

3 October 2023

*The Independent Board Committee and the Independent Shareholders  
Angang Steel Company Limited\**

Dear Sirs,

**REVISION OF ANNUAL CAPS  
IN RELATION TO  
THE SUPPLY OF MATERIALS AND SERVICES AGREEMENT (2022 – 2024)**

**INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the revision of the Current Annual Caps for the provision of steel products by the Angang Group to the Group and the provision of Scrap Steel and Abandoned Materials by the Group to the Angang Group under the Supply of Materials and Services Agreement (2022–2024), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 3 October 2023 issued to the Shareholders (the “**Circular**”). Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

As at the Latest Practicable Date, Angang Group Company, as the ultimate controlling shareholder indirectly holding 5,016,111,529 A shares (representing approximately 53.366% equity interest of the Company), is a connected person of the Company as defined under Chapter 14A of the Listing Rules. As a result, the Transactions constitute continuing connected transactions of the Company. Pursuant to Rule 14A.54(1) of the Listing Rules, if the Company proposes to revise the annual monetary caps of its continuing connected transactions, the Company is required to re-comply with the announcement and shareholders’ approval requirements. As the transactions under the Supply of Raw Materials Agreement (2022–2024) which concern the supply of raw materials are similar in nature with certain transactions under the Supply of Materials and Services Agreement (2022–2024) (as revised by the Supplemental Agreement) and the relevant agreements were entered into by the Company with the same party, they are



aggregated pursuant to Rule 14A.81 of the Listing Rules. As the highest applicable percentage ratio in respect of the transactions under the Supply of Raw Materials Agreement (2022–2024) and the Supply of Materials and Services Agreement (2022–2024) (as revised by the Supplemental Agreement) on an annual basis exceeds 5%, the entering into of the Supplemental Agreement and the Proposed Revised Annual Caps are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

We have been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to (i) whether the terms of the Supplemental Agreement (including the Proposed Revised Annual Caps) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Transactions are in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the relevant resolution to approve the Supplemental Agreement at the EGM.

#### **OUR INDEPENDENCE**

As at the Latest Practicable Date, we did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to the independence of us. In the last two years, we have acted as an independent financial adviser to the then independent board committee and independent shareholders of the Company in relation to an occasion as detailed in the circular of the Company dated 9 November 2021. Given (i) our independent role in the abovementioned engagement; and (ii) our fees for the abovementioned engagement represented an insignificant percentage of our revenue, we consider that the abovementioned engagement would not affect our independence to form our opinion in respect of the Transactions.

#### **BASIS OF OPINION**

In putting forth our recommendation, we have relied on the information, opinions, facts and representations supplied to us by the Directors and/or the representatives of the Company. We have reviewed, amongst other things, (i) the Supplemental Agreement; (ii) the Supply of Materials and Services Agreement (2022–2024); (iii) the annual report of the Company for the year ended 31 December 2021 (the “**2021 Annual Report**”), the annual report of the Company for the year ended 31 December 2022 (the “**2022 Annual Report**”) and the interim report of the Company for the six months ended 30 June 2023 (the “**2023 Interim Report**”); (iv) other information as set out in the Circular; and (v) relevant market data and information available from public sources.

We have assumed that all such information, opinions, facts and representations provided to us by the Directors and/or the representatives of the Company, for which they are fully responsible, are true, accurate and complete in all respects. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and/or the representatives of the Company. The Company has also confirmed to us that no material facts have been omitted from the information supplied and we have no reason to suspect that any material information has been withheld or is misleading.

We consider that we have sufficient information currently available to reach an informed view and to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided by the Directors and/or the representatives of the Company, nor have we conducted any independent investigation into the business, affairs, operations, financial position or future prospects of each of the Group, Angang Group Company and any of their respective subsidiaries and associates.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the Supplemental Agreement, we have taken into account the following principal factors and reasons:

### 1 Background information of the parties to the Supplemental Agreement

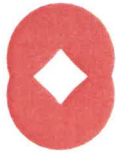
#### 1.1 The Group

As stated in the Letter from the Board, the Company is a major steel manufacturing enterprise in the PRC. It is principally engaged in ferrous metal smelting and steel pressing and processing.

Set out below is certain financial information of the Group for the three years ended 31 December 2022 (“FY2020”, “FY2021” and “FY2022” respectively) and the six months ended 30 June 2022 and 2023 (“2022H1” and “2023H1” respectively) as extracted from the 2021 Annual Report, the 2022 Annual Report and the 2023 Interim Report:

	For the six months ended 30 June		For the year ended 31 December		
	2023	2022	2022	2021	2020
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	(Unaudited)	(Unaudited)	(Audited)	(Audited)	(Audited)
				(Restated)	(Restated)
Operating income	58,825	70,294	131,072	136,120	100,349
Operating (loss)/profit	(1,758)	2,224	(218)	9,023	2,694
Net (loss)/profit attributable to shareholders of the Company	(1,346)	1,716	156	6,964	2,190
	As at 30 June		As at 31 December		
	2023	2022	2021	2020	2020
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	(Unaudited)	(Audited)	(Audited)	(Audited)	(Audited)
				(Restated)	(Restated)
Total assets	95,754	96,935	98,652	89,166	89,166
Total liabilities	38,256	38,138	37,415	34,388	34,388
Equity attributable to shareholders of the Company	56,826	58,140	60,711	54,285	54,285

*Note:* In 2022, the Company completed the acquisition of net assets of the second power plant of Angang Holding and made retrospective adjustments to the financial data of 2021 and 2020.



As shown in the above table, the Group's unaudited operating income amounted to approximately RMB58,825 million for 2023H1, representing a decrease of approximately 16% as compared with the operating income for 2022H1. The unaudited net loss attributable to shareholders of the Company was approximately RMB1,346 million for 2023H1 as compared with the net profit attributable to shareholders of the Company of approximately RMB1,716 million for 2022H1. As stated in the 2023 Interim Report, the decrease in operating income and net profit attributable to shareholders of the Company for 2023H1 as compared with 2022H1 was mainly due to that in 2023H1, the steel industry continued with its weak performance momentum, with downstream demand remaining sluggish and steel prices fluctuating at a low level. While the prices of iron ore followed a consequent downward trend, the decrease was much smaller as compared to the decline in the prices of finished steel products. The rapid narrowing of price differentials between the supply and demand ends led to a decrease in gross profit contribution.

The audited operating income of the Group amounted to approximately RMB131,072 million for FY2022, representing a decrease of approximately 4% as compared with the operating income of the Group for FY2021. The audited net profit attributable to shareholders of the Company for FY2022 amounted to approximately RMB156 million, representing a substantial decrease of approximately 98% as compared with the net profit attributable to shareholders of the Company for FY2021. As stated in the 2022 Annual Report, such decrease in net profit attributable to shareholders of the Company was mainly because since the second quarter of 2022, affected by the global economic situation and changes in market supply and demand, the steel market has seen a weak cycle and low momentum with insufficient demand, a sharp drop in steel prices and an expanding loss in the steel industry.

The audited operating income of the Group amounted to approximately RMB136,120 million for FY2021, representing an increase of approximately 36% as compared with the operating income of the Group for FY2020. The audited net profit attributable to shareholders of the Company for FY2021 amounted to approximately RMB6,964 million, representing an increase of over two times as compared with the net profit attributable to shareholders of the Company for FY2020. As stated in the 2021 Annual Report, such increase in net profit attributable to shareholders of the Company was mainly because in 2021, the steel industry developed well and product prices increased. Besides, the Group effectively organised production and operation activities, optimised procurement and marketing strategies, vigorously adjusted the product mix, and strengthened fine management. The Group promoted continuous improvement in various technical and economic indicators through benchmarking and potential tapping, achieved significant cost reduction in processes, and stabilised and improved production and operation.



The equity attributable to shareholders of the Company as at 31 December 2021 amounted to approximately RMB60,711 million, representing an increase of approximately 12% as compared to that as at 31 December 2020. The equity attributable to shareholders of the Company as at 31 December 2022 amounted to approximately RMB58,140 million, representing a decrease of approximately 4% as compared to that as at 31 December 2021. The equity attributable to shareholders of the Company as at 30 June 2023 amounted to approximately RMB56,826 million, representing a decrease of approximately 2% as compared to that as at 31 December 2022. Such movements were mainly due to the net profit of the Group for FY2021, the profit distribution to Shareholders for FY2022 and the net loss of the Group for 2023H1.

### ***1.2 Angang Group Company and Angang Holding***

As stated in the Letter from the Board, Angang Group Company is the ultimate controlling shareholder of the Company. As at the Latest Practicable Date, it indirectly held approximately 53.366% equity interest in the Company through Angang Holding. Angang Group Company is a company incorporated in the PRC. It was established by the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會) (as the representative of the State Council of the PRC) on 28 July 2010. Angang Group Company is held as to 64.3486% by the State-owned Assets Supervision and Administration Commission of the State Council, 17.8257% by China Guoxin Holding Co., Ltd.\* (中國國新控股有限責任公司), and 17.8257% by China Chengtong Holdings Group Limited\* (中國誠通控股集團有限公司). Both China Guoxin Holding Co., Ltd.\* and China Chengtong Holdings Group Limited\* are wholly owned by the State Council.

Angang Holding, a wholly-owned subsidiary of Angang Group Company, is a major enterprise in the iron and steel industry in the PRC and engaged in a wide range of iron and steel-related business activities including steel products, metal wares (exclusive of franchised products), cast iron pipes, metal structure materials, iron wire ropes and relevant products, coking and coking products, cement, electricity generation, metallurgical appliance and equipment and related spare parts and components, electrical machinery, equipment, instruments and apparatus for power transmission, distribution and control, mining and beneficiation of iron ore and manganese ore as well as quarrying of refractory pebble, etc. As at the Latest Practicable Date, it directly held approximately 53.366% equity interest in the Company.



## **2 Reasons for and benefits of the entering into of the Supplemental Agreement**

As confirmed by the representatives of the Company, in view of (i) the long-established relationship between the Group and the Angang Group; (ii) the abundant iron ore resource reserves and advanced mining and processing capabilities of the Angang Group, as well as its long-term engagement in the mining, supply, processing and manufacturing of raw fuel materials, which is part of the Group's supply chain and provides the guarantee for the Group to a stable and high-quality continuous supply of raw fuel materials; (iii) the strong engineering, technology, logistics, transportation and other service capabilities of the Angang Group in the iron and steel industry, which provide the Group with the necessary support services for its production and operation; and (iv) that the Supply of Materials and Services Agreement (2022–2024) (as revised by the Supplemental Agreement) is conducive to maintaining the stable operation of the Company's production and operation, enhancing the Group's ability to control the scrap steel resources, safeguarding the steel industry chain, improving the core competitiveness of the industry, and promoting the mutually beneficial cooperation between the Group and the Angang Group, the Board considers that the Transactions are beneficial to the continuity and stability of the production and operation of the Group, hence having a positive impact on the normal operation of the production and operation of the Group.

Besides, (i) the sales of Scrap Steel and Abandoned Materials to the Angang Group provides a reliable customer base and stable income to the Group; (ii) to further promote a mutually beneficial cooperative relationship, the Group may also utilise its own marketing network in the domestic steel market and purchase steel products from the Angang Group for sale, effectively providing steel trading services for the Angang Group; the quality of products provided by the Angang Group is also stable and reliable due to the long-established and stable relationship; and (iii) the Supply of Materials and Services Agreement (2022–2024) (as revised by the Supplemental Agreement) does not restrict the Group to sell and/or procure products and/or services to and/or from the corresponding contractual parties only and therefore offer an additional option to the Group. Hence, the Group may, but is not obliged to, sell and/or procure products and/or services to and/or from the corresponding contractual parties if the price and quality are competitive.

Therefore, we concur with the Directors' view that the Transactions, which are conducted in the ordinary and usual course of business of the Group, are in the interests of the Company and the Shareholders as a whole.

## **3 Principal terms of the Supplemental Agreement**

### ***3.1 Principal terms of the Supplemental Agreement***

The Supplemental Agreement will revise the Current Annual Caps to the Proposed Revised Annual Caps when it becomes effective upon the Independent Shareholders' approval. Save for the Current Annual Caps, the other terms and conditions in the Supply of Materials and Services Agreement (2022–2024) will remain unchanged and in full force and effect.

Further details of the Supplemental Agreement are set out in the Letter from the Board.

According to the Supplemental Agreement and the Supply of Materials and Services Agreement (2022–2024), the price of steel products purchased from the Angang Group should be determined based on the selling price of the Group to third parties after deducting a consignment fee of no less than RMB15 per tonne, and the price of Scrap Steel and Abandoned Materials purchased by the Angang Group should be determined based on the market price or appraised price.

We conducted our works to assess the pricings of the Transactions and enquired into the five largest amount transactions of each category of the Transactions for each of FY2022 and 2023H1.

The five largest amount transactions of the supply of steel products by the Angang Group to the Group for each of FY2022 and 2023H1 involved the supply of steel products by the Angang Group to the Group. We have obtained the contracts and invoices and noted that the unit price of steel products purchased from the Angang Group was less than the unit price of steel products sold by the Group to independent third parties, and the difference was greater than the consignment fee of RMB15 per tonne as stipulated in the Supply of Materials and Services Agreement (2022–2024).

The five largest amount transactions of the supply of Scrap Steel and Abandoned Materials by the Group to the Angang Group for each of FY2022 and 2023H1 involved the supply of scrap steel by the Group to the Angang Group. As advised by the representatives of the Company, the pricing of scrap steel is determined with reference to the market price. We have obtained the contracts and the base prices of scrap steel of the Group applicable to independent third parties for the corresponding month, and noted that the base prices of scrap steel sold to the Angang Group were referred to the base prices of scrap steel of the Group available to independent third parties for the corresponding month.

Therefore, we are of the view that the pricing standards stipulated in the Supplemental Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

### ***3.2 The Proposed Revised Annual Caps and basis of determination***

The following table sets out the historical transaction amounts of the provision of steel products by the Angang Group to the Group and the provision of Scrap Steel and Abandoned Materials by the Group to the Angang Group for FY2022, 2023H1 and the seven months

ended 31 July 2023, and the Proposed Revised Annual Caps for the two years ending 31 December 2024 (“FY2023” and “FY2024” respectively):

	Historical transaction amounts			Proposed Revised Annual Caps	
	For the year ended 31 December 2022 <i>RMB million</i>	For the six months ended 30 June 2023 <i>RMB million</i>	For the seven months ended 31 July 2023 <i>RMB million</i>	For the year ending 31 December 2023 <i>RMB million</i>	For the year ending 31 December 2024 <i>RMB million</i>
Steel products	1,006	616	650	9,357	9,752
Scrap Steel and Abandoned Materials	341	160	185	766	6,563

*The Proposed Revised Annual Caps for the steel products*

According to the Letter from the Board, the utilisation rates of the Current Annual Caps for the steel products on an annualised basis were approximately 68.8% and 75.5% respectively for FY2022 and 2023H1. We have discussed with the representatives of the Company and understood that the utilisation rate of the Current Annual Caps for the steel products for FY2022 was mainly due to the decline in the prices of steel products and the decrease in the demand for steel products. As stated in the 2022 Annual Report, the total operating income of steel products for FY2022 decreased by approximately 6.6% as compared with that for FY2021, with the effect of the global economic situation and a weak cycle of the steel market. The utilisation rate of the Current Annual Caps for the steel products for 2023H1 was mainly due to the fact that under the internal control of continuing connected transactions of the Company, the annual caps had been broken down and allocated to various departments/units. Although the Company has proposed to increase the Current Annual Cap for purchasing steel products due to the Company’s business expansion needs, each department/unit has been under strict control of the allocated amount of Current Annual Cap and has not yet started new business before being granted additional quota.

The representatives of the Company advised us that the Proposed Revised Annual Cap for the steel products for FY2023 was mainly based on the historical transaction amount of the steel products for 2023H1 of approximately RMB616 million and the expected purchase amounts of the auto steel products, the steel products used for home appliances and the Other Steel Products (defined as below) from customers for the six months ending 31 December 2023 (“2023H2”).



For the auto steel products, according to the Letter from the Board, in order to better serve customers, the Company coordinates the sales channels of the Angang Group's auto steel products within the sales area of the subordinate steel processing companies, to uniformly communicate with customers by using the Group as a window. As a result, some of the steel products produced by the subsidiaries of Angang Group Company shall be sold indirectly to the customers after first being bought by the Group. The expected purchase amounts of the auto steel products from these customers for 2023H2 were approximately RMB7,844 million on which the Company has discussed with the relevant key customers. The expected purchase amounts from these customers for FY2023 accounted for approximately 90% of the total expected purchase amount of the auto steel products for FY2023. We have obtained the meeting records between the Company and these customers and noted the purchase plan for auto steel products of these customers from the Group for FY2023 and the expected purchase volume of the auto steel products for 2023H2. The representatives of the Company also advised us that the expected average price of auto steel products for FY2023 was determined based on the average historical transaction price of auto steel products of the Group for FY2022. Besides, the expected purchase amounts from two new customers for FY2023 accounted for approximately 94% of the total expected purchase amount of the auto steel products for FY2023.

For the steel products used for home appliances, the expected purchase amount of the steel products used for home appliances for 2023H2 was approximately RMB440 million on which the Company has discussed with the relevant key customers. The expected purchase amounts from these customers for FY2023 accounted for approximately 100% of the total expected purchase amount of the steel products used for home appliances for FY2023. We have obtained the meeting records between the Company and these customers and noted the purchase plan for steel products of these customers from the Group for FY2023 and the expected purchase volume of the steel products for 2023H2. The representatives of the Company also advised us that the expected average price of steel products used for home appliances for FY2023 was determined based on the average historical transaction price of steel products used for home appliances of the Group for FY2022 and the current market price of a new type of stainless steel.

The representatives of the Company advised us that the expected purchase amounts of the steel products for 2023H2 is mainly due to the demand of the customers engaged in manufacturing of vehicles or home appliances. With the publishment of the policy of restoring and expanding consumption by the PRC government, the customers engaged in manufacturing of vehicles or home appliances are expected to increase their production. According to the Notice of the Measures of the National Development and Reform Commission for Restoring and Expanding Consumption Forwarded by the General Office of the State Council\* (國務院辦公廳轉發國家發展改革委關於恢復和擴大消費措施的通知) (the "Notice") dated 28 July 2023, measures will be taken to stabilise spending on big-



ticket items, such as optimising vehicle purchases and management, expanding consumption of new energy vehicles, and promoting spending on home decoration materials and electronic products. Meanwhile, the Notice mentioned that efforts will be made to boost consumption of green products, such as smart home appliances and green building materials, in rural area, and encouraged the local government to provide subsidies for “trade-in” activities of home appliances and promote green and smart home appliances to the rural area.

For the steel products other than auto steel products and the steel products used for home appliances (the “**Other Steel Products**”), the expected purchase amount of the Other Steel Products for 2023H2 was approximately RMB456 million on which the Company has discussed with a relevant key customer. The expected purchase amount from this customer for FY2023 accounted for approximately 100% of the total expected purchase amount of the Other Steel Products for FY2023. We have obtained the meeting records between the Company and this customer and noted the purchase plan for steel products of this customer from the Group and the expected purchase amounts of the steel products for the fourth quarter of 2023. The representatives of the Company also advised us that the expected average price of the Other Steel Products for FY2023 was determined based on the current market price of similar steel products.

As shown in the above table, the Proposed Revised Annual Cap for the steel products for FY2024 is approximately RMB9,752 million, representing an increase of approximately 4% as compared to the previous year. Such increase was determined based on the average annual growth rate of the gross domestic product of the PRC. According to the website of the National Bureau of Statistics (國家統計局), the average annual growth rate of the gross domestic product of the PRC is approximately 5% for the last five years.

Given that (i) the expected purchase amounts of the steel products for 2023H2 are based on the discussion with the relevant key customers; and (ii) the policy of restoring and expanding consumption by the PRC government is expected to boost consumption and production of vehicles and home appliances, we are of the view that the Proposed Revised Annual Caps for the steel products are determined based on reasonable estimation and after due and careful consideration and are fair and reasonable so far as the Independent Shareholders are concerned.

*The Proposed Revised Annual Caps for the Scrap Steel and Abandoned Materials*

According to the Letter from the Board, the utilisation rates of the Current Annual Caps for the Scrap Steel and Abandoned Materials on an annualised basis were approximately 81.6% and 73.4% respectively for FY2022 and 2023H1. We have discussed with the representatives of the Company and understood that the utilisation rates of the Current Annual Caps for the Scrap Steel and Abandoned Materials for 2023H1 was mainly due to the decline in the price of scrap steel for 2023H1. According to the data extracted from the terminal of mysteel.com (www.mysteel.com) provided by the Company, the average scrap steel price composite index



for 2023H1 decreased by approximately 17.1% as compared with that for 2022H1. We have also noted that the daily scrap steel price composite index was published on the website of the Price Monitoring Center of National Development and Reform Commission\* (國家發展和改革委員會價格監測中心).

The representatives of the Company advised us that the Proposed Revised Annual Caps for the Scrap Steel and Abandoned Materials for FY2023 and FY2024 were mainly based on (i) the expected transaction amounts of abandoned materials for FY2023 and FY2024; (ii) the expected transaction amounts of scrap steel provided by the Group to one of the subsidiaries of Angang Group Company (“**Company A**”), which is a new customer in purchasing scrap steel from the Group, for FY2023 and FY2024; and (iii) the expected transaction amounts of the scrap steel provided by the Group to other subsidiaries of Angang Group Company for FY2023 and FY2024.

#### Expected transaction amounts of abandoned materials

The representatives of the Company advised us that the expected transaction amount of the sales of abandoned materials to the Angang Group of approximately RMB170 million for FY2023 was determined to be two times of the historical transaction amount for 2023H1 with the assumption that the expected transaction amount for 2023H2 will be equal to the historical transaction amount for 2023H1. The expected transaction amount of the sales of abandoned materials to the Angang Group for FY2024 of approximately RMB179 million was determined based on (i) the expected transaction amount for FY2023; and (ii) an increase of approximately 5% in the expected transaction amount for FY2024. Such increase was determined based on the average annual growth rate of the gross domestic product of the PRC.

#### Expected transaction amounts of the scrap steel

The expected transaction amounts of scrap steel provided by the Group to Company A were approximately RMB446 million and RMB5,931 million for FY2023 and FY2024 respectively. They were determined based on (i) the expected transaction price of scrap steel of the Group for FY2023 and FY2024 with reference to the average transaction price of scrap steel of the Group for FY2022; (ii) the expected sales volume of scrap steel for FY2023 with the effect of the commissioning operation of Angang Green Gold Industry Development Co., Ltd.\* (鞍鋼綠金產業發展有限公司) (“**Green Gold**”); (iii) the expected purchase volume of scrap steel of Company A for FY2024; and (iv) a buffer of approximately 4% and 7% in the expected transaction price of scrap steel of the Group for FY2023 and FY2024 respectively.

According to the Letter from the Board, in order to improve the efficiency of resource utilisation, strengthen the ability to control scrap steel resources, safeguard the steel industry chain and enhance the core competitiveness of the industry, in June 2023, the Company



established a platform for the specialised operation of scrap steel, i.e., the establishment of Green Gold. The representatives of the Company advised us that Green Gold is expected to commence operation in the fourth quarter of 2023 and is expected to purchase and process small amount of scrap steel during the commissioning operation in 2023. For the high-quality scrap steel, Green Gold may provide scrap steel to clients directly after centralised purchasing. For the low-quality scrap steel, Green Gold may provide scrap steel to clients after recycle processing. The expected sales volume of scrap steel from Green Gold to Company A for FY2023 was determined based on the expected procurement and processing amount of scrap steel of Green Gold of approximately 129 thousand tonnes during the commissioning operation in 2023. After the commissioning operation, Green Gold is expected to reach the processing capacity of scrap steel of approximately 3,960 thousand tonnes for FY2024 and meet the needs of customers of approximately 1,673 thousand tonnes by the way of processing low-quality scrap steel and/or procurement of high-quality scrap steel. While forecasting the expected sales amounts of scrap steel to Company A, the Company has discussed with Company A on its demand for scrap steel for FY2023 and FY2024. We have obtained and reviewed the purchase plan of Company A for scrap steel from the Group for FY2023 and FY2024.

The representatives of the Company advised us that the expected transaction amount of the scrap steel provided by the Group to other subsidiaries of Angang Group Company of approximately RMB150 million for FY2023 was determined to be two times of the historical transaction amount for 2023H1 with the assumption that the expected transaction amount for 2023H2 will be equal to the historical transaction amount for 2023H1. The expected transaction amount of the scrap steel provided by the Group to other subsidiaries of Angang Group Company of approximately RMB454 million for FY2024 was determined based on (i) the expected transaction price of scrap steel of the Group for FY2024 with reference to the average historical transaction price of scrap steel of the Group for FY2022; (ii) the expected transaction volume of the scrap steel provided by the Group to other subsidiaries of Angang Group Company for FY2023; (iii) an increase of approximately 5% in the expected transaction volume of the scrap steel provided by the Group to other subsidiaries of Angang Group Company for FY2024. Such increase was determined based on the average annual growth rate of the gross domestic product of the PRC; and (iv) a buffer of approximately 7% in the expected transaction price of scrap steel of the Group for FY2024.

A buffer of approximately 4% and 7% was adopted in the expected transaction price of scrap steel of the Group for FY2023 and FY2024 respectively. Based on the data extracted from the terminal of mysteel.com (www.mysteel.com) provided by the Company, we noted that the highest and the lowest monthly average scrap steel price composite index for 2023H1 were approximately RMB3,262.9 per tonne and RMB2,843.7 per tonne respectively, representing a difference of approximately 14.7%. In view of the historical volatility of the monthly average scrap steel price composite index, we consider the use of buffer of approximately 4% and 7% to be acceptable.



Given that (i) the expected transaction amounts of scrap steel provided by the Group to Company A for FY2023 and FY2024 were based on the expected purchase amounts of the scrap steel from Company A as indicated in the purchase plan; (ii) the expected transaction amounts of Scrap Steel and Abandoned Materials provided by the Group to other subsidiaries of Angang Group Company were based on the historical transaction amount of scrap steel and abandoned materials or the historical average price and transaction volume of the scrap steel of the Group; and (iii) the use of buffer of approximately 4% and 7% is acceptable, we are of the view that the Proposed Revised Annual Caps for the Scrap Steel and Abandoned Materials are determined based on reasonable estimation and after due and careful consideration and are fair and reasonable so far as the Independent Shareholders are concerned.

#### 4 Internal control measures for the Transactions

The representatives of the Company advised us that the continuing connected transactions of the Group will be executed in accordance with the Procedures for Administration of Connected Transactions\* (日常關聯交易監督控制管理辦法) (the “**Connected Transaction Procedures**”) to ensure that the prices for the services, materials or products for continuing connected transactions would be determined based on the pricing policies stipulated under relevant agreements for continuing connected transactions and written agreements are effectively entered into by the various operating divisions or units of the Group.

We have obtained the Connected Transaction Procedures and noted that the Connected Transaction Procedures sets out the guidelines for conducting connected transactions and the responsibilities of the various operating divisions of the Group. The secretary to the Board is responsible for, among others, drafting and amending the Connected Transaction Procedures. The finance department of the Group is responsible for, among others, monitoring the annual caps for continuing connected transactions. As advised by the representatives of the Company, in order to ensure that the proposed annual caps for continuing connected transactions of the Group are not exceeded, the finance department of the Group obtains transaction amounts of continuing connected transactions on a monthly basis. Hence, we have obtained and reviewed the monthly statements for FY2022 and 2023H1, and noted that both transaction amounts and annual caps for the continuing connected transactions for the corresponding year were recorded in the monthly statements.

According to the Connected Transaction Procedures, the responsible operating divisions or units of the Group are responsible for, among others, monitoring the pricing of continuing connected transactions (such as monitoring the price of each of the transactions in accordance with the pricing policies set out in the respective agreements) and management of internal control of the continuing connected transactions. We have obtained and reviewed three sample approval schedule related to each of the provision of steel products by the Angang Group to the Group and the provision of Scrap Steel and Abandoned Materials by the Group to the Angang Group (the “**Samples**”), and



we noted that a chop, name or signature of the responsible operating division or unit, or a staff of the responsible operating division or unit was made in the Samples. The representatives of the Company advised us that chops, names or signatures on the relevant documents represented that the responsible operating divisions or units of the Group reviewed the Samples (including monitoring the pricing of the Samples).

Further details of the internal control measures of the Group are set out in the Letter from the Board.

As stated in the 2022 Annual Report, the independent non-executive Directors expressed their opinions on the continuing connected transactions of the Company in 2022 and were of the view that (i) the continuing connected transactions of the Company in 2022 were carried out in the ordinary and usual course of business of the Company; (ii) the continuing connected transactions of the Company in 2022 were conducted (A) in accordance with the normal commercial terms (with reference to transactions of a similar nature made by similar entities in the PRC); (B) on terms no less favourable than the terms available to or offered by the third parties (if no comparable case is available); and (C) on terms which are fair and reasonable to the Shareholders (if no reference is available); (iii) the continuing connected transactions of the Company in 2022 were conducted in accordance with the terms set out in the continuing connected transaction agreements, which are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (iv) the total amount of the continuing connected transactions of the Company in 2022 did not exceed the relevant applicable caps as specified under the continuing connected transaction agreements.

As stated in the 2022 Annual Report, the auditors of the Company have reviewed the non-exempt continuing connected transactions of the Company conducted during the year 2022 and issued a letter to the Board. In respect of the continuing connected transactions disclosed by the Company, the auditors are of the opinion that nothing has come to their attention that causes them to believe that: (i) the disclosed continuing connected transactions have not been approved by the Board; (ii) for the transactions involving provision of the Group's goods and services, the continuing connected transactions were not carried out in accordance with the pricing policies of the Group in all material aspects; (iii) the transactions were not entered into in accordance with the relevant agreements in all material aspects; and (iv) any continuing connected transactions had exceeded the relevant annual cap.

Taking into account the internal control measures as stated above, we concur with the Directors' view that the Company has established internal control procedures to ensure that (i) the terms of the Transactions will be on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (ii) the Transactions will be implemented in accordance with the pricing policies set out in the Supply of Materials and Services Agreement (2022–2024) (as revised by the Supplemental Agreement).

## RECOMMENDATION

Having considered the principal factors and reasons as discussed above, we are of the view that the terms of the Supplemental Agreement (including the Proposed Revised Annual Caps) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the Transactions, which are conducted in the ordinary and usual course of business of the Group, are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend (i) the Independent Board Committee to advise the Independent Shareholders; and (ii) the Independent Shareholders, to vote in favour of the relevant resolution to approve the Supplemental Agreement at the EGM.

Yours faithfully,  
For and on behalf of  
**TC Capital International Limited**



**Edward Wu**  
*Chairman*

**Edith Lee**  
*Managing Director*

*Note:* Mr. Edward Wu has been a responsible officer of type 6 (advising on corporate finance) regulated activities under the SFO since 2005. Ms. Edith Lee has been a responsible officer of type 6 (advising on corporate finance) regulated activities under the SFO since 2015. Both Mr. Wu and Ms. Lee have participated in and completed various advisory transactions in respect of connected transactions of listed companies in Hong Kong.

\* *For identification purpose only*