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**CHINA ORIENTAL GROUP COMPANY LIMITED**  
**中國東方集團控股有限公司\***

*(incorporated in Bermuda with limited liability)*

**(Stock code : 581)**

**DISCLOSEABLE TRANSACTION  
IN RELATION TO THE ACQUISITION OF  
IRON AND STEEL PRODUCTION CAPACITY BETWEEN  
FANGCHENGGANG JINXI AND CHENGDE ZHAOFENG**

**BACKGROUND**

Reference is made to the announcement of the Company dated 3 September 2019 (the “**Announcement**”) in relation to the Investment Agreement entered into by Jinxi Limited and the Fangchenggang City Government. Pursuant to the Investment Agreement, on 3 September 2019, Jinxi Limited established Fangchenggang Jinxi, the Project Company, to assume all of the interests and obligations of Jinxi Limited under the Investment Agreement, including but not limited to the procurement of the transfer of iron and steel production capacity to Fangchenggang City for the purpose of achieving the annual iron and steel production capacity required for the first phase of the Project. In this regard, Fangchenggang Jinxi entered into the Capacity Transfer Agreement with Chengde Zhaofeng, details of which are set out below.

Unless otherwise stated, capitalised terms used in herein shall have the same meanings as defined in the Announcement.

\* *For identification purposes only*

## THE CAPACITY TRANSFER AGREEMENT

On 10 October 2019 (after trading hours), Fangchenggang Jinxi entered into the Capacity Transfer Agreement with Chengde Zhaofeng in relation to the transfer of the Target Capacity from Chengde Zhaofeng to Fangchenggang Jinxi at a total consideration of RMB1.452 billion. The principal terms of the Capacity Transfer Agreement are summarised below:

### Date

10 October 2019 (after trading hours)

### Parties

- (1) Transferor : Chengde Zhaofeng
- (2) Transferee : Fangchenggang Jinxi

As of the date of this announcement, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Chengde Zhaofeng and its ultimate beneficial owner(s) is/are third parties independent of the Company and its connected persons (as defined under the Listing Rules).

### Assets to be transferred

Pursuant to the terms of the Capacity Transfer Agreement, Chengde Zhaofeng agreed to sell, and Fangchenggang Jinxi agreed to acquire, the Target Capacity, being the Target Iron Production Capacity (being iron production capacity of 1,380,000 tonnes per year) and Target Steel Production Capacity (being steel production capacity of 1,500,000 tonnes per year).

### Consideration

The consideration for the Target Iron Production Capacity and the Target Steel Production Capacity shall be RMB552 million and RMB900 million, respectively. The total consideration for the Target Capacity of RMB1.452 billion shall be paid by Fangchenggang Jinxi to Chengde Zhaofeng in cash in the following manner:

- (1) RMB100 million (the “**First Partial Payment**”) shall be paid within 5 business days of the date of the Capacity Transfer Agreement into a bank account jointly managed by Chengde Zhaofeng and Fangchenggang Jinxi;
- (2) RMB1.2068 billion (the “**Second Partial Payment**”), being 90% of the total consideration minus the First Partial Payment, shall be paid within 5 business days of the publication of the official announcement in relation to the transfer of the Target Capacity on the website of the Industry and Information Technology Department of Hebei Province and, at the same time, the First Partial Payment shall be transferred to a bank account as designated by Chengde Zhaofeng; and

- (3) RMB145.2 million, being 10% of the total consideration, shall be paid within 3 days upon the receipt of the value-added-tax invoice in relation to the total consideration to be issued by Chengde Zhaofeng and such invoice shall be issued to Fangchenggang Jinxi within 5 business days of the receipt of the First Partial Payment and the Second Partial Payment by Chengde Zhaofeng.

The total consideration for the Target Capacity shall be funded with the internal financial resources of the Group.

### **Basis of consideration**

The total consideration for the Target Capacity was arrived at based on the prevailing market prices of the iron and steel production capacity after arm's length negotiations between Fangchenggang Jinxi and Chengde Zhaofeng.

### **Others and termination**

Due to reasons on the part of Fangchenggang Jinxi resulting in the Target Capacity cannot be transferred to Fangchenggang Jinxi, Chengde Zhaofeng will assist to transfer the Target Capacity to a party designated by Fangchenggang Jinxi, and all of the related costs and legal risks will be borne by Fangchenggang Jinxi.

Should the official announcement on the transfer is not published within 2 months after the signing of the Capacity Transfer Agreement due to the policy of the relevant authority, Chengde Zhaofeng will refund all the payments received, without interest, and the Capacity Transfer Agreement will be terminated. Should the authority require additional time to approve the transfer of the Target Capacity, both parties may enter into supplemental agreement(s).

## **INFORMATION ON THE PARTIES**

### **Information on the Group and Fangchenggang Jinxi**

The Company is an investment holding company with trading of steel products and iron ore business. As of the date of the announcement, the Group is principally engaged in the manufacturing and sales of steel products, trading of steel products and iron ore and real estate business.

Fangchenggang Jinxi is a company incorporated in the PRC with limited liability and a 97.6% indirectly owned subsidiary of the Company. It is principally engaged in manufacturing and sales of steel products.

### **Information on Chengde Zhaofeng**

Chengde Zhaofeng is a company incorporated in the PRC with limited liability. It is principally engaged in iron ore mining and processing, manufacturing and sales of steel products.

## **REASONS FOR AND BENEFITS OF THE CAPACITY TRANSFER**

The Group is principally engaged in the manufacturing and sales of steel products, trading of steel products and iron ore and real estate business. The Group currently has manufacturing plants in Hebei Province and Guangdong Province of the PRC and sells mainly to customers located in the PRC.

In order to strengthen the Group's leading position in manufacturing of H-section steel products in the PRC, the Group seeks to expand its production capacity and efficiency. As disclosed in the Announcement, Jinxi Limited entered into the Investment Agreement with the Fangchenggang City Government. Currently, the Group's major production base is located in Tangshan, a region subject to more stringent environmental protection measures in recent years, which restrict the Group's operation and increase production costs. Besides, the proximity of Fangchenggang Economic and Technological Development Zone to the port would enable the Group to save costs on transportation of raw materials and expand into the nearby steel market at low costs. The Board is of the view that the Project, if materialised, would provide a desirable location for the Group to expand and reach to new market in a cost-effective manner as well as diversifying the business risk in the long run.

Pursuant to the Investment Agreement, within five days from the signing of the Investment Agreement, Jinxi Limited should commence relocation of its existing production capacity located in Tangshan to Fangchenggang City or otherwise procure the transfer of production capacity from other means to Fangchenggang City, in order to achieve the annual iron and steel production capacity required for the first phase of the Project. By entering into the Capacity Transfer Agreement, Fangchenggang Jinxi will procure the Target Capacity for the Project, which could be directed to the Project.

Based on the above, the Directors (including the independent non-executive Directors) consider that the terms and conditions (including the total consideration) of the Capacity Transfer Agreement are fair and reasonable and on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Pursuant to the terms of the Investment Agreement, the Group may further procure the transfer of iron and steel production capacity from different means to Fangchenggang City, which may constitute a notifiable transaction of the Company under Chapter 14 of the Listing Rules. The Company will make announcement and obtain Shareholders' approval in compliance with the requirements of the Listing Rules as and where appropriate.

## **IMPLICATIONS UNDER THE LISTING RULES**

Given that the highest of all the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the acquisition of the Target Capacity is 5% or more but less than 25%, the acquisition of the Target Capacity constitutes discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the notification and announcement requirements thereunder.

**As there is uncertainty as to whether the Group would make a successful bidding for the Land, and the Project and the transactions contemplated thereunder remain subject to approvals from the relevant government or administrative authorities and the respective board of directors and shareholders of the Company, Jinxi Limited or**

**Fangchenggang Jinxi, as the case may be, the Project may or may not materialise wholly or partly. Shareholders of the Company and public investors are advised to exercise caution when dealing in the shares of the Company.**

## **DEFINITION**

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

“Board”	the board of Directors
“Capacity Transfer Agreement”	a transfer agreement dated 10 October 2019 entered into between Fangchenggang Jinxi and Chengde Zhaofeng in relation to the transfer of the Target Capacity from Chengde Zhaofeng to Fangchenggang Jinxi
“Chengde Zhaofeng”	Chengde Zhaofeng Iron and Steel Group Company Limited* (承德兆豐鋼鐵集團有限公司), a company established in the PRC with limited liability
“Company”	China Oriental Group Company Limited, a company incorporated in Bermuda with limited liability and its issued Shares are listed on the main board of the Stock Exchange
“Director(s)”	director(s) of the Company
“Fangchenggang City Government”	the People’s Government of Fangchenggang City (防城港市人民政府), Guangxi Zhuang Autonomous Region (廣西壯族自治區), the PRC
“Group”	collectively, the Company and its subsidiaries from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Investment Agreement”	the agreement dated 3 September 2019 entered into between Jinxi Limited and the Fangchenggang City Government in relation to, amongst others, the Project
“Jinxi Limited”	Hebei Jinxi Iron and Steel Group Company Limited* (河北津西鋼鐵集團股份有限公司), a company established in the PRC with limited liability and a 97.6% indirectly owned subsidiary of the Company
“Fangchenggang Jinxi”	Fangchenggang Jinxi Section Steel Technology Limited* (防城港津西型鋼科技有限公司), a company established in the PRC with limited liability and a 97.6% indirectly owned subsidiary of the Company

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, and for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Project”	the development of H-section steel and sheet piling production base by the Group in Fangchenggang Economic and Technological Development Zone
“RMB”	Renminbi, the lawful currency of the PRC
“Shares”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Capacity”	collectively, the Target Iron Production Capacity and the Target Steel Production Capacity
“Target Iron Production Capacity”	iron production capacity of 1,380,000 tonnes per year (subject to the final determination of the Industry and Information Technology Department of Hebei Province)
“Target Steel Production Capacity”	steel production capacity of 1,500,000 tonnes per year (subject to the final determination of the Industry and Information Technology Department of Hebei Province)
“%”	per cent

By order of the Board  
**China Oriental Group Company Limited**  
**HAN Jingyuan**  
*Chairman and Chief Executive Officer*

Hong Kong, 10 October 2019

*As at the date of this announcement, the Board of Directors of the Company comprises Mr. HAN Jingyuan, Mr. ZHU Jun, Mr. SHEN Xiaoling, Mr. ZHU Hao, Mr. HAN Li and Mr. Sanjay SHARMA being the Executive Directors, Mr. Ondra OTRADOVEC being the Non-executive Director and Mr. WONG Man Chung, Francis, Mr. WANG Tianyi and Mr. WANG Bing being the Independent Non-executive Directors.*

*This announcement is published on the websites of the Company (www.chinaorientalgroup.com) and the Stock Exchange (www.hkexnews.hk).*