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**鞍鋼股份有限公司**

**ANGANG STEEL COMPANY LIMITED\***

*(a joint stock company incorporated in the People's Republic of China with limited liability)*

(Stock Code: 0347)

## **SUPPLEMENTAL ANNOUNCEMENT**

### **CONNECTED TRANSACTIONS IN RELATION TO THE ESTABLISHMENT OF A JOINT VENTURE**

Reference is made to the Company's announcement dated 28 March 2024 (the "**Announcement**") in relation to the connected transaction for the establishment of the Joint Venture involving the acquisition contemplated under the Steel Scrap Equity Transfer Agreement. Unless otherwise stated, capitalized terms in this supplemental announcement shall have the same meanings as those defined in the Announcement.

As disclosed in the Announcement, the appraised value of Steel Scrap's entire shareholders' equity as of 31 October 2023 (the "**Valuation Benchmark Date**") (the "**Valuation**") was determined by an independent appraisal report (the "**Valuation Report**"). The Board would like to provide additional information regarding the Valuation.

#### **I. BASIS OF USING THE ASSET-BASED APPROACH**

##### **a. Background of valuation methods**

According to the Asset Valuation Practice Standards – Asset Valuation Methods (Zhong Ping Xie (2019) No. 35), when the conditions for adopting different valuation methods are met, the asset valuation professionals should choose two or more valuation methods and form a reasonable valuation conclusion through comprehensive analysis.

According to the Valuation Report, the valuer analyzed the applicability of three valuation methods, namely asset-based approach, income approach, and market approach. Income approach refers to the approach that capitalizes or discounts the expected income of the appraised entity to determine its value. Market approach refers to the approach that determines the value of the appraised entity based on the market price of comparable objects by comparing the appraised entity with comparable objects. Asset-based approach refers to the approach of evaluating the value of various assets and liabilities on and off the balance sheet of the appraised entity based on the balance sheet of the appraised entity on the valuation benchmark date to determine its value.

**b. Selection of valuation method for Steel Scrap – Asset-based approach**

Due to the fact that there are available financial and asset management information of Steel Scrap, and wide source of the relevant data and information for asset acquisition costs, the conditions for adopting the asset-based approach are met, and the asset-based approach may be used for the Valuation.

**c. Reasons for the selection of asset-based approach**

The price fluctuations of the Steel Scrap's waste steel and metal products business in different periods of historical years are significant, and the future market price trends cannot be accurately determined. The sales volume of Steel Scrap's trade sales mainly depends on the demand for products from upstream, and the sales volume of products in historical years are highly unstable. Taking into account the high uncertainty in predicting future income, the evaluation results using the income approach were not selected. The evaluation conclusion from the asset-based approach is adopted in the Valuation Report.

## **II. ASSUMPTIONS OF THE VALUATION**

### **General Assumptions**

The Valuation is conducted based on the following general assumptions:

1. Transaction assumption: it is assumed that all subjects to be appraised are in the process of transaction and the valuer makes estimations in an analogical market according to the transaction conditions of the assets to be appraised;
2. Open market assumption: the open market assumption is a hypothesis about the conditions under which assets are intended to enter the market and the impact that assets will receive under such market conditions. An open market is a competitive market with fully developed and sound market conditions and willing buyers and sellers, in which the buyers and the sellers have equal standing and are provided with the opportunity and time to obtain sufficient market information and conduct transaction behaviours in a willing and rational state without compulsion or restrictions;
3. Asset going concern assumption: it is assumed that the appraised asset is continuously used according to its current purpose and usage method;
4. Enterprise going concern assumption: it is assumed that Steel Scrap will continue to operate based on the actual condition of the assets on the Valuation Benchmark Date.

## **Special Assumptions**

The Valuation is conducted based on the following special assumptions:

1. There are no material changes in the PRC's relevant laws, regulations and policies, and the PRC's macroeconomic situation; there are no material changes in the politics, economy and social environments of the regions where the parties to this transaction are located at;
2. There will be no material changes in interest rates, exchange rates, tax bases and tax rates, and policy-related charges related to Steel Scrap;
3. It is assumed that the management of Steel Scrap is responsible, stable, and capable of assuming their positions after the Valuation Benchmark Date;
4. Unless otherwise specified, it is assumed that Steel Scrap is fully complied with all relevant laws and regulations;
5. There are no force majeure factors and unforeseeable factors after the Valuation Benchmark Date to lead to a significant adverse impact on Steel Scrap;
6. It is assumed that the accounting policies adopted by Steel Scrap after the Valuation Benchmark Date are consistent in all material respects with the accounting policies adopted at the time of preparation of the Valuation Report;
7. It is assumed that on the basis of Steel Scrap's existing management methods and management levels, the business scope and methods are consistent with the current situation;
8. It is assumed that the cash inflow of Steel Scrap after the Valuation Benchmark Date is the average inflow, and the cash outflow is the average outflow;
9. It is assumed that the services of Steel Scrap after the Valuation Benchmark Date are as competitive as they are now.

### III. INPUTS AND COMPUTATION PROCESS OF THE VALUATION

According to the Valuation Report and the valuation method used, on the Valuation Benchmark Date, the appraised value of the entire shareholders' equity of Steel Scrap is (1) the sum of the appraised value of current assets; and (2) the appraised value of non-current assets, minus (3) the total liabilities.

#### (1) Current assets

The current assets of Steel Scrap include monetary funds, accounts receivable, accounts receivable, prepayments, other receivables, inventory, and other current assets.

Inputs and computation process for value of current assets:

- A. Monetary funds, notes receivable, prepayments, and other current assets are evaluated based on the verified book value.
- B. Upon the verification of the corresponding receivables, the valuer determines the appraised value of accounts receivable and other receivables based on the amount that may be recovered for each transaction.
- C. Inventory: raw materials are evaluated based on the market price on the Valuation Benchmark Date; scrap steel products that can be directly used for sales accounted for in raw materials, are evaluated under the method for finished products.

For finished products: The appraised value of Steel Scrap's finished products is determined based on the sales price on the Valuation Benchmark Date minus sales expenses, all taxes, and an appropriate amount of after-tax net profit. The specific evaluation calculation formula is as follows:

The appraised value of finished products for normal sales = quantity of finished products × unit price of finished products excluding tax × (1 – sales tax and surcharges rate – sales expense rate – income tax rate – net profit margin × deduction rate)

## **(2) Non-current assets**

The non-current assets of Steel Scrap include fixed assets, intangible assets, long-term deferred expenses, and deferred income tax assets.

Inputs and computation process for value of non-current assets:

- A. Fixed assets, including buildings, machinery and equipment, are mainly evaluated using the cost method. The cost method calculation formula is:  
appraised value = reset cost × comprehensive newness rate
- B. Intangible assets, including land use rights, externally purchased software by Steel Scrap, and others
  - a. For land use rights, the market comparison approach is used to evaluate the target land. The market approach follows the principle of substitution, and determines the price of the appraisal object by comparing and adjusting factors between land transaction examples with similar conditions and similar use values and the appraisal object.
  - b. For externally purchased software by Steel Scrap, the market price on the Valuation Benchmark Date shall be used as the appraised value.
- C. Long-term deferred expenses and deferred income tax assets are evaluated based on the verified book value or nil value according to the actual situation after separate analysis of the nature of the accounts.

## **(3) Liabilities**

The liabilities of Steel Scrap include current liabilities and non-current liabilities. Current liabilities include short-term borrowings, accounts payable, employee compensation payable, taxes payable, interest payable, other payables, and other current liabilities, and non-current liabilities are deferred income.

The appraised value for liabilities is determined by the actual liabilities that Steel Scrap should bear.

**(4) Analysis of the reasons of the difference between appraised value and book value**

As of the Valuation Benchmark Date, the appraised value of Steel Scrap's entire shareholders' equity was approximately RMB255.5354 million, and the book value was RMB210.0629 million, representing an appreciation amount of approximately RMB45.4725 million. The appreciation was mainly attributable to the following items:

- A. Fixed assets: the appraised value of net fixed assets was approximately RMB95.835 million and the book value was approximately RMB91.787 million, representing an appreciation amount of approximately RMB4.048 million. The appreciation was mainly due to the increase in labor and material costs for buildings, partially offset by the impairment of machine and equipment due to rapid technological development in recent years.
- B. Intangible assets: the appraised value of intangible assets was approximately RMB94.500 million and the book value was approximately RMB79.936 million, representing an appreciation amount of approximately RMB14.564 million. The appreciation was mainly due to the continuous increase of the land price for the land use rights.
- C. Deferred income tax assets: the appraised value of deferred income tax assets was approximately RMB2.412 million and the book was approximately RMB11.247 million, representing an impairment amount of approximately RMB8.835 million. The impairment was mainly due to the recognition of deferred income tax assets through the payment of income tax on special support funds, which was appraised as nil.
- D. Liabilities: the appraised value of the liabilities was approximately RMB315.928 million and the book value was approximately RMB351.268 million, representing a reduced amount of approximately RMB35.340 million. As deferred income refers to liabilities that do not require actual payment, the actual liabilities that Steel Scrap should bear were determined as the appraised value, resulting in reduced appraised value of liabilities.

After conducting the evaluation procedures, including acceptance of commission, preliminary preparation, on-site investigation, data collection, evaluation and estimation, and internal review, and based on the valuation methods described above, as of the Valuation Benchmark Date, the valuer used the asset-based approach to determine the entire shareholders' equity of Steel Scrap as RMB255.5354 million.

#### IV. IDENTITY AND QUALIFICATION OF THE VALUER

The identity and qualification of the valuer is as follows:

<b>Name</b>	<b>Qualification</b>
Beijing China Enterprise Appraisals Co., Ltd. (北京中企華資產評估有限責任公司)	Independent valuer

By order of the Board  
**Angang Steel Company Limited\***  
**Wang Jun**  
*Executive Director and Chairman of the Board*

Anshan City, Liaoning Province, China  
12 April 2024

As of the date of this announcement, the Board comprises the following Directors:

*Executive Directors:*

Wang Jun  
Zhang Hongjun  
Wang Baojun  
Tian Yong

*Independent Non-executive Directors:*

Feng Changli  
Wang Jianhua  
Wang Wanglin  
Zhu Keshi

\* *For identification purposes only*