Lung
Managing Director

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 and short positions 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 for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”), to be notified to the Company and the Stock Exchange were as follows:

(i) Long positions in the shares and underlying shares of the Company

Name of Director	Capacity in which interests were held	Number of shares/underlying shares in the Company			Total interests as to % of the issued share capital of the Company as at the Latest Practicable Date
		Interests in Shares	Derivative interests*	Total interests	
Li Shaofeng	Beneficial owner	–	20,000,000	20,000,000	0.22%
Zhang Wenhui	Beneficial owner	–	35,000,000	35,000,000	0.39%
Chen Zhouping	Beneficial owner	–	45,000,000	45,000,000	0.50%
Ip Tak Chuen, Edmond	Beneficial owner	2,290,000	–	2,290,000	0.02%
Leung Shun Sang, Tony	Beneficial owner	7,590,000	–	7,590,000	0.08%
Kan Lai Kuen, Alice	Beneficial owner	–	1,500,000	1,500,000	0.01%
Wong Kun Kim	Beneficial owner	–	1,500,000	1,500,000	0.01%
Leung Kai Cheung	Beneficial owner	–	1,500,000	1,500,000	0.01%

* The interests are unlisted physically settled options granted pursuant to the Company's share option scheme adopted on 7 June 2002 (the “**Scheme**”). Upon exercise of the share options in accordance with the Scheme, Shares are issuable. The share options are personal to the respective Directors.

- (ii) *Long positions in the shares and underlying shares of Shougang Concord Century Holdings Limited (“Shougang Century”), an associated corporation of the Company*

Name of Director	Capacity in which interests were held	Number of shares/underlying shares in Shougang Century			Total interests as to % of the issued share capital of Shougang Century as at the Latest Practicable Date
		Interests in shares	Derivative interests*	Total interests	
Li Shaofeng	Beneficial owner	7,652,000	13,800,000	21,452,000	1.11%
Chen Zhouping	Beneficial owner	7,652,000	–	7,652,000	0.39%
Leung Shun Sang, Tony	Beneficial owner	7,652,000	12,000,000	19,652,000	1.02%

* The interests are unlisted physically settled options.

- (iii) *Long positions in the shares and underlying shares of Shougang Fushan Resources Group Limited (“Shougang Resources”), an associated corporation of the Company*

Name of Director	Capacity in which interests were held	Number of shares/underlying shares in Shougang Resources			Total interests as to % of the issued share capital of Shougang Resources as at the Latest Practicable Date
		Interests in shares	Derivative interests*	Total interests	
Chen Zhouping	Beneficial owner	–	6,000,000	6,000,000	0.11%
Leung Shun Sang, Tony	Beneficial owner	–	6,000,000	6,000,000	0.11%

* The interests are unlisted physically settled options.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which 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 of the Company 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 in the shares and/or underlying shares of the Company 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 of the Company

Name of shareholder	Capacity in which interests were held	Number of shares/ underlying shares	Interests as to % of the issued share capital of the Company as at the Latest Practicable Date	<i>Notes</i>
Shougang Holding	Beneficial owner, interests of controlled corporations	4,214,625,699	47.04%	1
China Gate Investments Limited ("China Gate")	Beneficial owner	2,757,829,774	30.78%	1
Grand Invest International Limited ("Grand Invest")	Beneficial owner	768,340,765	8.57%	1
Cheung Kong (Holdings) Limited ("Cheung Kong")	Interests of controlled corporations	455,401,955	5.08%	2, 3
Li Ka-shing	Interests of controlled corporations, founder of discretionary trusts	455,401,955	5.08%	3
Li Ka-Shing Unity Trustee Company Limited ("TUT1")	Trustee	455,401,955	5.08%	3
Li Ka-Shing Unity Trustee Corporation Limited ("TDT1")	Trustee, beneficiary of a trust	455,401,955	5.08%	3
Li Ka-Shing Unity Trustcorp Limited ("TDT2")	Trustee, beneficiary of a trust	455,401,955	5.08%	3

Notes:

1. Shougang Holding indicated in its disclosure form dated 7 September 2011 (being the latest disclosure form filed up to the Latest Practicable Date) that as at 6 September 2011, its interests included the interests held by China Gate and Grand Invest respectively, both were wholly-owned by Shougang Holding.
2. Cheung Kong indicated in its disclosure form dated 27 February 2009 (being the latest disclosure form filed up to the Latest Practicable Date) that as at 24 February 2009, 430,274,586 Shares were held by two wholly-owned subsidiaries of Cheung Kong and 25,127,369 Shares were held by CEF Holdings Limited which in turn was held as to 50% by Cheung Kong. Accordingly, Cheung Kong was interested in an aggregate of 455,401,955 Shares.
3. Mr. Li Ka-shing indicated in his disclosure form dated 17 July 2012 (being the latest disclosure form filed up to the Latest Practicable Date) that as at 16 July 2012, his interests in the Company were held by Cheung Kong which in turn was held as to 40.43% by TUT1. TUT1 was wholly-owned by Li Ka-Shing Unity Holdings Limited (“Unity Holdco”) which in turn was held as to 33.33% by Mr. Li Ka-shing. TDT1 and TDT2, both wholly-owned subsidiaries of Unity Holdco, were deemed to be interested in the shares of the Company which TUT1 was interested in. The long position in the 455,401,955 shares of the Company held by Cheung Kong, Mr. Li Ka-shing, TUT1, TDT1 and TDT2 were the same block of shares.

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 of the Company which fell to be disclosed to the Company under 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 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’ INTERESTS IN COMPETING BUSINESSES

As at the Latest Practicable Date, the interests of the Directors in the businesses (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 are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group were as follows:

Name of Director	Name of entity whose businesses were considered to compete or likely to compete with the businesses of the Group	Description of businesses of the entity which were considered to compete or likely to compete with the businesses of the Group	Nature of interest of the Director in the entity
Xu Ning	Shougang Corporation [#]	Steel manufacturing, trading of iron ore and steel products, and mineral exploration	Director
Li Shaofeng	Shougang Holding [#]	Steel manufacturing, and trading of iron ore and steel products	Director
Zhang Wenhui	Shougang Holding [#]	Steel manufacturing, and trading of iron ore and steel products	Director
Chen Zhouping	Shougang Holding [#]	Steel manufacturing, and trading of iron ore and steel products	Director

[#] Such businesses may be carried out through its subsidiaries or associates of the entity concerned or by way of other forms of investments.

5. 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 2012, being the date to which the latest audited financial statements of the Company were made up.

6. EXPERT'S QUALIFICATION AND CONSENT

Optima 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 is the qualification of the expert who has given its opinions or advices which are contained in this circular:

Name	Qualification
Optima	a corporation licensed to conduct Type 1 (dealing in securities) and Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, Optima 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 2012, 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.

7. GENERAL

- (a) 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 2012, being the date to which the latest published audited accounts of the Company were made up, and up to the Latest Practicable Date.
- (b) As at the Latest Practicable Date, 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.

- (c) As at the Latest Practicable Date, Mr. Xu Ning was a director of Shougang Corporation, and each of Mr. Xu Ning, Mr. Li Shaofeng, Mr. Zhang Wenhui and Mr. Chen Zhouping was a director of Shougang Holding. Each of Mr. Li Shaofeng, Mr. Zhang Wenhui and Mr. Chen Zhouping was also a director of China Gate and Grand Invest. Mr. Ip Tak Chuen, Edmond was a director of Cheung Kong. Each of Shougang Holding, China Gate, Grand Invest and Cheung Kong had interests in the Shares which fell to be disclosed under Divisions 2 and 3 of Part XV of the SFO, details of which are set out in paragraph 2(b) above of this Appendix. Save as disclosed in this paragraph, none of the Directors or proposed Director was a director or employee of a company which had an interest in the shares and underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.
- (d) The company secretary of the Company is Ms. Cheng Man Ching, a fellow member of each of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries and an associate member of the Hong Kong Institute of Bankers. She holds a master degree in business administration and a master degree in arts.
- (e) The registered office of the Company is 7th Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (f) The share registrars of the Company is Tricor Tengis Limited located at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (g) The English text of this circular shall prevail over their respective Chinese text for the purpose of interpretation.

8. 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 EGM:

- (a) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 10 of this circular;
- (b) the letter from Optima to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 11 to 22 of this circular;
- (c) the written consent from Optima referred to in the paragraph headed "Expert's Qualification and Consent" in this Appendix;
- (d) the Master Agreement; and
- (e) this circular.

NOTICE OF EGM



首長國際企業有限公司
SHOUGANG CONCORD INTERNATIONAL ENTERPRISES COMPANY LIMITED
(Incorporated in Hong Kong with limited liability)
(Stock Code: 697)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**EGM**”) of Shougang Concord International Enterprises Company Limited (the “**Company**”) will be held at 3:00 p.m. on Friday, 27 December 2013 at 2nd Floor, The Function Room, The Harbourview, 4 Harbour Road, Wanchai, Hong Kong for the purpose of considering and, if thought fit, passing the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“**THAT:**

- (a) the master agreement dated 4 December 2013 (the “**Master Agreement**”) entered into between Shougang Corporation (“**Shougang Corporation**”) and the Company, a copy of which is tabled at the meeting and marked “A” and initialed by the chairman of the meeting for identification purpose, pursuant to which, Shougang Corporation and/or its associates will provide raw materials, materials, fuel, energy, equipment, spare parts, steel products, leasing and services (the “**Purchases**”) to the Company and its subsidiaries (the “**Group**”) and the Group will provide raw materials, scrap materials, steel products, leasing and services (the “**Sales**”) to Shougang Corporation and/or its associates (the Sales and the Purchases collectively, the “**Transactions**”), be and is hereby approved, confirmed and ratified;
- (b) the cap amounts in respect of the Purchases and the Sales as set out in the circular of the Company dated 9 December 2013 for each of the three financial years ending 31 December 2016 be and are hereby approved; 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/them to be incidental to, ancillary to or in connection with the matters contemplated in the Master Agreement and to give effect to the Transactions.”

By order of the Board
Shougang Concord International Enterprises Company Limited
Li Shaofeng
Managing Director

Hong Kong, 9 December 2013

NOTICE OF EGM

Registered office:

7th Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai, Hong Kong

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 appointor or of his/her attorney duly authorised in writing or, if the appointor 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 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 registrars of the Company, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting thereof (as the case may be).
4. Completion and return of the form of proxy shall not preclude a member 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.
5. 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.