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If you are in any doubt as to any aspect of this circular, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Shougang Concord Grand (Group) Limited, you should at once hand this circular 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 transferee.

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首長四方（集團）有限公司*
SHOUGANG CONCORD GRAND (GROUP) LIMITED
(Incorporated in Bermuda with limited liability)
(Stock Code: 730)

**CONTINUING CONNECTED TRANSACTION
AND
NOTICE OF SPECIAL GENERAL MEETING**

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

MESSIS  **大有融資**

A letter from the Board is set out on pages 4 to 17 of this circular and letters from the Independent Board Committee to the Independent Shareholders is set out on pages 18 to 19 of this circular. A letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 20 to 48 of this circular.

A notice convening the Special General Meeting to be held at The Function Room, 2nd Floor, The Harbourview, 4 Harbour Road, Wanchai, Hong Kong on Friday, 7 December 2018 at 10:30 a.m. is set out on pages 54 to 55 of this circular. A form of proxy for the Special General Meeting for use by the Shareholders is enclosed with this circular.

Whether or not you are able to attend the Special General Meeting in person, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's Hong Kong branch share registrar and transfer office, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as practicable and in any event not later than 48 hours before the time designated for holding the Special General Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the Special General Meeting or at any adjourned meeting should you so wish.

20 November 2018

* For identification purpose only

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DEFINITIONS

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

“2015 Master Facilities Agreement”	the agreement dated 26 March 2015 entered into between the Company and Shougang Group in relation to the provision by the Group of financing facilities to Shougang Group;
“associate”	has the meaning ascribed to it under the Listing Rules;
“Board”	the board of directors of the Company;
“Company”	Shougang Concord Grand (Group) Limited, a company incorporated in Bermuda with limited liability, the securities of which are listed on the main board of the Stock Exchange;
“connected person”	has the same meaning ascribed to it under the Listing Rules;
“Directors”	directors of the Company;
“Facilities”	the facilities of up to an aggregate principal amount of RMB5,000,000,000 (equivalent to approximately HK\$6,106,000,000) to be provided by members of the Group to Shougang Group and/or its subsidiaries under the Master Facilities Agreement;
“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;
“Independent Financial Adviser”	Messis Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders on the terms of the Master Facilities Agreement;

DEFINITIONS

“Independent Shareholders”	Shareholders other than Shougang Group and its associates;
“Latest Practicable Date”	16 November 2018, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Loan”	each advance (entrusted payment, finance lease or credit financing) under the Master Facilities Agreement extended by the Group to Shougang Group and/or its subsidiaries;
“Master Facilities Agreement”	the agreement dated 8 June 2018 between the Company and Shougang Group pursuant to which the Company has conditionally agreed to provide or procure its subsidiaries to provide financing to Shougang Group and/or its subsidiaries for a term of 3 years;
“PRC”	the People’s Republic of China, which, for the purpose of this circular, does not include Hong Kong, Macao Special Administrative Region and Taiwan;
“RMB”	Renminbi, the lawful currency of the PRC;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company;
“Shareholder(s)”	the holder(s) of the ordinary share(s) of HK\$0.01 each in the share capital of the Company;
“Shougang Group”	Shougang Group Co., Ltd., a state-owned enterprise established in the PRC and the holding company of Shougang Holding;
“Shougang Holding”	Shougang Holding (Hong Kong) Limited, a company incorporated in Hong Kong and the controlling shareholder of the Company, which through its wholly-owned subsidiaries, held approximately 50.53% of the issued share capital in the Company as at the Latest Practical Date;

DEFINITIONS

“South China Leasing”	South China International Leasing Company Limited, a company established in the PRC and an indirect non wholly-owned subsidiary of the Company;
“Special General Meeting”	the special general meeting of the Company to be convened and held at The Function Room, 2nd Floor, The Harbourview, 4 Harbour Road, Wanchai, Hong Kong on Friday, 7 December 2018 at 10:30 a.m. for the Independent Shareholders to approve the Master Facilities Agreement;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“%”	per cent.

LETTER FROM THE BOARD



首長四方（集團）有限公司*
SHOUGANG CONCORD GRAND (GROUP) LIMITED
(Incorporated in Bermuda with limited liability)
(Stock Code: 730)

Directors:

Mr. Xu Liang (*Chairman*)
Mr. Liu Dongsheng (*Managing Director*)
Mr. Huang Donglin (*Non-executive Director*)
Mr. Tam King Ching, Kenny
(*Independent Non-executive Director*)
Mr. Yip Kin Man, Raymond
(*Independent Non-executive Director*)
Mr. Fei Jianjiang
(*Independent Non-executive Director*)
Mr. Wan Siu Wah, Wilson
(*Independent Non-executive Director*)

Registered office:

Canon's Court
22 Victoria Street
Hamilton, HM 12
Bermuda

Principal office in Hong Kong:

5/F
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

Hong Kong, 20 November 2018

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTION
AND
NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

Reference is made to the announcement of the Company dated 8 June 2018 in relation to the Master Facilities Agreement.

The purpose of this circular is:

- (i) to provide the Shareholders with further details of the Master Facilities Agreement and the transactions contemplated thereunder;

* For identification purpose only

LETTER FROM THE BOARD

- (ii) to set out the opinion of the Independent Financial Adviser on the terms of the Master Facilities Agreement and the transactions contemplated thereunder;
- (iii) to set out the recommendation of the Independent Board Committee in respect of the terms of Master Facilities Agreement and the transactions contemplated thereunder; and
- (iv) to give the Shareholders notice of the Special General Meeting to consider and, if thought fit, to approve the Master Facilities Agreement and the transactions contemplated thereunder.

THE MASTER FACILITIES AGREEMENT

On 8 June 2018, the Company and Shougang Group entered into the Master Facilities Agreement.

Major terms of the Master Facilities Agreement

Subject matter : The Company may at its absolute discretion provide or procure its subsidiaries to provide the Facilities to Shougang Group and/or its subsidiaries (including direct and/or indirect subsidiaries) from time to time during the term of the Master Facilities Agreement.

The Group will finance the provision of the Facilities by bank borrowing and/or internal resources.

Term : A period commencing from the date on which the Master Facilities Agreement becoming effective and the third anniversary thereof.

Principal amount : An aggregate principal amount of up to RMB5,000,000,000 (equivalent to approximately HK\$6,106,000,000).

The provision of the Facilities is subject to the maximum outstanding balance of the Facilities owed by Shougang Group and its subsidiaries for each relevant year will not exceed RMB1,500,000,000 (equivalent to approximately HK\$1,831,800,000).

Term of each Loan : The term of each Loan will be negotiated on a case-by-case basis subject to a maximum of 3 years from the date of the relevant Loan.

LETTER FROM THE BOARD

Guarantee : Shougang Group will guarantee the obligations of the relevant member(s) of Shougang Group as borrower(s) under each Loan.

Conditions precedent : The provision of the Facilities is subject to approval by the Independent Shareholders of the Master Facilities Agreement and the transactions contemplated thereunder at a general meeting of the Company.

Methods : The Facilities will be provided by the Group to Shougang Group and its subsidiaries by way of the following methods (each a “Loan”):

(a) Entrusted payment:

Entrusted payment amount : The Company and/or its subsidiaries may, at the request of the relevant member of Shougang Group as the borrower and at the Company’s discretion, make the payment to an intended payee on behalf of the borrower for procurement of the purchased items. The relevant parties will enter into individual agreements with respect to each Loan.

The loan amount under each entrusted payment shall be equivalent to the purchase price of the purchased item, but in any event, shall not exceed the unutilized portion of the Facilities.

Purchased items : The items to be used by Shougang Group and/or its subsidiaries in their respective ordinary course of business.

Interest rate : The interest rate payable by the relevant borrower shall be at a rate equal to the cost of lending of the Group plus 1% to 5%, subject to a cap of 10%. The Company and the relevant borrower may also agree on any other interest rate in respect of a Loan. If such other interest rate falls outside the parameter of the Master Facilities Agreement, the Company will comply with the requirements of the Listing Rules with respect to such Loan.

LETTER FROM THE BOARD

- Repayment date of the entrusted payment and interest : Unless otherwise agreed, the repayment amount under each entrusted payment, together with accrued interest, shall be at the end of the term of the relevant entrusted payment.
- Handling fee : The Group shall be entitled to charge the relevant borrower for each entrust payment a non-refundable handling fee of not more than 1.5% of the principal amount of the entrusted payment. Such handling fee shall be payable by the borrower at least five business days before the date of the entrusted payment.
- (b) Finance lease:**
- Finance lease amount : The finance lease amount under each finance lease shall be equivalent to the purchase price of the leased items, but in any event, shall not exceed the unutilized portion of the Facilities. The relevant parties will enter into individual agreements with respect to each Loan.
- Leased items : The leased items will be equipment and/or properties to be used by Shougang Group and/or its subsidiaries in their ordinary course of business.
- Interest rate : The interest rate payable by the relevant lessee shall be at a rate equal to the cost of lending of the Group plus 1% to 5%, subject to a cap of 10%. The Company and the relevant lessee may also agree on any other interest rate in respect of a Loan. If such other interest rate falls outside the parameter of the Master Facilities Agreement, the Company will comply with the requirements of the Listing Rules with respect to such Loan.
- Payment date of the finance lease and interest : Unless otherwise agreed, the payment under each finance lease and the interest accrued shall be paid on a quarterly basis on the 21st day of March, June, September and December.

LETTER FROM THE BOARD

Handling fee : The Group shall be entitled to charge the relevant lessee for each finance lease a non-refundable handling fee of not more than 1.5% of the principal amount of the finance lease. Such handling fee shall be payable at least five business days before the drawdown of the fund.

Security deposit : The Group shall be entitled to a security deposit of not more than 5% of the loan amount under the finance lease to be made by the relevant lessee five Business Days before commencement of the relevant finance lease.

Lessee's option to purchase : At the end of the finance lease, the relevant lessee will have the right to purchase the leased items at a nominal purchase price equal to 0.01% of the loan amount of the finance lease.

(c) Credit financing:

Credit financing amount : The credit financing amount shall be such amount requested by the relevant member of Shougang Group, but in any event, shall not exceed the unutilized portion of the Facilities.

Interest rate : The interest rate payable by the relevant borrower shall be at a rate equal to the cost of lending of the Group plus 1% to 5%, subject to not being more than 10%. The Company and the relevant borrower may also agree on any other interest rate in respect of a Loan. If such other interest rate falls outside the parameter of the Master Facilities Agreement, the Company will comply with the requirements of the Listing Rules with respect to such Loan.

Repayment date of the credit financing facility and interest : Unless otherwise agreed, the outstanding principal of the credit financing facility shall be repayable at the expiry of the term of the credit financing facility and the interest accrued shall be paid on a quarterly basis on the 21st day of March, June, September and December.

LETTER FROM THE BOARD

Handling fee : The Group shall be entitled to charge the relevant borrower a non-refundable handling fee of not more than 1.5% of the principal amount of the credit financing facility. Such handling fee shall be payable at least five business days before the drawdown of the credit financing facility.

Basis of determination of the Facilities

The aggregate principal amount of the Facilities was determined after arm's length negotiations between the parties with reference to (i) the historical transaction amounts between the parties; (ii) the capability of the Group to raise the necessary funds to finance the provision of the Facilities, and (iii) the financing needs of Shougang Group and its subsidiaries. The Group entered into the 2015 Master Facilities Agreement with Shougang Group for the provision of financing facilities to Shougang Group and/or its subsidiaries. The 2015 Master Facilities Agreement was approved by the then Independent Shareholders at the special general meeting held on 19 June 2015 and the Group has been providing financing facilities to Shougang Group and/or its subsidiaries in its ordinary course of business since then. Set out below is the actual amount of the facilities used by Shougang Group and/or its subsidiaries for the three years ended 31 December 2017 and the six months ended 30 June 2018:

	For the year ended 31 December			For the six months ended
	2015	2016	2017	30 June 2018
	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>
Approved amount of the facilities	8,000	8,000	8,000	8,000
Actual amount of facilities used	1,500	1,750	2,000	2,060
Annual cap	5,000	5,000	5,000	5,000
Outstanding balance	1,537	1,374	1,114	921

The low historical transaction amounts as compared to the annual caps set under the 2015 Master Facilities Agreement were due to the parties could not conclude on certain commercial terms of the individual Loans, including the failure by the parties to agree on the payment terms, which resulted in the lower than expected utilization of the facilities under the 2015 Master Facilities Agreement. As such, the maximum amount of the Facilities under the Master Facilities Agreement has been adjusted and is lower than the 2015 Master Facilities Agreement.

The Master Facilities Agreement has a term of three years and the duration for each Loan under the Master Facilities Agreement shall not exceed three years from the date of the relevant Loan.

LETTER FROM THE BOARD

The annual cap of the Facilities for each of the financial years ending 31 December 2018 to 2024 shall be RMB1,500,000,000 each year, taken into account of the expected level of financing required by Shougang Group and its subsidiaries based on published public information on Shougang Group, and the amount of financing that the Group is expected to be able to secure to finance the Facilities, for each relevant year.

Given that the annual caps of the Master Facilities Agreement were determined with reference to the expected demand of financing by Shougang Group and its subsidiaries, the Directors (excluding Mr. Xu and Mr. Liu who are considered to be interested in the transactions contemplated thereunder and the independent non-executive Directors whose view are set out in the letter from the Independent Board Committee) are of the view that the amount of the Facilities and the annual caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Basis of determining the interest rate

The range of interest rate were determined after arm's length negotiations between the parties with reference to the prevailing market rate and a margin, which will be added to the cost of lending by the Group so as to ensure that the Group can earn a net income for providing the Facilities under the Master Facilities Agreement.

Currently, there are notable differences in the interest rates offered by the banks in Hong Kong and those in the PRC. This represents an opportunity for the Group, as the Group is able to seek financing in Hong Kong while extending financing in the PRC so as to earn the spread. The Company has been determining the exact interest rate to be charged for each of the Loans based on (a) the prevailing market interest rate at the relevant time; and (b) the risk profile of the relevant entrusted payment or finance lease and the then business and financial conditions of the relevant subsidiary of Shougang Group being the borrower or the lessee.

Going forward, in determining the interest rate to be charged, the Group will approach at least three banks to seek for specific bank loan for the relevant project to determine the cost of the fund to the Group. The Group would then evaluate the credit risk of the borrower and/or lessee by reviewing its financial position and its ability to repay the Loan, and any assets or guarantee that may be provided as security. A margin would then be added based on the overall risk profile and collaterals that may be secured in respect of the Loan. In addition, the Group would evaluate if it has idle funds at the time. In such event, the Group would further evaluate the deposit rate for the idle fund and the lending rate that it could secure based on the risk profile and collaterals that may be secured in respect of the Loan.

LETTER FROM THE BOARD

The Group will apply the above policy in determining interest rate for all financing or leasing transactions of the Group irrespective of whether the transaction is with a connected person or an independent third-party customer. The Directors (excluding Mr. Xu and Mr. Liu who are considered to be interested in the transactions contemplated thereunder and the independent non-executive Directors whose view are set out in the letter from the Independent Board Committee) consider that the pricing policy described above is fair and reasonable, on normal commercial terms, and is in the interest of the Company and the Shareholders as a whole.

INFORMATION ON SHOUGANG GROUP

Shougang Group is a company established in the PRC and is the holding company of Shougang Holding. Shougang Group is a state-owned enterprise wholly owned by Beijing Holders of State-owned Capital Management Centre (北京國有資本經營管理中心) which is in turn wholly owned by Beijing Municipal People's Government State-owned Assets Supervision and Administration Commission (北京市國有資產監督管理委員會).

Shougang Group is one of the largest steel production enterprises in the PRC and is principally engaged in a wide range of business, including steel and iron production, overseas business, property development, mining resources and other businesses.

REASONS FOR THE MASTER FACILITIES AGREEMENT

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of (i) financial services and investment, and (ii) property investment and management.

South China Leasing, an indirect non-wholly owned subsidiary of the Company, is a prominent leasing company in the PRC. The entering into of the Master Facilities Agreement is in the ordinary and usual course of business of the Company and will enable the Group to earn a net interest income under the Master Facilities Agreement. The transactions contemplated under the Master Facilities Agreement will be mostly funded by bank borrowings and the terms will basically be set on a back-to-back basis, so as to minimize the exposure to the Company on any fluctuations in borrowing costs.

The Group aims at sourcing customers in the finance lease segment with sufficient assets and good credit in order to safeguard the credit risks of the Group. Shougang Group has substantial assets and a good credit history with reliable repayment capability. As the Group has been providing financing facilities to Shougang Group and its subsidiaries, the Master Facilities Agreement will enable the Group to continue to provide financing services to a trusted customers group. As such, the Company considers that there is no material disadvantage in entering into of the Master Facilities Agreement and that the entering into of the Master Facilities Agreement is in the interest of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

POLICY AND INTERNAL CONTROL OF THE GROUP

As stated above, Shougang Group has good credit history with reliable repayment capability and is a good customer of the Group. In addition, the Group has the absolute discretion on whether or not to provide the Loan under the Facilities at the relevant time.

In respect of each Loan under the Facilities, the business department of the Group will first submit a project proposal to the chief operating officer for preliminary evaluation. Upon the acceptance of the project for consideration, the business department will conduct due diligence on the relevant Loan. The relevant project proposal will then be reviewed by the risk management department and the legal department of the Group and submit to the investment committee of the Group and the general manager office for approval.

In evaluating each Loan under the Facilities, the business department and the risk management department of the Group will conduct risk and return analysis and compare with other potential financing projects between the Group and independent third party available at the time. In the event that any of the Company or its subsidiaries considers that it is not to the Group's benefit to provide the Loan, or it would be risky to grant the Loan, the Group may at its absolute discretion refuse the provision of such Loan to Shougang Group and/or its subsidiaries under the Facilities.

In assessing whether to provide each Loan under the Facilities, the Group will consider the following factors on a case by case basis: (i) whether there are other independent third party customers with similar risk exposure who would like to seek finance under entrusted payment and/or finance lease arrangement from the Group at the relevant time; (ii) whether the Group will be able to gain a better rate of return from such available customer(s) at the relevant time; (iii) whether the annual caps will be exceeded; and (iv) whether the pricing terms are in compliance with the Master Facilities Agreement.

If, at the relevant time, the Group can get a better rate of return from independent third party customer(s), the Group will either (a) use its discretion not to grant the Loan under the Facilities to Shougang Group and/or its subsidiaries and provide facilities to the independent third party customer(s) instead or (b) ensure that the interest rate to be granted to Shougang Group under the relevant Loan will not be more favourable than those to independent third-party customer(s) with similar risk profile and comparable size of borrowing so as to ensure that the rate of return of the Group is maximised. If, at the relevant time, there is no independent third party customer, the Group will evaluate the prevailing interest rate at the relevant time and the last three transactions with independent third party customer and compare against the interest rate to be granted to Shougang Group and/or its subsidiaries to ensure that the interest rate to be granted to Shougang Group and/or its subsidiaries under the relevant Loan will not be more favourable than those to independent third party customer(s) with similar risk profile and comparable size of borrowing.

LETTER FROM THE BOARD

In assessing the risk profile of the borrower in relation to each Loan, the risk management department and the investment committee of the Group will consider the following factors: (i) source of funds available for repayment, including the profitability and cash flow condition of the borrower/lessee; (ii) the valuations of the lease items as set out above when they are being sold in secondary markets to discharge the debt of the borrower/lessee; (iii) the risk level of the relevant industry of the borrower during the term of the entrusted payment or the relevant industry of the lessee during the term of the finance lease; and (iv) the general market conditions being faced by Shougang Group. The Group will ensure that the interest rate granted to Shougang Group will not be more favourable than the interest rate granted to independent third party customer(s) based on the analysis of items (i) to (iv) above.

To ensure that the transactions contemplated under the Master Facilities Agreement will be conducted in accordance with its terms and conditions, the internal audit department of the Company will review the transactions with Shougang Group and/or its subsidiaries on a periodic basis to ensure that (i) the transactions are conducted in accordance with the terms of the Master Facilities Agreement, (ii) the pricing terms are in accordance with the pricing policy of the Master Facilities Agreement and the policy of the Group, and (iii) the annual caps have not been exceeded.

The transactions contemplated under the Master Facilities Agreement is subject to the review by the independent non-executive Directors on an annual basis, who will confirm in the annual report whether the transactions have been entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) according to the Master Facilities Agreement on terms that are fair and reasonable and in the interests of the Shareholders as a whole. In addition, the transactions will also be subject to the review on an annual basis by the auditors of the Group, who will confirm to the Directors as to whether there is anything which has come to their attention that causes them to believe that such continuing connected transactions: (i) have not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the Group; (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iv) have exceeded the annual caps.

RELATIONSHIP WITH SHOUGANG GROUP

In the two years ended 31 December 2016 and 2017, the Group derived over 80% of its revenue from Shougang Group. In the six months ended 30 June 2018, such percentage has been reduced to slightly over 70%.

With an aim to achieve a more balanced revenue profile between Shougang Group and its subsidiaries and independent third party customers, the Group has already adopted an active business strategy to diversify its revenue source including, amongst others, the transactions announced by the Company on 13 June 2018 and disclosed in the circular of the Company dated 4 September 2018, which have been approved by the Shareholders in the special general meeting held on 18 September 2018.

LETTER FROM THE BOARD

It is expected that such new businesses will commence operation and begin to generate income in 2019. In addition, South China Leasing is currently pursuing a number of potential financial lease projects with substantial balance involving independent third party customers. Such projects are subject to satisfactory security and finalization of terms of the transactions and may or may not materialized.

Going forward, the Group will continue to cultivate business relationships with new customers who are independent third parties, for promoting business scale extension by capturing the recent favourable credit market conditions. The Company considers that the provision of the Facilities demonstrates to the market, the capability of the Group in engaging in sizeable financial services transactions which in turn may enable the Group to source similar transactions with independent third party customers in the market. The Group intends to focus its resources to identify business opportunities with independent third party customers in the following industry sectors which have significant external financing demand due to their respective industrial characteristics: (a) steel production and trading; (b) medical and healthcare; (c) energy conservation and environmental protection; (d) new energy; (e) auto and transportation; (f) machinery and equipment manufacturing and (g) urban construction. In assessing the viability of the respective business opportunities, the Group will evaluate the development prospect and industrial characteristics, such as the cashflow cycle of the various businesses and repayment structure of different finance projects.

The transactions under the Master Facilities Agreement will not put strain on the human resource of the sales and marketing teams of the Group. The Group's sale and marketing teams will concentrate to source targeted independent third party customers in the above seven industry sectors. The Group intends to enhance its reputation through marketing activities such as participation in local trade unions, etc. and will also source new customers by visiting enterprises engaged in different industry sectors. Furthermore, the Group will continue to leverage on its established relationships with major banks in the PRC who will refer customers to the Group in circumstances where they have limitations or restrictions in extending credit by virtue of their scope of business or internal credit policies.

Going forward, as disclosed in the rights issue prospectus of the Group dated 8 October 2018, the Group will (i) focus on the development of innovative financial services industry in the PRC and overseas market and (ii) continues to explore financial engineering projects in relation to the integration of supply chain networks with third parties leveraging on the Group's knowledge with the industry and accessibility to bank financing and capital markets.

LETTER FROM THE BOARD

The Group is currently actively pursuing a number of potential transactions involving financial services and supply chain financing with independent third parties. On 31 October 2018, the Company announced that it has entered into (i) a cooperation framework agreement with Wicresoft (Shanghai) Network Technology Co., Ltd. (微創(上海)網絡技術有限公司) to cooperate fully in areas such as software industrial finance, supply chain and financial technology, (ii) a strategic cooperation framework agreement with Shanghai Steel Information Technology Co., Ltd. (上海找鋼網信息科技股份有限公司), pursuant to which both parties will cooperate fully in areas such as trade finance, supply chain and financial technology, and (iii) a letter of intent with GUAZI.COM.INC, pursuant to which both parties will fully cooperate in the automobile supply chain finance area. Such transactions are expected to be recurring and long-term and are expected to materialise and commence operation in 2019. On 12 November 2018, the Company announced that it has through its wholly-owned subsidiary entered into a shareholders' agreement with YHL Investment (GD), Ltd. (廣東頤亨隆投資有限公司) to establish a joint venture company focusing on, among other things, medical and supply chain technology.

With the aforesaid business strategy coupled with the new businesses which target independent third party customers, the Company expects that the percentage of revenue attributable from Shougang Group will be substantially reduced and a more balanced revenue profile will be achieved in the coming years.

LISTING RULES IMPLICATIONS

As at the Latest Practical Date, Shougang Holding was a controlling Shareholder holding approximately 50.53% of the issued share capital of the Company. Shougang Group is the holding company of Shougang Holding and hence is a connected person of the Company. Accordingly, the transactions contemplated under the Master Facilities Agreement constitute continuing connected transactions for the Company.

As the applicable ratios for the Facilities under the Master Facilities Agreement are more than 5%, the Master Facilities Agreement is subject to the announcement, reporting and Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

GENERAL

The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders in respect of the terms of the Master Facilities Agreement and the transactions contemplated thereunder. Messis Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the Master Facilities Agreement and the transactions contemplated thereunder.

LETTER FROM THE BOARD

A Special General Meeting will be convened at which an ordinary resolution will be proposed to consider and, if thought fit, approve the Master Facilities Agreement and the transactions contemplated thereunder.

Mr. Xu Liang and Mr. Liu Dongsheng are considered to be interested in the Master Facilities Agreement and have abstained from voting from the Board meeting held to approve the Master Facilities Agreement.

SPECIAL GENERAL MEETING

A notice of the Special General Meeting is set out on pages 54 to 55 of this circular. In accordance with the requirements of the Listing Rules, all votes to be taken at the Special General Meeting will be by poll. Shougang Holding and its associates, who were interested in a total of 2,025,736,972 Shares and controlled the voting rights of such Shares which represented approximately 50.53% of the issued share capital of the Company as at the Latest Practicable Date, will be required to abstain from voting at the Special General Meeting on the resolutions in relation to the Master Facilities Agreement. Save as disclosed above, no other Shareholder will be required to abstain from voting on the resolutions in respect of the Master Facilities Agreement.

A form of proxy for the Special General Meeting is enclosed herewith. Whether or not you intend to attend and vote at the Special General Meeting in person, you are requested to complete the form of proxy and return it to the Company's Hong Kong branch share registrar and transfer office, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong in accordance with the instructions printed thereon as soon as practicable but in any event no later than 48 hours before the time appointed for holding the Special General Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the Special General Meeting or at any adjournment thereof should you so wish.

RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee as set out on pages 18 to 19 of this circular which contains its recommendations to the Independent Shareholders in respect of the terms of the Master Facilities Agreement and the transactions contemplated thereunder. Your attention is also drawn to the letter of advice from the Independent Financial Adviser which contains, amongst other matters, its advices to the Independent Board Committee and the Independent Shareholders on the terms of the Master Facilities Agreement and the transactions contemplated thereunder. The letter from the Independent Financial Adviser is set out on pages 20 to 48 of this circular.

LETTER FROM THE BOARD

The Directors (other than Mr. Xu and Mr. Liu who are considered to be interested in the Master Facilities Agreement and the members of the Independent Board Committee whose view is set out in the letter from the Independent Board Committee after reviewing and considering the advice from the Independent Financial Adviser) consider that the terms of the Master Facilities Agreement and the transactions contemplated thereunder are in the best interests of the Company and the Shareholders as a whole and the Board is not aware of there being any material disadvantages in entering into of the Master Facilities Agreement. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the relevant ordinary resolution to be proposed at the Special General Meeting.

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

By Order of the Board
Shougang Concord Grand (Group) Limited
Xu Liang
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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



首長四方（集團）有限公司*
SHOUGANG CONCORD GRAND (GROUP) LIMITED
(Incorporated in Bermuda with limited liability)
(Stock Code: 730)

20 November 2018

To the Independent Shareholders

Dear Sir or Madam,

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

We refer to the circular of the Company to the Shareholders dated 20 November 2018 (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 terms of the Master Facilities Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned.

We wish to draw your attention to the letter of advice from Messis Capital Limited, the Independent Financial Adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the terms of the Master Facilities Agreement and the transactions contemplated thereunder as set out on pages 20 to 48 of the Circular and the letter from the Board as set out on pages 4 to 17 of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered, among other matters, the factors and reasons considered by, and the opinion of the Independent Financial Adviser as stated in its letter of advice, we consider that the terms of the Master Facilities Agreement and the transactions contemplated thereunder are on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution in relation to the Master Facilities Agreement and the transactions contemplated thereunder to be proposed at the Special General Meeting.

Yours faithfully,

For and on behalf of

**The Independent Board Committee of
Shougang Concord Grand (Group) Limited**

Tam King Ching, Kenny

Yip Kin Man, Raymond

Fei Jianjiang

Wan Siu Wah, Wilson

Independent Non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from Messis Capital Limited, the Independent Financial Adviser, for the purpose of inclusion in this circular, to the Independent Board Committee and the Independent Shareholders regarding the terms of the Master Facilities Agreement and the proposed Annual Caps.



20 November 2018

*To: The Independent Board Committee and the Independent Shareholders of
Shougang Concord Grand (Group) Limited*

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTION

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the terms of the Master Facilities Agreement, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 20 November 2018 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

Reference is made to the circular of the Company dated 26 May 2015 (the “**2015 Circular**”), the Company and Shougang Group entered into the 2015 Master Facilities Agreement in relation to the provision of financing facilities by the Group to Shougang Group. The 2015 Master Facilities Agreement was approved by the independent shareholders of the Company at the special general meeting held on 19 June 2015. The 2015 Master Facilities Agreement was expired on 18 June 2018. On 8 June 2018, the Company entered into the Master Facilities Agreement with Shougang Group, pursuant to which the Company has conditionally agreed to provide or procure its subsidiaries to provide the Facilities to Shougang Group and/or its subsidiaries in an aggregate principal amount of up to RMB5,000,000,000 (equivalent to approximately HK\$6,106,000,000) for a term of 3 years.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, Shougang Holding was a controlling Shareholder holding approximately 50.53% of the issued share capital of the Company. Shougang Group is the holding company of Shougang Holding and hence is a connected person of the Company. Accordingly, the transactions contemplated under the Master Facilities Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. As the applicable ratios for the Facilities under the Master Facilities Agreement are more than 5%, the Master Facilities Agreement and the proposed annual caps (the “**Annual Caps**”) therefore shall be subject to the announcement, reporting and Independent Shareholders’ approval requirement under Chapter 14A of the Listing Rules.

Mr. Xu Liang and Mr. Liu Dongsheng are considered to be interested in the Master Facilities Agreement and have abstained from voting from the Board meeting held to approve the Master Facilities Agreement.

Shougang Holding and its associates, who were interested in a total of 2,025,736,972 Shares and controlled the voting rights of such Shares which represented approximately 50.53% of the issued share capital of the Company as at the Latest Practicable Date, will be required to abstain from voting at the Special General Meeting on the resolutions in relation to the Master Facilities Agreement. Save as disclosed above, no other Shareholder will be required to abstain from voting on the resolutions in respect of the Master Facilities Agreement.

The Independent Board Committee, comprising all of the independent non-executive Directors (namely Mr. Tam King Ching, Kenny; Mr. Yip Kin Man, Raymond; Mr. Fei Jianjiang and Mr. Wan Siu Wah, Wilson), has been established to advise the Independent Shareholders in respect of the terms of the Master Facilities Agreement and the transactions contemplated thereunder. We, Messis Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

As at the Latest Practicable Date, we do not have any relationships with or interests in the Company and any other parties that could reasonably be regarded as relevant to our independence. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exists whereby we will receive any fees or benefits from the Company. During the last two years, we were appointed as an independent financial adviser for the Company for two occasions as detailed in its circular dated 4 September 2018 and its announcement dated 30 October 2018. We were also appointed as an independent financial adviser for (i) BeijingWest Industries International Limited (stock code: 2339), a connected person of the Company, for two occasions as detailed in its circular dated 28 November 2016 and 10 July 2018; and (ii) Shougang Concord International Enterprises Company Limited (stock code: 697), another connected person of the Company, for one occasion as detailed in its circular dated 18 November 2016. Notwithstanding, we are independent from the Company pursuant to Rule 13.84 of the Listing Rules, in particular we did not serve as a financial adviser to (i) the Group, (ii) Shougang Group or its subsidiaries, or (iii) any core connected person of the Company within 2 years prior to 12 June 2018, being the date of making our independence declaration to the Stock Exchange pursuant to Rule 13.85(1) of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BASIS OF OUR ADVICE AND RECOMMENDATIONS

In arriving at our recommendations, we have relied on the statements, information and representations contained in the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company. We have assumed that all information, representations and opinions contained or referred to in the Circular and all information and representations which have been provided by the Company, the Directors and the management of the Company for which they are solely and wholly responsible, are true and accurate at the time they were made and will continue to be accurate as at the Latest Practicable Date. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the management of the Company.

The 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 the 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 therein or the document misleading.

We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any material facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the Company, the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs of the Group and any parties in relation to the Master Facilities Agreement.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Master Facilities Agreement and the proposed Annual Caps. Except for its inclusion in the Circular, this letter is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinions and recommendations, we have taken the following principal factors and reasons into consideration:

1. Background information of the Group

1.1 Background of the Group

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of (i) financial services and investment and (ii) property investment and management in Hong Kong. The business of the Group comprises three business segments namely (i) finance leasing; (ii) property leasing and building management services; and (iii) assets management.

1.2 Financial information of the Group

The table below sets out the audited key financial information of the Group for the two years ended 31 December 2017 and the unaudited interim results of the Group for the six months ended 30 June 2017 and 2018 as extracted from the Company's annual report for the year ended 31 December 2017 (the "2017 Annual Report") and interim report for the six months ended 30 June 2018 (the "2018 Interim Report"), respectively:

Financial performance of the Group

	For the six months ended		For the year ended	
	30 June		31 December	
	2018	2017	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Continuing operations				
Revenue	55,905	55,293	109,512	106,578
Gross profit	30,193	28,763	59,132	45,448
(Loss)/profit for the period/year from continuing operations	(57,666)	14,444	(2,421)	(81,668)
Discontinued operations (Note 1)				
Loss for the year from discontinued operations	-	-	-	(304)
(Loss)/profit for the period/year	(57,666)	14,444	(2,421)	(81,972)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Financial position of the Group

	As at 30 June 2018 <i>HK\$'000</i>	As at 31 December 2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Current assets	1,109,725	1,188,906	969,557
Non-current assets	<u>1,322,686</u>	<u>1,442,049</u>	<u>1,554,915</u>
Total assets	<u>2,432,411</u>	<u>2,630,955</u>	<u>2,524,472</u>
Current liabilities	562,613	647,820	529,973
Non-current liabilities	<u>392,648</u>	<u>403,678</u>	<u>531,167</u>
Total liabilities	<u>955,261</u>	<u>1,051,498</u>	<u>1,061,140</u>
Total equity	<u>1,477,150</u>	<u>1,579,457</u>	<u>1,463,332</u>

Notes:

- The Group discontinued the trading of goods operations upon the completion of a disposal which took place on 14 September 2016. Accordingly, the result from this operation was classified as discontinued operations of the Group.

According to the 2017 Annual Report, revenue of the Group from continuing operations for the year ended 31 December 2017 was approximately HK\$109.5 million, representing a slightly increase of approximately 2.8% as comparing with that of approximately HK\$106.6 million for the year ended 31 December 2016. Finance leasing and other financial services segment was the largest business segment of the Group which accounted for approximately 95.7% and 96.7% of its total revenue for the year ended 31 December 2016 and 31 December 2017, respectively. During 2017, revenue from the finance leasing and other financial services segment increased by approximately 3.9% to approximately HK\$105.9 million (2016: HK\$102.0 million). The increase in revenue from the finance leasing and other financial services segment was mainly attributed to new finance leases carried out. According to the 2018 Interim Report, revenue of the Group for the six months ended 30 June 2018 was approximately HK\$55.9 million, representing an increase of approximately 1% when compared with that of approximately HK\$55.3 million for the corresponding period in 2017. The increase was mainly attributable to the increase in income from the finance leasing and other financial services segment by approximately HK\$0.7 million.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group recorded a gross profit from continuing operations of approximately HK\$59.1 million for the year ended 31 December 2017, representing a gross profit margin of approximately 54.0%. The Group recorded a gross profit margin of approximately 42.6% for the year ended 31 December 2016. The improvement was mainly attributable to the increase in gross profit margin from the finance leasing and other financial services segment, as majority of the finance lease transactions conducted during 2017 were funded by the Group's internal resources instead of bank borrowings and the Group was able to enjoy higher interest rate spreads. The Group made a gross profit of approximately HK\$30.2 million for the six months ended 30 June 2018, representing a gross profit margin of approximately 54.0%, which is an increase of approximately 2.0% when compared with the gross profit margin of approximately 52.0% for the corresponding period in 2017 which was mainly attributable to the increase in profit margin from the finance leasing and other financial services segment.

The Group recorded a loss for the year from continuing operations of approximately HK\$2.4 million for the year ended 31 December 2017 and a loss of approximately HK\$81.7 million for the year ended 31 December 2016. The sharp improvement in financial performance in 2017 was mainly because (i) no impairment loss made on finance lease receivables for the finance leasing and other financial services segment during 2017; (ii) decrease in the share of loss of an associate; and (iii) decrease in the impairment loss on interest in an associate. The finance leasing and other financial services segment results turned from a loss of approximately HK\$ 3.0 million for the year ended 31 December 2016 to a profit of approximately HK\$46.5 million for the year ended 31 December 2017 was mainly attributable to (i) the increase in the segment gross profit; and (ii) no impairment loss made on finance lease receivables during 2017. The Group recorded loss of approximately HK\$57.7 million for the six months ended 30 June 2018, when compared with a profit of approximately HK\$14.4 million for the six months ended 30 June 2017. The turning from profit to loss was mainly attributable to the impairment loss on interest in an associate of approximately HK\$64.1 million recorded for the six months ended 30 June 2018.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Due to the business nature of the Group in relation to the provision of finance lease to its customers, short term and long term finance lease receivables are the key assets of the Group. As at 31 December 2017, short term and long term finance lease receivables amounted to approximately HK\$1,886.8 million, representing approximately 71.7% of the Group's total assets. The Group had total cash (including bank balances and cash, structured deposits and restricted bank deposits) of approximately HK\$225.1 million and HK\$320.1 million as at 31 December 2016 and 2017, respectively. The increase in cash position was mainly attributable to net cash received from operating activities of approximately HK\$140.6 million, proceeds from redemption of structured deposits of approximately HK\$478.0 million, proceeds from disposal of an investment property of approximately HK\$18.6 million and proceeds on disposal of available-for-sale investment of approximately HK\$5.3 million, netting off with the net repayment of bank loans of approximately HK\$549.4 million. The current ratio of the Group was 183% and 184% as at 31 December 2016 and 31 December 2017, respectively. The Group had total cash (including bank balances and cash, structured deposits and restricted bank deposits) of approximately HK\$320.1 million and HK\$526.2 million as at 31 December 2017 and 30 June 2018, respectively. The increase was mainly attributable to net cash from operating activities of approximately HK\$273.7 million, netting off with the net repayment of bank loans of approximately HK\$61.8 million. The current ratio of the Group was 197% as at 30 June 2018.

Total liabilities of the Group mainly comprised of long and short term bank borrowings which were principally utilised on supporting the Group's finance lease business. The total borrowings were amounted to approximately HK\$928.5 million and HK\$896.5 million as at 31 December 2016 and 2017, respectively, which represented approximately 87.5% and 85.3% of its total liabilities. During 2017, the Group obtained new bank loans of approximately HK\$437.9 million for its finance leasing and other financial services. The Group was in a gearing position with a net debt to total equity of approximately 36% and a net debt to total assets of approximately 22% as at 31 December 2017. As at 30 June 2018, the Group's total borrowings amounted to approximately HK\$815.4 million. During the six months ended 30 June 2018, the Group obtained new bank loans of approximately HK\$140.0 million for finance leasing and other financial services business and for operating use. The Group was in a gearing position with a net debt to total equity of approximately 20% and a net debt to total assets of approximately 12% as at 30 June 2018.

2. Background information of Shougang Group

2.1 Information of Shougang Group

According to an offering circular of Voyage Bonds Limited, an indirect wholly-owned subsidiary of Shougang Group, as published on 25 September 2017 (the “**2017 Offering Circular**”), Shougang Group is a state-owned enterprise wholly owned by Beijing Holders of State-owned Capital Management Centre (北京國有資本經營管理中心) which is in turn wholly owned by Beijing Municipal People’s Government State-owned Assets Supervision and Administration Commission (北京市國有資產監督管理委員會).

Shougang Group is one of the largest steel production enterprises in the PRC and is principally engaged in a wide range of business, including steel and iron production, overseas business, property development, mining resources and other businesses.

The total assets and net assets of Shougang Group as at 30 June 2017 amounted to approximately RMB459.0 billion and RMB120.2 billion, respectively. Shougang Group is a capital intensive company with total non-current assets of approximately RMB311.7 billion as at 30 June 2017, approximately 52.4% of which (i.e. approximately RMB163.5 billion) were the net book value of fixed assets. Steel and iron production was the largest business segment of Shougang Group which accounted for approximately 51.9% of its total revenue for the six months ended 30 June 2017.

According to the 2017 Offering Circular, Fitch Ratings, Inc. (“**Fitch**”) had assigned a corporate rating of “A-” with a stable outlook and Dagong Global Credit Ratings (Hong Kong) Co., Ltd., (“**Dagong HK**”) had assigned a corporate rating of “A” with a stable outlook to Shougang Group. The stable outlook reflected the expectation that Shougang Group’s operations would remain stable and it would maintain strong linkage with the Beijing Municipal People’s Government. In August 2017, new bonds were issued by Shougang Group, which will due in 2020, was listed on the Irish Stock Exchange plc. (the “**2020 Bonds**”). Fitch had assigned a credit rating of “A-” to the 2020 Bonds. This credit rating represented the credit worthiness of the 2020 Bonds with expectations of low default risk.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. Background to and reasons for the Master Facilities Agreement

On 26 March 2015, the Company and Shougang Group entered into the 2015 Master Facilities Agreement in relation to the provision by the Group of financing facilities to Shougang Group. As the 2015 Master Facilities Agreement was expired on 18 June 2018, the Company entered into the Master Facilities Agreement with Shougang Group, pursuant to which the Company has conditionally agreed to provide or procure its subsidiaries to provide the facilities to Shougang Group and/or its subsidiaries in an aggregate principal amount of up to RMB5,000,000,000 (equivalent to approximately HK\$6,106,000,000) for a term of 3 years.

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of financial services and property investment and management. South China Leasing, an indirect non-wholly owned subsidiary of the Company, is a prominent leasing company in the PRC. As set out in the paragraph headed “1.2 Financial Information of the Group” in this letter, finance leasing and other financial services segment was the largest business segment of the Group which accounted for approximately 95.7% and 96.7% of its total revenue for the year ended 31 December 2016 and 31 December 2017, respectively. According to the 2017 Annual Report, it is the Company’s business goal to provide supporting financial services to enterprises with an aim to enlarge the Group’s financial service scale through integration of financial and industrial needs. It could be demonstrated by the recent business development of the Group that the Group has adopted an active business strategy in developing its business in different financial services as detailed in the Company’s circular dated 4 September 2018. We are advised by the Directors that the entering into of the Master Facilities Agreement is crucial for its continuous development in the financial service business which is in line with its business strategy.

We have discussed with the management of the Company and understand that the transactions contemplated under the Master Facilities Agreement are expected to be occurred on a continuing basis in the ordinary and usual course of business of the Group. The Company have been providing or procuring its subsidiaries to provide financial services to Shougang Group and/or its subsidiaries (including direct and/or indirect subsidiaries) from time to time during the term of the 2015 Master Facilities Agreement. It is expected that the arrangement for the Facilities will continue and the entering into of the Master Facilities Agreement is to facilitate the continued provision of facilities between Company and/or its subsidiaries and Shougang Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

According to the Letter from the Board, the entering into of the Master Facilities Agreement is in the ordinary and usual course of business of the Company and will enable the Group to earn a net interest income under the Master Facilities Agreement. The transactions contemplated under the Master Facilities Agreement will be mostly funded by bank borrowings and the terms will be basically on a back-to-back basis, so as to minimise the exposure to the Company on any fluctuations in borrowing costs. The Group aims at sourcing customers in the finance lease segment with sufficient assets and good credit in order to safeguard the credit risks of the Group. Shougang Group has substantial assets and a good credit history with reliable repayment capability. As the Group has been providing financing facilities to Shougang Group and/or its subsidiaries, the Master Facilities Agreement will enable the Group to continue to provide financing services to a trusted customers group. As such, the Company considers that there is no material disadvantage in entering into of the Master Facilities Agreement and that the entering into of the Master Facilities Agreement is in the interest of the Company and the Shareholders as a whole.

As advised by the Directors, the Group targets large scale corporations (such as Shougang Group) as its core customer groups as it could enable the Group to earn a stable revenue stream at a considerably low risk level. Since the entering into of the 2015 Master Facilities Agreement, the Group had gradually built up its customer profile. The Group had entered into (i) 9 finance lease transactions with the subsidiaries and/or associates of Shougang Group, with principal amounts ranged from RMB50 million to RMB500 million; and (ii) 3 finance lease transactions with independent third party customers, with principal amounts ranged from RMB10 million to RMB300 million. As advised by the Directors, the Group will not be exposed to high business risk under the Master Facilities Agreement given the strong background of Shougang Group. In particular, pursuant to the Master Facilities Agreement, Shougang Group will provide a guarantee in favour of the Company and/or its subsidiaries in respect of the obligations of the relevant member(s) of Shougang Group as the borrower(s) under each entrusted payment or as the lessee(s) under each finance lease. Independent third party customers of the Group were scaleable corporations with good reputations in the relevant industry.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the above, in particular that (i) it is the principal business of the Group to provide financial services to its customers while the finance leasing segment accounted for majority of the Group's revenue; (ii) the strong background of Shougang Group as set out in the paragraph headed "2.1 Information of Shougang Group" in this letter; (iii) Shougang Group is a target customer of the Group and the Group is able to earn a net income over the term of the Master Facilities Agreement; and (iv) the provision of the Facilities can demonstrate the capability of the Group in engaging in sizeable financial services transactions, which in turn may enable the Group to expand its businesses with targeted independent third party customers, we concur with the view of the Directors that the transactions contemplated under the Master Facilities Agreement are in the ordinary and usual course of business of the Group and that the entering of the Master Facilities Agreement is in the interests of the Company and the Shareholders as a whole.

4. Principal terms of the Master Facilities Agreement

4.1 Key terms of the Master Facilities Agreement

On 8 June 2018, the Company entered into the Master Facilities Agreement with Shougang Group, pursuant to which the Company has conditionally agreed to provide or procure its subsidiaries to provide the Facilities to Shougang Group and/or its subsidiaries in an aggregate principal amount of up to RMB5,000,000,000 (equivalent to approximately HK\$6,106,000,000) for a term of 3 years. The duration of each transaction contemplated thereunder will be negotiated on a case-by-case basis and each of which shall expire by the end of the 3-year period from the Master Facilities Agreement becoming effective. The Facilities to be granted are non-revolving and are subject to the proposed Annual Caps.

Pursuant to the Master Facilities Agreement, the Facilities shall be provided to Shougang Group by way of (i) entrusted payment; (ii) finance lease; and/or (iii) credit financing. The relevant parties will enter into individual agreements with respect to each Loan pursuant to the Master Facilities Agreement. The key terms thereof are set out below:

Major terms of the Master Facilities Agreement

Subject matter : The Company may at its absolute discretion, provide or procure its subsidiaries to provide the Facilities to Shougang Group and/or its subsidiaries (including direct and/or indirect subsidiaries) from time to time during the term of the Master Facilities Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group will finance the provision of the Facilities by bank borrowing and/or internal resources.

Term : A period commencing from the date on which the Master Facilities Agreement becoming effective and the third anniversary thereof.

Principal amount : An aggregate principal amount of up to RMB5,000,000,000 (equivalent to approximately HK\$6,106,000,000).

The provision of the Facilities is subject to the maximum outstanding balance of the Facilities owed by Shougang Group and/or its subsidiaries for each relevant year will not exceed RMB1,500,000,000 (equivalent to approximately HK\$1,831,800,000).

Term of each Loan : The term of each Loan will be negotiated on a case-by-case basis subject to a maximum of 3 years from the date of the relevant Loan.

Guarantee : Shougang Group will guarantee the obligations of the relevant member(s) of Shougang Group as borrower(s) under each Loan.

Conditions precedent : The provision of the Facilities is subject to approval by the Independent Shareholders of the Master Facilities Agreement and the transactions contemplated thereunder at a general meeting of the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Facilities will be provided by the Group to Shougang Group and/or its subsidiaries by way of the following methods:

(a) *Entrusted payment:*

Entrusted payment amount : The Company and/or its subsidiaries may, at the request of the relevant member of Shougang Group as the borrower and at the Company's discretion make the payment to an intended payee on behalf of the borrower for procurement of the purchased items. The relevant parties will enter into individual agreements with respect to each Loan.

The loan amount under each entrusted payment shall be equivalent to the purchase price of the purchased item, but in any event, shall not exceed the unutilised portion of the Facilities.

Purchased items : The items to be used by Shougang Group and/or its subsidiaries in their respective ordinary course of business.

Interest rate : The interest rate payable by the relevant borrower shall be at a rate equal to the cost of lending of the Group plus 1% to 5%, subject to a cap of 10%. The Company and the relevant borrower may also agree on any other interest rate in respect of a Loan. If such other interest rate falls outside the parameter of the Master Facilities Agreement, the Company will comply with the requirements of the Listing Rules with respect to such Loan.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Repayment date of the entrusted payment and interest : Unless otherwise agreed, the repayment amount under each entrusted payment, together with accrued interest, shall be at the end of the term of the relevant entrusted payment.

Handling fee : The Group shall be entitled to charge the relevant borrower for each entrusted payment a non-refundable handling fee of not more than 1.5% of the principal amount of the entrusted payment. Such handling fee shall be payable by the borrower at least five business days before the date of the entrusted payment.

(b) *Finance lease:*

Finance lease amount : The finance lease amount under each finance lease shall be equivalent to the purchase price of the leased items, but in any event, shall not exceed the unutilised portion of the Facilities. The relevant parties will enter into individual agreements with respect to each Loan.

Leased items : The leased items will be equipment and/or properties to be used by Shougang Group and/or its subsidiaries in their ordinary course of business.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- Interest rate : The interest rate payable by the relevant lessee shall be at a rate equal to the cost of lending of the Group plus 1% to 5%, subject to a cap of 10%. The Company and the relevant lessee may also agree on any other interest rate in respect of a Loan. If such other interest rate falls outside the parameter of the Master Facilities Agreement, the Company will comply with the requirements of the Listing Rules with respect to such Loan.
- Payment date of the finance lease and interest : Unless otherwise agreed, the payment under each finance lease and the interest accrued shall be paid on a quarterly basis on the 21st day of March, June, September and December.
- Handling fee : The Group shall be entitled to charge the relevant lessee for each finance lease a non-refundable handling fee of not more than 1.5% of the principal amount of the finance lease. Such handling fee shall be payable at least five business days before the drawdown of the fund.
- Security deposit : The Group shall be entitled to a security deposit of not more than 5% of the loan amount under the finance lease to be made by the relevant lessee five Business Days before commencement of the relevant finance lease.
- Lessee's option to purchase : At the end of the finance lease, the relevant lessee will have the right to purchase the leased items at a nominal purchase price equal to 0.01% of the loan amount of the finance lease.

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(c) *Credit financing:*

- Credit financing amount : The credit financing amount shall be such amount requested by Shougang Group and/or its subsidiaries, but in any event, shall not exceed the unutilised portion of the Facilities.
- Interest rate : The interest rate payable by the relevant borrower shall be at a rate equal to the cost of lending of the Company and/or its subsidiaries plus 1% to 5%, subject to not being more than 10%. The Company and the relevant borrower may also agree on any other interest rate in respect of a Loan. If such other interest rate falls outside the parameter of the Master Facilities Agreement, the Company will comply with the requirements of the Listing Rules with respect to such Loan.
- Repayment date of the credit financing facility and interest : Unless otherwise agreed, the outstanding principal of the credit financing facility shall be repayable at the expiry of the term of the credit financing facility and the interest accrued shall be paid on a quarterly basis on the 21st day of March, June, September and December.
- Handling fee : The Group shall be entitled to charge the relevant borrower a non-refundable handling fee of not more than 1.5% of the principal amount of the credit financing facility. Such handling fee shall be payable at least five business days before the drawdown of the credit financing facility.

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We have reviewed the Master Facilities Agreement and have discussed with the management of the Company on the major terms therein. We noted that the major terms of the Master Facilities Agreement are similar to the terms of the 2015 Master Facilities Agreement, save for the addition of credit financing services under the Master Facilities Agreement which is a new service the Group will offer to its customers.

In assessing the fairness and reasonableness of the key terms of the Master Facilities Agreement, we have considered the followings:

4.2 Interest rate

As set out in the Letter from the Board, the range of interest rate to be charged on the transactions contemplated under the Master Facilities Agreement were determined after arm's length negotiations between the parties with reference to the prevailing market rate and a margin, which will be added to the cost of lending by the Group so as to ensure that the Group can earn a net income for providing the Facilities under the Master Facilities Agreement.

The exact interest rate to be charged for each of the Loans will be determined by the Company at the relevant time after taking into account: (a) the prevailing market interest rate; and (b) the risk profile of the relevant entrusted payment or finance lease and the business and financial conditions of the relevant subsidiary of Shougang Group being the borrower or the lessee. In assessing the risk profile of the borrower in relation to each Loan, the following factors will be considered: (i) source of funds available for repayment, including the profitability and cash flow condition of the borrower/lessee; (ii) the valuations of the lease items as set out above when they are being sold in secondary markets to discharge the debt of the borrower/lessee; (iii) the risk level of the relevant industry of the borrower during the term of the entrusted payment or the relevant industry of the lessee during the term of the finance lease; (iv) the risk and return analyses of other financing projects between the Company and/or its subsidiary and other independent third party borrowers with similar background; and (v) the general market conditions that will be faced by Shougang Group. The Group will ensure that the interest rate charged on the loans will not be more favourable than the interest rate granted to independent third party customers based on the analysis of items (i) to (v) above.

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As advised by the Directors, the Group has adopted policy and internal control mechanism on risk and return for project evaluation which applied to all financing transactions. Such policy and/or internal control mechanism includes (i) the assessment of risk profile of the borrower to be conducted by the risk management department and (ii) the review by the risk management committee of the Group which is comprised of its senior management. In evaluating projects, factors to be considered includes, but not limited to, the borrower's and/or guarantor's financial position, the industry prospect for which the borrower and/or guarantor operating, valuation of the lease assets, repayment term and return. We are given to understand that the Group's policy and internal control mechanism would be further strengthened. Going forward, in determining the interest rate to be charged, the Group will approach at least three banks to seek for specific bank loan for the relevant project to determine the cost of the fund to the Group. The Group would then evaluate the credit risk of the borrower and/or lessee by reviewing its financial position and its ability to repay the Loan, and any assets or guarantee that may be provided as security. A margin would then be added based on the overall risk profile and collaterals that may be secured in respect of the Loan. In addition, the Group would evaluate if it has idle funds at the time. In such event, the Group would further evaluate the deposit rate for the idle fund and the lending rate that it could secure based on the risk profile and collaterals that may be secured in respect of the Loan. Based on the above, we concur with the view of the Directors that adequate internal control procedures are in place to ensure that the actual interest rate to be charged will be in accordance with the Group's pricing policy and that such interest rate will be no less favourable than those granted to the independent third party customers of the Group.

In assessing the fairness and reasonableness on the interest rate chargeable to Shougang Group and/or its subsidiaries under the Master Facilities Agreement, we have reviewed the terms of all finance lease transactions conducted by the Group during the three years ended 31 December 2017 and the six months ended 30 June 2018 (the "**Facilities Review Period**"). As advised by the Directors, no entrusted payment transaction was conducted by the Group during the Facilities Review Period.

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During the Facilities Review Period, we note that the Group has conducted (a) 3 finance lease transactions with independent third party customers; and (b) 9 finance lease transactions with Shougang Group and/or its subsidiaries. We note that (a) the interest rate granted to Shougang Group and/or its subsidiaries ranged from 5% to 6.54%, and (b) the interest rate granted to the independent third party customers ranged from 6.25% to 6.7%. We are given to understand that security deposit and term of each Loan were factors which may affect the interest rate granted to its customers. For finance lease transactions of no security deposits, the interest rate granted to the transactions with Shougang Group and/or its subsidiaries with a term of 3 years were 6.54% (except 1 finance lease transaction with a term of 1 year was granted an interest rate of 5.5%). The interest rate granted to the 3 finance lease transactions with independent third party customers (with terms ranged from 3 years to 5 years and without security deposit) ranged from 6.25% to 6.7%. We also note that 6 out of 9 finance lease transactions with Shougang Group and/or its subsidiaries were charged with security deposits, a lower interest rate was granted to these transactions as compared to those without security deposit. The interest rates paid by the relevant lessees were not more than 10% and the interest rates granted to Shougang Group and/or its subsidiaries were comparable to those granted to the independent third party customers.

We also note that among the transactions conducted during the Facilities Review Period, (i) 1 finance lease transaction with independent third party customer; and (ii) 2 finance lease transactions with Shougang Group were financed through bank borrowings. We have compared the terms of transactions with independent third party customers that were supporting through bank borrowings (the “**Bank Supported Comparable**”) with those as conducted under the 2015 Master Facilities Agreement. We note that the Group enjoyed same interest rate spreads of 1% from both the transaction conducted with the Bank Supported Comparable and the transactions as conducted under the 2015 Master Facilities Agreement.

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Having considered that (i) the terms of finance lease transaction with Shougang Group and/or its subsidiaries were comparable with those of other independent third party customers; (ii) there are adequate internal control policies to be taken place by the Group to determine the interest rate to be offered to each transaction contemplated under the Master Facilities Agreement; (iii) the interest rate spreads enjoyed by the Group from Shougang Group and/or its subsidiaries were comparable to those as offered to independent third party customers of the Group, we concur with the view of the Directors that the interest rate to be charged under the Master Facilities Agreement is no less favourable than those as offered to the Group's independent third party customers, on normal commercial term and are fair and reasonable so far as the Independent Shareholders are concerned.

4.3 Handling fees and securities deposits for finance lease transactions

We are given to understand from the Directors that handling fees and security deposits are common terms for finance lease transactions as offered by the Group. The handling fee is for the services provided by the Group in assessing the feasibility of conducting the relevant finance lease transactions. As advised by the Directors, the handling fees and level of security deposits are determined by the Group on a case-by-case basis and will in any event with reference to the overall return of each project. Pursuant to the Master Facilities Agreement, the handling fees and security deposits to be charged by the Group will be not more than 1.5% and 5% of the principal amount under the finance lease, respectively, which is the same as the Group's historical finance lease transaction with Shougang Group and/or its subsidiaries. It is the Group's normal practice that the handling fees are charged at a rate of 1.5% to the principal amount of each finance lease transaction. Such rate is adjustable depending on various factors, including the level of services as provided by the Group and the risk exposures of the finance lease transactions.

We have reviewed the handling fees and security deposits as charged on finance lease transactions conducted by the Group to independent third party customers and those as conducted under the 2015 Master Facilities Agreement during the Facilities Review Period. We note that the handling fee charged at a rate ranging from nil to 4% and no security deposit was charged to independent third party customers and the rate of which is comparable to those offered to Shougang Group and/or its subsidiaries.

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Having considered that the handling fees and security deposits to be chargeable under the Master Facilities Agreement are in line with the Group's normal practice and the rates of which are within the range as normally offered to other independent third party customers, we therefore concur with the view of the Directors that the handling fees and security deposits to be charged under the Master Facilities Agreement are no less favourable than those as offered to the Group's independent third party customers, on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

4.4 Guarantee

Pursuant to the Master Facilities Agreement, Shougang Group will provide a guarantee in favour of the Company and/or its subsidiaries in respect of the obligations of the relevant member(s) of Shougang Group as the borrower(s) under each entrusted payment or as the lessee(s) under each finance lease.

As set out in the paragraph headed "2.1 Information of Shougang Group" in this letter, Shougang Group is one of the largest steel production enterprises in the PRC. The total assets and net assets of Shougang Group as at 30 June 2017 amounted to approximately RMB459.0 billion and RMB120.2 billion, respectively. In addition, according to the 2017 Offering Circular, Fitch has assigned a corporate rating of "A-" with a stable outlook and Dagong HK has assigned a corporate rating of "A" with a stable outlook to Shougang Group, reflects the expectation that Shougang Group's operation will remain stable and it would remain strong linkage with Beijing Municipal People's Government.

As advised by the Directors, the guarantee provided under Shougang Group is relatively sizable as compared to the corporate guarantees and/or personal guarantees from independent third party customers, as such the Directors believed that the guarantee provided by Shougang Group would lower the credit risk of the Group to be exposed on transactions to be conducted under the Master Facilities Agreement.

Having considered, (i) the strong background of Shougang Group as set out in the paragraph headed "2.1 Information of Shougang Group" in this letter; and (ii) the background of Shougang Group in providing the guarantee, we concur with the view of the Directors that adequate guarantee has been sought to secure the interests of the Group under the Master Facilities Agreement.

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4.5 Annual Caps

Set out below is the actual amount of the facilities used by Shougang Group and/or its subsidiaries for the three years ended 31 December 2017 and the six months ended 30 June 2018:

	For the year ended 31 December			For the six months ended
	2015	2016	2017	30 June 2018
	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>
Approved amount of the facilities	8,000	8,000	8,000	8,000
Actual amount of facilities used	1,500	1,750	2,000	2,060
Annual Cap	5,000	5,000	5,000	5,000
Outstanding balance	1,537	1,374	1,114	921

The maximum amount of the Facilities under the Master Facilities Agreement is lower than that of the 2015 Master Facilities Agreement. As advised by the Directors, the downsize of the Facilities under the Master Facilities Agreement was determined after taking reference to the historical transaction amounts with Shougang Group and/or its subsidiaries for the three years ended 31 December 2017.

The Annual Caps of the Facilities for each of the financial years ending 31 December 2018 to 31 December 2024 shall be RMB1,500,000,000 each year, taken into account of the expected level of financing required by Shougang Group and/or its subsidiaries based on the published public information on Shougang Group, and the amount of financing that the Group is expected to be able to secure to finance the Facilities for each relevant year.

According to the Letter from the Board, the aggregate principal amount of the Facilities and the proposed Annual Caps were determined after arm's length negotiations between the parties with reference to (i) the historical transaction amount between the parties; (ii) the capability of the Group to raise the necessary funds to finance the provision of the Facilities; and (iii) the financing needs of Shougang Group and/or its subsidiaries.

According to the 2017 Offering Circular, Shougang Group is a capital intensive company with total assets and net assets amounted to approximately RMB459.0 billion and RMB120.2 billion as at 30 June 2017, respectively. We note that the principal amount of the Facilities of RMB5 billion and the proposed Annual Caps of RMB1.5 billion only represents approximately 3.1% and 0.9% of the carrying value of the fixed assets of Shougang Group of RMB163.5 billion as at 30 June 2017, respectively. The transaction size under the Master Facilities Agreement is hence not significant and the Directors believe that the Group is able to conduct more finance lease transactions with Shougang Group and/or its subsidiaries at scaleable sizes in future.

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In order to assess the fairness and reasonableness of the Facilities and the proposed Annual Caps, we have considered the followings:

(i) *the historical transaction amount*

The historical aggregate principal amount of the facilities used by Shougang Group were approximately RMB1,500 million, RMB1,750 million, RMB2,000 million and RMB2,060 million for the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018, respectively. As advised by the Directors, the increase in historical aggregate principal amount along the years was mainly due to the new finance lease transactions being conducted. It is noted that the historical aggregate principal amount of the facilities was lower than the approved aggregate amount of the facilities. As advised by the management of the Company, during the term of the 2015 Master Facilities Agreement, the Company was able to secure banking facilities of US\$500 million for potential finance lease transactions with the subsidiaries and/or associates of Shougang Group. However, the finance lease transactions were not materialised as the commercial terms were yet to be concluded, including the failure by the parties to agree on the payment terms. Based on the above, the Directors consider that (i) the subsidiaries and/or associates of Shougang Group has vast demand on the financing services from the Group; and (ii) the Group has the capabilities to obtain sufficient funds for the provision of financial services up to the level of the approved amount of the facilities.

The historical outstanding balance of the facilities owed by Shougang Group were approximately RMB1,537 million, RMB1,374 million, RMB1,114 million and RMB921 million as at 31 December 2015, 31 December 2016, 31 December 2017 and 30 June 2018, respectively. The decrease in historical outstanding balance as at the respective year/month end date was mainly due to the receipt of the finance lease receivables according to the terms of each finance lease transaction. The Directors expect that with the well-established business relationships with Shougang Group and/or its subsidiaries for the provision of financial services in the past, the Group will be able to secure more finance lease transactions from Shougang Group and/or its subsidiaries. Moreover, with the expansion of business scope of the Group through, including an additional service of credit financing as set out in the Master Facilities Agreement, the Directors expect that the transaction amount with Shougang Group and/or its subsidiaries will increase.

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(ii) the projected volume of the Facilities to be provided

As advised by the Directors, the Group believes that the financing needs of the Shougang Group and/or its subsidiaries would increase for the three years ending 31 December 2020. In considering the future financing needs of the Shougang Group and/or its subsidiaries, we have obtained and reviewed the 2017 Offering Circular. We are given to understand that:

- (a) Shougang Group is one of the largest steel production enterprises in the PRC;
- (b) according to the 2017 Offering Circular, there was a global trend in the control of steel production capacity coupled with a slight recovery in demand in 2016. As a result, the steel industry began to show positive signs of recovery, mainly through the rebound in steel prices. In this regard, it is expected that the steel and iron industry in the PRC will continue to grow in the near future;
- (c) according to the 2017 Offering Circular, Shougang Group will continue to explore and strengthen the synergies among different business divisions to increase its overall operating efficiency and profitability. Shougang Group believes that its diversified business portfolio and its unique position in implementing the “Beijing-Tianjin-Hebei Collaborative Development Initiative” and the outlines of the “Beijing-Tianjin-Hebei Collaborative Development Plan” will give it the opportunities to explore synergies between different business divisions, such as iron and steel production, industrial park construction and financial services. Shougang Group believes that such synergies will help to maximise the value of its business portfolio, to enhance its risk resistibility and to improve its overall competitiveness;
- (d) according to the 2017 Offering Circular, Shougang Group will continue to (i) expand its overseas business, including steel export, cooperation with foreign reputable corporations for establishment of offshore sales network and international engineering business development; and (ii) gain access to overseas resources through procurement of ore resources, as well as offshore financing and capital operations;

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- (e) according to the 2017 Offering Circular, Shougang Group relies on external financing to satisfy a portion of its capital requirements and it believes that it will continue to require substantial capital resources to fund its business operations and expansion. As at 30 June 2017, the long-term and short-term bank loans of Shougang Group amounted to approximately RMB150.4 billion. We note that the principal amount of the Facilities of RMB5 billion and the proposed Annual Caps of RMB1.5 billion only represents approximately 3.3% and 1.0% of Shougang Group's long-term and short-term bank loans of RMB150.4 billion as at 30 June 2017, respectively. Accordingly, it is expected that Shougang Group and/or its subsidiaries, would require more financing services from the Group with its continuous business development.

Based on the above, in particular (i) the recent business strategies of Shougang Group as set out in the 2017 Offering Circular; (ii) the increasing amount of bank loans of Shougang Group, we consider it justifiable to determine the amount of the Annual Caps on the basis that the financing needs of Shougang Group would increase for the three years ending 31 December 2020.

(iii) the capability of the Group to raise the necessary fund

As set out in the paragraph headed "3. Background to and reasons for the entering into of the Master Facilities Agreement" in this letter, since the entering into of the 2015 Master Facilities Agreement, the Group had gradually built up its customer profile. The Group had entered into (i) 9 finance lease transactions with the subsidiaries and/or associates of Shougang Group, of principal amount ranged from RMB50 million to RMB500 million; and (ii) 3 finance lease transactions with other independent third party customers, of principal amount ranged from RMB10 million to RMB300 million. It demonstrated the capabilities of the Group to provide large scale financing services. The Group's total borrowings were amounted to approximately HK\$928.5 million and HK\$896.5 million as at 31 December 2016 and 2017, respectively, which represented approximately 87.5% and 85.3% of its total liabilities for the respective period. It demonstrated that the Group has received strong support from the banks. Based on the above, the Directors expect that the capabilities of the Group to raise the necessary funds would remain strong.

Having considered (i) the basis of determination of the Facilities and the proposed Annual Caps; (ii) the potential demand on finance lease of Shougang Group based on its capital intensive nature, huge historical funding raised from external borrowings; (iii) the capability of the Group to raise the necessary fund to finance the operation; (iv) the strong background of Shougang Group as set out in the paragraph headed "2.1 Information of Shougang Group" in this letter; and (v) the reasons as set out in the paragraph headed "3. Background to and reasons for the entering into of the Master Facilities Agreement" in this letter, we are of the view that the proposed Annual Caps in respect of the Master Facilities Agreement are reasonably determined and are fair and reasonable so far as the Independent Shareholders are concerned.

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4.6 Term

The term of the Master Facilities Agreement is for a period of 3 years commencing from the Effective Date. Such that the duration of each Loan will be negotiated on a case-by-case basis and each Loan shall expire within the 3-year period from the date of the relevant loan agreement. In other words, pursuant to the Master Facilities Agreement, the Company and/or its subsidiaries may enter into a loan agreement with Shougang Group and/or its subsidiaries during the 3 years period from 2018 to 2021 and the Loans would expire by 2024 the latest.

We note that the finance lease transactions entered into between the Group and independent third party customers during the past one year up to the date of the Master Facilities Agreement ranges from 12 to 60 months, and most commonly set for a period of 36 months. The term of each Loan offered under the Master Facilities Agreement, being not exceeding 3 years from the date of the relevant loan agreement is therefore in line with the Group's normal practice.

We have also, on a best-effort basis, reviewed the finance lease transactions as announced by companies listed on the Stock Exchange from 1 July 2017 up to the date of the Master Facilities Agreement. We noted that the relevant terms ranges from 6 months to 14 years, and most commonly set for a period of 3 years. This demonstrates that it is not uncommon for finance lease transactions having terms of 3 years or more.

Pursuant to the Master Facilities Agreement, the term of the Master Facilities Agreement is for a fixed term of 3 years and the duration for each Loan under the Master Facilities Agreement shall not exceed 3 years from the date of the relevant loan agreement. As such, the Annual Caps of the Master Facilities Agreement will be for a maximum period of 6 years from the date of the Master Facilities Agreement.

Having considered (i) the term of each Loan of 3 years is in line with the Group's normal practice; (ii) it is of market practices for finance lease transactions having terms of 3 years or more, we consider that it is normal business practice for agreements of similar type with the Master Facilities Agreement to have such duration.

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5. Relationship with Shougang Group

As set out in the Letter from the Board, in the two years ended 31 December 2016 and 2017, the Group derived over 80% of its revenue from Shougang Group and/or its subsidiaries. In the six months ended 30 June 2018, such percentage has been reduced to slightly over 70%.

With an aim to achieve a more balanced revenue profile between Shougang Group and/or its subsidiaries and independent third party customers, the Group has already adopted an active business strategy to diversify its revenue source including, amongst others, the transactions announced by the Company on 13 June 2018 and disclosed in the circular of the Company dated 4 September 2018, which have been approved by the Shareholders in the special general meeting held on 18 September 2018.

It is expected that such new businesses will commence operation and begin to generate income in 2019. In addition, South China Leasing is currently pursuing a number of potential financial lease projects with substantial balance involving independent third party customers. Such projects are subject to satisfactory security and finalization of terms of the transactions and may or may not materialised.

We are advised by the Directors that, going forward, the Group will continue to cultivate business relationships with new customers who are independent third parties, for promoting business scale extension by capturing the recent favourable credit market conditions. The Company considered that the provision of the Facilities would demonstrate to the market the capability of the Group in engaging sizable financial services transactions which in turn may enable the Group to source similar transactions with independent third party customers in the market. The Group intends to focus its resources to identify business opportunities with independent third party customers in the following industry sectors which have significant external financing demand due to their respective industrial characteristics: (a) steel production and trading; (b) medical and healthcare; (c) energy conservation and environmental protection; (d) new energy; (e) auto and transportation; (f) machinery and equipment manufacturing; and (g) urban construction. In assessing the viability of the respective business opportunities, the Group will evaluate the development prospect and industrial characteristics, such as the cashflow cycle of the various businesses and repayment structure of different finance projects.

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The transactions under the Master Facilities Agreement will not put strain on the human resource of the sales and marketing teams of the Group. The Group's sales and marketing teams will concentrate to source targeted independent third party customers in the above seven industry sectors. The Group intends to enhance its reputation through marketing activities such as participation in local trade unions, etc. and will also source new customers by visiting enterprises engaged in different industry sectors. Furthermore, the Group will continue to leverage on its established relationships with major banks in the PRC who will refer customers to the Group in circumstances where they have limitations or restrictions in extending credit by virtue of their scope of business or internal credit policies.

Moreover, according to the rights issue prospectus of the Group dated 8 October 2018, the Group will (i) focus on the development of innovative financial services industry in the PRC and overseas market and (ii) continues to explore financial engineering projects in relation to the integration of supply chain networks with third parties leveraging on the Group's knowledge with the industry and accessibility to bank financing and capital markets.

The Group is currently actively pursuing a number of potential transactions involving financial services and supply chain financing with independent third parties. On 31 October 2018, the Company announced that it has entered into (i) a cooperation framework agreement with Wicresoft (Shanghai) Network Technology Co., Ltd. (微創(上海)網絡技術有限公司) to cooperate fully in areas such as software industrial finance, supply chain and financial technology, (ii) a strategic framework agreement with Shanghai Steel Information Technology Co., Ltd. (上海找鋼網信息科技股份有限公司), pursuant to which both parties will cooperate fully in areas such as trade finance, supply chain and financial technology, and (iii) a letter of intent with GUAZI.COM.INC, pursuant to which both parties will cooperate fully in the automobile supply chain finance area. Such transactions are expected to be recurring and long-term and are expected to materialise and commence operation in 2019. On 12 November 2018, the Company announced that it has through its wholly-owned subsidiary entered into a shareholders' agreement with YHL Investment (GD), Ltd. (廣東頤亨隆投資有限公司) to establish a joint venture company focusing on, among other things, medical and supply chain technology.

Based on the aforesaid business strategy coupled with the new businesses which target independent third party customers, the Company expects that the percentage of revenue attributable from Shougang Group and/or its subsidiaries will be substantially reduced and a more balanced revenue profile will be achieved in the coming years. Even though majority of the Group's revenue was sourced from Shougang Group and/or its subsidiaries, the Company will be able to reduce the reliance through continuous business expansion and diversification. Accordingly, we concur with the view of the Directors that the entering into of the Master Facilities Agreement is in the interests of the Company and its Shareholder as a whole.

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RECOMMENDATION

Having taken into account the principal factors discussed above, we are of the view that (i) the entering into of the Master Facilities Agreement is in the interests of the Company and the Shareholders as a whole; (ii) the terms of the Master Facilities Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) the transactions contemplated under the Master Facilities Agreement are in the ordinary and usual course of business of the Group and the Facilities and proposed Annual Caps are determined under fair and reasonable grounds. Accordingly, we recommend the Independent Shareholders, and the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolution to be proposed at the Special General Meeting to approve the Master Facilities Agreement and the proposed Annual Caps thereof.

Yours faithfully,
For and on behalf of
Messis Capital Limited
Vincent Cheung
Managing Director

Mr. Vincent Cheung is a licensed person registered with the Securities and Futures Commission and regarded as a responsible officer of Mesis Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 10 years of experience in corporate finance industry.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' interests

As at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (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.

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

(b) Substantial Shareholders

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

Long positions in the Shares/underlying Shares

Name of Shareholder	Capacity in which interests were held	Number of Shares /underlying Shares	Interests as to % of the total number of Shares in issue as at the Latest Practicable Date	Note(s)
Shougang Group	Interests of controlled corporations	2,025,736,972	50.53%	1
Shougang Holding	Interests of controlled corporations	2,025,736,972	50.53%	1
Wheeling Holdings Limited (“Wheeling”)	Beneficial owner	2,025,736,972	50.53%	1
Yip Wang Ngai	Interests of controlled corporations	213,600,000	5.33%	2
HY Holdings Limited (“HY Holdings”)	Beneficial owner	213,600,000	5.33%	2
MAK Siu Hang Viola	Interest of controlled corporations	686,780,538	17.13%	3
VMS Investment Group Limited	Beneficial owner	183,750,000	4.58%	3
Master Competent Limited	Interest of controlled corporation	503,030,538	12.55%	3
VMS Holdings Limited	Interest of controlled corporation	503,030,538	12.55%	3
Fastlane Global Investments Limited	Interest of controlled corporation	503,030,538	12.55%	3
VMS Securities Holdings Limited	Interest of controlled corporation	503,030,538	12.55%	3
VMS Financial Group Limited	Interest of controlled corporation	503,030,538	12.55%	3
VMS Securities Limited	Beneficial owner	503,030,538	12.55%	3

Notes:

1. Shougang Group indicated in its disclosure form dated 31 October 2018 (being the latest disclosure form filed up to the Latest Practicable Date) that as at 31 October 2018, its interest in the Company was held by Shougang Holding, a wholly-owned subsidiary of Shougang Group. Shougang Holding's interest in the Company was the shares held by Wheeling, a wholly-owned subsidiary of Shougang Holding.
2. Mr. Yip Wang Ngai indicated in his disclosure form dated 30 June 2015 (being the latest disclosure form filed up to the Latest Practicable Date) that as at 29 June 2015, his interest in the Company was held by HY Holdings which in turn was held as to 80% by Mr. Yip Wang Ngai.
3. Ms. MAK Siu Hang Viola indicated in her disclosure form dated 31 October 2018 (being the latest disclosure form filed up to the Latest Practicable Date) that as at 31 October 2018, (i) VMS Securities Limited, which is a company controlled by her, holds 503,030,538 Shares; and (ii) VMS Investment Group Limited, which is a company wholly owned by her, holds 183,750,000 Shares. VMS Securities Limited is wholly owned by VMS Financial Group Limited, which in turn is wholly owned by VMS Securities Holdings Limited and in turn, wholly owned by Fastlane Global Investments Limited. Fastlane Global Investments Limited is wholly owned by VMS Holdings Limited. VMS Holdings Limited is owned as to 59.80% by Ms. Mak Siu Hang Viola and 32.20% by Master Competent Limited, which is wholly owned by Ms. Mak Siu Hang Viola.

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

As at the Latest Practicable Date, no Director is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' SERVICE CONTRACTS

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

4. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at the Latest Practicable Date, in so far as the Directors were aware, none of the Directors or their respective close associates had any interest in a business that competed or was likely to compete with the business of the Group.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, save for the loss of approximately HK\$58 million for the six months ended 30 June 2018 which was primarily attributable to an impairment loss on the Group's interest in an associate for the six months ended 30 June 2018, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2017, the date to which the latest published audited consolidated financial statements of the Company were made up. For details of the loss recorded by the Group for the six months ended 30 June 2018, please refer to the interim results announcement of the Company dated 23 August 2018.

6. LITIGATION

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

7. EXPERT'S QUALIFICATION AND CONSENT

As at the date of this circular, Messis Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which it appears. The following expert's statements were issued on the date of this circular and were made for incorporation or reference (as the case may be) in this circular.

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

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

As at the Latest Practicable Date, Messis Capital Limited 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 2017, being the date to which the latest audited financial statements of the Group was made up; and was not beneficially interested in the share capital of any member of the Group and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

8. 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 2017, 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) The company secretary of the Company is Ms. Yeung Ching Man, who is a member of the Hong Kong Institute of Certified Public Accountants.
- (d) The English text of this circular shall prevail over their respective Chinese text for the purpose of interpretation.

9. 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 Special General Meeting:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 18 to 19 of this circular;
- (c) the letter from Messis Capital Limited to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 20 to 48 of this circular;
- (d) the written consent referred to in the paragraph headed “Expert’s Qualification and Consent” in this Appendix;
- (e) the circular of the Company dated 4 September 2018;
- (f) the Master Facilities Agreement; and
- (g) this circular.

NOTICE OF SPECIAL GENERAL MEETING



首長四方（集團）有限公司*
SHOUGANG CONCORD GRAND (GROUP) LIMITED
(Incorporated in Bermuda with limited liability)
(Stock Code: 730)

NOTICE IS HEREBY GIVEN that a general meeting of Shougang Concord Grand (Group) Limited (the “**Company**”) will be held at The Function Room, 2nd Floor, The Harbourview, 4 Harbour Road, Wanchai, Hong Kong on Friday, 7 December 2018 at 10:30 a.m. for the purpose of considering and, if thought fit, passing the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

“**THAT**

- (a) the agreement (the “**Master Facilities Agreement**”) dated 8 June 2018 entered into between the Company and Shougang Group Co., Ltd.* (首鋼集團有限公司)(“**Shougang Group**”), 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, the Company has conditionally agreed to provide or procure its subsidiaries to provide the facilities of up to an aggregate principal amount of RMB5,000,000,000 (equivalent to approximately HK\$6,106,000,000) to Shougang Group and/or its subsidiaries be and is hereby approved, ratified and confirmed;
- (b) the cap of the facilities to be provided under the Master Facilities Agreement of RMB1,500,000,000 (equivalent to approximately HK\$1,831,800,000) as set out in the circular of the Company dated 20 November 2018 be and is 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 to be incidental to, ancillary to or in connection with the matters contemplated in the Master Facilities Agreement.”

By order of the Board
Shougang Concord Grand (Group) Limited
Xu Liang
Chairman

Hong Kong, 20 November 2018

NOTICE OF SPECIAL GENERAL MEETING

Registered office:

Canon's Court
22 Victoria Street
Hamilton, HM 12
Bermuda

Principal office in Hong Kong:

5/F
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 needs not be a member of the Company.
2. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his/her attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of any officer, attorney or other person authorised to sign the same.
3. In order to be valid, the form of proxy in the prescribed form together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority, must be deposited with the share registrar of the Company, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as practicable but in any event not less than 48 hours before the time appointed for holding the meeting, or any adjourned meeting thereof (as the case may be).
4. Completion and return of the form of proxy shall not preclude members of the Company from attending and voting in person at the meeting or at any adjourned meeting thereof (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.
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.

* *For identification purpose only.*