
RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

OVERVIEW

As of the Latest Practicable Date, the Family Trust through its wholly owned companies Chak Limited, Hengshi Holdings and Hengshi Investments, and the Management Trust through its wholly owned companies Seven Limited and Aowei Developments, held in aggregate 100% of the issued share capital of our Company. Immediately after completion of the Global Offering and assuming the Over-allotment Option is not exercised, it is expected that the Family Trust and the Management Trust will together indirectly hold approximately 75% of the issued capital of our Company. Pursuant to the trust deeds establishing the Family Trust and the Management Trust, and the Confirmation Letters (as described below), Mr. Li Ziwei, as the settlor, protector and a beneficiary of the Family Trust and the Management Trust, together with Mr. Li Yanjun, who is acting in concert with Mr. Li Ziwei in respect of the Family Trust and the Management Trust, has the power to exercise all voting rights attached to the shares of Hengshi Investments and Aowei Developments, which indirectly hold 100% of the issued capital in our Company. As a result, Mr. Li Ziwei and Mr. Li Yanjun are deemed to be our ultimate controlling shareholders.

CONTROLLING SHAREHOLDERS ACTING IN CONCERT

Pursuant to a confirmation letter dated March 4, 2013 and a supplemental confirmation letter dated June 27, 2013 (the “Confirmation Letters”) jointly issued by Mr. Li Ziwei, the settlor, protector and a beneficiary of the Family Trust and the Management Trust, and Mr. Li Yanjun, the father of Mr. Li Ziwei, Mr. Li Ziwei and Mr. Li Yanjun confirmed that (1) they had been acting in concert in respect of the management and operation of the business of our Group prior to the establishment of the Family Trust and the Management Trust; (2) the shareholder decisions in respect of our Group made by Mr. Li Ziwei prior to the establishment of the Family Trust and the Management Trust had been made jointly by Mr. Li Ziwei and Mr. Li Yanjun; (3) after the establishment of the Family Trust and the Management Trust, Mr. Li Ziwei and Mr. Li Yanjun will continue to act in concert to make decisions and exercise discretions in respect of the matters of the Family Trust and the Management Trust and exercise all voting rights attached to the shares of Hengshi Investments and Aowei Developments; and (4) whether our Group was indirectly held by Mr. Li Yanjun prior to the reorganization of our Company or was indirectly held by Mr. Li Ziwei following the reorganization of our Company, the shareholder interests in respect of the Group had been, and will continue to be, jointly held by Mr. Li Yanjun and Mr. Li Ziwei. During the Track Record Period and before the establishment of the Family Trust and the Management Trust, Mr. Li Ziwei and Mr. Li Yanjun had made all decisions in consensus at the relevant meetings of our Group. Since the establishment of the Family Trust and the Management Trust, all decisions have been made and all discretions have been exercised in consensus by Mr. Li Ziwei and Mr. Li Yanjun at the relevant meetings. Based on the above, notwithstanding that Mr. Li Ziwei was the sole registered holder of shares of Hengshi Holdings (which indirectly holds 97% of our Company) and the indirect sole shareholder of Aowei Developments before the establishment of the two trusts, and is the sole protector and settlor of the two trusts, Mr. Li Ziwei and Mr. Li Yanjun have been, throughout the Track Record Period, and will continue to be acting in concert in respect of all voting rights attached to the shares of our Company held indirectly by the two trusts. As a result, both Mr. Li Ziwei and Mr. Li Yanjun are our ultimate controlling shareholders.

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DELINEATION OF BUSINESS AND COMPETITION

Our Group is principally engaged in iron ore mining, processing and production of preliminary concentrates, iron ore and iron ore concentrates (the “Restricted Business”).

Mr. Li Yanjun, the chairman and an executive Director of our Company and one of our Controlling Shareholders, holds 89.2% equity interest in Aowei Group as of the Latest Practicable Date. The remaining 10.8% equity interest in Aowei Group is held by Ms. Yang Hongying, the wife of Mr. Li Yanjun. It is expected that Mr. Li Yanjun will continue to own and operate Aowei Group after the Listing.

Aowei Group and its PRC operating subsidiaries are principally engaged in the hotel management industry, which is not related to the Restricted Business.

Mr. Li Ziwei and Mr. Li Yanjun have each confirmed that they do not have any interest in any business which competes with or is likely to compete with our business, whether directly or indirectly, which would otherwise require disclosure under Rule 8.10 of the Listing Rules.

Deed of Non-competition

Mr. Li Ziwei, Mr. Li Yanjun, Hengshi Holdings and Hengshi Investment (the “Obligors”) provided a deed of non-competition (the “Deed of Non-competition”) in favor of our Group on November 12, 2013. Pursuant to the Deed of Non-competition, the Obligors have undertaken to our Company (for itself and for the benefit of its subsidiaries) that they will not, profitably or non-profitably, and will procure that their associates (except any members of our Group) will not, directly or indirectly, either on his own or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or hold interests in or engage in or acquire or hold construction, development, operation or management of any business or activity which competes or may compete with the Restricted Business. The Obligors have also granted us an option for new business opportunities, a pre-emptive right and an option for acquisition to acquire any potential interest in their business which competes or is likely to compete, either directly or indirectly, with the Restricted Business. The Deed of Non-competition shall not restrict any of the Obligors (or any of their respective associates (as defined in the Deed of Non-competition) other than our Group), either by itself or through any other person, from:

- (i) holding any interest in the shares of any member of our Group; and
- (ii) holding interests in the shares of a company which is not a member of our Group, provided that:
 - any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for in aggregate less than 5% of that company’s consolidated turnover or consolidated assets, as shown in that company’s latest audited accounts; or

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- the total number of shares held by the Obligors and/or their respective associates in aggregate does not exceed 5% of the issued shares of our Company in question, and the Obligors and/or their respective associates are not entitled to appoint a majority of the Directors of that company. In addition, at any time there must exist at least another shareholder of that company whose percentage of shareholding in that company is more than the total percentage of shareholding held by the Obligors and their respective associates in aggregate; or
- the Obligors and their respective associates do not control the board of such company.

The obligations of the Obligors (and their associates) under the Deed of Non-competition will cease (i) upon the cessation of listing of the Shares on the Stock Exchange (except for suspension of listing of the Shares pursuant to the Listing Rules); (ii) when the Obligors (and their associates) cease to hold any positions as directors in any member of our Group; or (iii) when the Obligors (and their associates) jointly cease to be entitled to exercise or control the exercise of 10% of the voting power at general meetings of our Company or the Obligors (and their associates) cease to be the Largest shareholders of our Company.

The undertakings contained in the Deed of Non-competition are conditional upon, amongst other things, the Stock Exchange granting approval for the listing of, and permission to deal in, our Shares.

(i) Option for New Business Opportunities

The Obligors have undertaken in the Deed of Non-competition that:

- if the Obligors become aware of a business opportunity which directly or indirectly competes, or may compete, with the Restricted Business, they will refer such business opportunity to us in writing within seven days upon becoming aware of such business opportunity and provide to us all information which is reasonably necessary for us to consider whether or not to take up such business opportunity (the “Offer Notice”). We must reply to the Obligors within six months (or such other period as may be agreed between the parties) after receiving the Offer Notice. Should we decide to take up such business opportunity, the Obligors are obliged to refer the business opportunity to us upon terms that are fair and reasonable. The Obligors must not take up the new business opportunity even if our Group decides not to accept such business opportunity; and
- the Obligors shall procure that companies controlled by them and their associates (other than our Group) first offer us any business opportunity which competes, or may compete, with the Restricted Business.

Our independent non-executive Directors will be responsible for reviewing and deciding whether or not to take up a new business opportunity referred to us by the Obligors.

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(ii) Pre-emptive Rights

The Obligors have undertaken that if they intend to transfer, sell, lease or license to a third party any business interests which compete, or may lead to competition, directly or indirectly, with the Restricted Business, our Group shall have a pre-emptive right over these interests, which can be exercised by our Group at any time so long as Deed of Non-competition remains effective. The Obligors must provide us written notice (the “Selling Notice”) as soon as possible in advance of any sale as described above. We must reply to the Obligors within six months (or such other period as may be agreed between the parties) after receiving the Selling Notice, in order to exercise our right. If our Company intends to exercise the right, the terms will be determined at fair market value. The Obligors and their associates (except for any members of our Group) shall not dispose such business and equity to any third party, unless the Group has refused in writing to purchase such business or equity, or the seller has not received any notice about exercising the pre-emptive rights from the Group post to our receipt of the Selling Notice. In addition, any conditions of disposal offered the Obligors and their associates shall not be more favorable than those to be given to the Group.

Our independent non-executive Directors will be responsible for reviewing and deciding whether or not to exercise the pre-emptive right.

(iii) Options for Acquisition

The Obligors have undertaken to grant us the option, pursuant to relevant laws and regulations, to acquire any business that has been engaged by the Obligors and their associates or any equity of such business based upon the above new business opportunity (the “Option for Acquisition”). We are entitled to request at any time to acquire any business that has been engaged by the Obligors and their associates or any equity of such business conducted by the Obligors and their associates under the above new business opportunity, and the Obligors and their associates shall grant the Option for Acquisition when we request so.

Our independent non-executive Directors will be responsible for reviewing and deciding whether or not to exercise the Option for Acquisition.

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to properly manage any potential or actual conflict of interest arising from any business competition between us and our Controlling Shareholders and to safeguard the interests of the Shareholders:

- (i) our independent non-executive Directors will review, on an annual basis, compliance with the Deed of non-competition by the Obligors;

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- (ii) the Obligors have undertaken to provide all information requested by our Company which is necessary for the annual review by the independent non-executive Directors and the enforcement by our Company of the Deed of non-competition. Unless invited by a majority of the independent non-executive Directors, the executive Directors shall exclude themselves from any meeting convened to consider any issues arising under the Deed of Non-competition. Our independent non-executive Directors may engage independent professional advisers, at our Company's cost, for advice on matters relating to the Deed of non-competition;
- (iii) our Company will disclose in its annual report any decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the Deed of non-competition;
- (iv) the Obligors will make an annual declaration on compliance with the Deed of non-competition in the annual report of our Company; and
- (v) to manage the conflicts of interest between our Company, the Obligors, and to protect the minority Shareholders' rights, the Obligors respectively undertake that neither of them shall participate or vote in meetings of the Board involving matters in which he or his associates have a material interest, unless either of them is expressly requested to be present by a majority of the independent non-executive Directors. In that case, the independent non-executive Directors shall have the power to engage independent professional advisers at our Company's costs.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the aforementioned matters and the following factors, we believe that our Group is able to carry on its business independent of our Controlling Shareholders and their respective associates after the Global Offering.

(i) Operational Independence

We do not rely on our Controlling Shareholders for any significant amount of our revenue, product development, staffing, transportation or marketing and sales activities. We have our own headcount of employees for our operation and human resources management. Our Group owns all licenses and trademarks that are required for our Group to carry on its business independently. Our Group does not have any connected transactions with our Controlling Shareholders or their associates that are expected to continue after the Listing.

(ii) Management Independence

Our Board consists of nine members, six of whom are executive Directors and three of whom are independent non-executive Directors.

None of our Directors holds any directorship or senior management position in Aowei Group and its subsidiaries.

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We believe that there are sufficient and effective control mechanisms to ensure that our Directors fulfill their duties, avoid potential conflicts of interest and safeguard the interests of our Shareholders as a whole on the following grounds:

- the three independent non-executive Directors have extensive experience in different professional fields and have been appointed in accordance with the requirements under the Listing Rules to ensure that the decisions of the Board are made with independent and impartial views;
- each of our Directors is aware of his fiduciary duties as a director, which require, among other things, that he acts in the best interests of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interest. In the event that there is a potential conflict of interest between our Group and our Directors or their respective associates, arising out of any transaction to be entered into, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted towards the quorum. In addition, we have an independent senior management team to execute the business decisions of our Group; and
- all of our executive Directors will dedicate all of their time to the management and operation of our Group and they will receive their remuneration, benefits and rewards from our Group only.

Having considered the above factors, our Directors believe that they are able to perform their duties in our Company independently and that we are able to manage our business independent of our Controlling Shareholders after the Global Offering.

(iii) Financial Independence

We are financially independent of our Controlling Shareholders and their associates. Our Company and Hengshi Holdings (one of our Controlling Shareholders) entered into a loan exemption agreement on December 31, 2012 and subsequently a confirmation letter on November 12, 2013, pursuant to which Hengshi Holdings confirmed that, in 2011, it had waived three shareholder loans provided by Hengshi Holdings to our Company with an aggregate amount of USD23.5 million. The three shareholder loans were provided by Hengshi Holdings to us to finance our reorganization.

Aowei Group is owned by Mr. Li Yanjun, one of our Controlling Shareholders, as to 89.2% of its equity interests. As of June 30, 2013, the balance due to Aowei Group by our Company amounted to approximately RMB298.5 million. In September 2013, we borrowed through three entrusted loans from (i) Hebei Jinhai Industry Group Co., Ltd. (河北津海實業集團有限公司) as an entrustor lender and China Construction Bank Corporation Baoding Branch as the trustee lender; (ii) Baoding Aosen Clothing Making Co., Ltd. (保定澳森製衣有限公司) as an entrustor lender and China CITIC Bank Co., Ltd. Shijiazhuang Branch as the trustee lender; and (iii) Hebei Fuye Property Development Co., Ltd. (河北福業房地產開發有限公司) as an entrustor lender and China Construction Bank Corporation Baoding Branch as the trustee lender, respectively, for an aggregate amount of RMB190.0 million. All of the entrustor lenders are Independent Third Parties. These loans are structured as entrusted loans because the lenders of the

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loans are non-bank entities which do not have the qualification to directly lend money to other entities. The lenders had to entrust a bank to make the loans to our Company. According to the relevant PRC regulation, an entrusted loan is a loan provided by certain principal such as enterprises or individuals through a trustee (usually a bank) in accordance with relevant conditions set up by such principal. Such conditions usually include the identity of the borrower, the purposes of the loan, and the amount, term and interest rate of the loan. The trustee only assists the principal to grant, supervise and collect the loan, without bearing any risk of lending. Our PRC legal counsel, Commerce & Finance Law Offices, is of the view that the entrusted loan arrangement does not violate PRC laws or regulations. With the fund from the entrusted loans and our Company's fund from operations, our Company has, as of the Latest Practicable Date, repaid all of the outstanding balance to Aowei Group.

As of the Latest Practicable Date, all loans, advances and balances due to and from our Controlling Shareholders and their respective associates have been fully settled and that all share pledges and guarantees provided by our Controlling Shareholders and their respective associates on our Group's borrowing have been fully released. We are capable of obtaining financing from Independent Third Parties, if necessary, without reliance on our Controlling Shareholders, any parties in any way related to our Controlling Shareholders, any guarantee from our Controlling Shareholders or any parties related to our Controlling Shareholders.

In addition, our Group has established an independent finance department with a team of independent financial staff, a sound and independent audit system, a standardized financial and accounting system and a complete financial management system for cash receipts and payment. We make financial decisions based on our Group's own business needs. We maintain basic accounts with banks independent of the Controlling Shareholders. We have made independent tax registrations and paid tax independently pursuant to applicable PRC tax laws and regulations.

Our Directors are satisfied that we are capable of carrying on our business independent of any of our Controlling Shareholders (including their respective associates) after our Company is listed on the Stock Exchange.