

2 December 2024

The Independent Board Committee and the Independent Shareholders
Maanshan Iron & Steel Company Limited

Dear Sirs,

**CONTINUING CONNECTED TRANSACTIONS
NEW SALE AND PURCHASE OF PRODUCTS AGREEMENT,
NEW PROVISION AND ACCEPTANCE OF SERVICES AGREEMENT AND
NEW FINANCIAL SERVICES AGREEMENT**

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 Non-exempt Continuing Connected Transactions, 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 2 December 2024 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, China Baowu was an indirect controlling Shareholder of the Company and Baowu Finance was a subsidiary of China Baowu. As such, China Baowu and Baowu Finance are connected persons of the Company. The Non-exempt Continuing Connected Transactions constitute connected transactions of the Company and are subject to the reporting, announcement, annual review and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.



TC CAPITAL 天財資本

The Independent Board Committee comprising Mr. Guan Bingchun, Mr. He Anrui, Mr. Qiu Shengtao and Mrs. Zeng Xiangfei (all being Independent Non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Non-exempt Continuing Connected Transactions (including the Non-exempt Proposed Annual Caps) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Non-exempt Continuing Connected 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 resolutions to approve the Non-exempt Continuing Connected Transactions at the EGM. We, TC Capital International Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

OUR INDEPENDENCE

We have not provided any other services to the Company in the last two years. As at the Latest Practicable Date, we did not have any relationships with or interests in the Company or any other parties that could reasonably be regarded as relevant to the independence of us.

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, among other things, (i) the New Sale and Purchase of Products Agreement, the New Provision and Acceptance of Services Agreement and the New Financial Services Agreement; (ii) the annual reports of the Company for the years ended 31 December 2022 and 2023 (the “**2022 Annual Report**” and the “**2023 Annual Report**” respectively) and the third quarterly report of the Company for the nine months ended 30 September 2024 (the “**2024 Third Quarterly Report**”); (iii) other information as set out in the Circular; and (iv) 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, China Baowu, Baowu Finance and any of their respective subsidiaries and associates.



PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the Non-exempt Continuing Connected Transactions, we have taken into account the following principal factors and reasons:

A. Background information of the parties

1. Information on the Group

As stated in the Letter from the Board, the Company is one of the largest iron and steel producers and marketers in the PRC and is principally engaged in the manufacture and sale of iron and steel products.

Set out below is certain financial information of the Group for the three years ended 31 December 2023 (“FY2021”, “FY2022” and “FY2023” respectively) and the nine months ended 30 September 2023 and 2024 (“3Q2023” and “3Q2024” respectively) as extracted from the 2022 Annual Report, the 2023 Annual Report and the 2024 Third Quarterly Report:

	For the nine months ended		For the year ended 31 December		
	30 September 2024	2023	2023	2022	2021
	RMB million (Unaudited)	RMB million (Unaudited)	RMB million (Audited)	RMB million (Audited)	RMB million (Audited) (Restated)
Revenue	61,513	73,917	98,938	102,154	113,851
Operating (loss)/profit	(2,614)	(1,746)	(1,594)	(484)	7,368
Net (loss)/profit attributable to owners of the parent	(2,535)	(1,598)	(1,327)	(858)	5,332
	As at		As at 31 December		
	30 September 2024	2023	2022	2021	
	RMB million (Unaudited)	RMB million (Audited)	RMB million (Audited)	RMB million (Audited) (Restated)	
Total assets	81,391	84,552	96,892	91,208	
Total liabilities	51,879	52,273	63,561	53,797	
Equity attributable to owners of the parent	25,231	27,769	29,200	32,753	



As illustrated in the above table, the revenue of the Group for FY2022 decreased by approximately 10% as compared to that for FY2021. As stated in the 2022 Annual Report, such decrease was mainly due to the impact of the economic downturn and shrinking demand, steel prices began to gradually decline since the second quarter and remained low fluctuations in the second half of FY2022, with a significant decrease compared to the same period for FY2021. Moreover, the sales volume of steel for FY2022 was also lower than FY2021 due to factors such as environmental protection and production restriction. The operating profit of the Group and the net profit attributable to owners of the parent recorded turnaround from profit for FY2021 to loss for FY2022 respectively, which were mainly due to the decrease in gross profit of steel products of the Company during FY2022 as compared with FY2021 as a result of the impact of the scissor difference between both markets.

The revenue of the Group for FY2023 decreased slightly by approximately 3% as compared to that for FY2022. As stated in the 2023 Annual Report, such decrease was mainly due to the decrease in steel prices as a result of the impact of the downward trend in the market environment. The operating loss of the Group and the net loss attributable to owners of the parent for FY2023 increased by approximately RMB1,110 million and RMB469 million as compared to those corresponding figures for FY2022 respectively, which were mainly due to the steel prices dropping more than the raw material prices, resulting in a decrease in gross profit of steel products compared to the previous year.

The revenue of the Group for 3Q2024 decreased by approximately 17% as compared to that for 3Q2023. As advised by the representatives of the Company, such decrease was mainly due to the year-on-year decrease in steel sales volume and prices during 3Q2024 as a result of weak demand from downstream industries. The operating loss of the Group and the net loss attributable to owners of the parent for 3Q2024 increased by approximately RMB868 million and RMB937 million as compared to those corresponding figures for 3Q2023 respectively, which were mainly due to the fact that steel prices continued to fall during 3Q2024, hitting their lowest point in nearly three years in the third quarter, and the spread between purchases and sales continued to narrow, resulting in an increase in losses year-on-year.

The equity attributable to owners of the parent experienced a downward trend during FY2022, FY2023 and 3Q2024. The representatives of the Company advised us that such movement in the equity attributable to owners of the parent was mainly due to the net loss of the Group during FY2022, FY2023 and 3Q2024.



2. Information on China Baowu

As stated in the Letter from the Board, China Baowu, a state-owned capital investment company controlled by the State-owned Assets Supervision and Administration Commission of the State Council, is mainly engaged in operating state-owned assets within the scope authorised by the State Council, as well as carrying out relevant state-owned capital investment and operation.

3. Information on Baowu Finance

As stated in the Letter from the Board, Baowu Finance is a non-banking institution established under the laws of the PRC in October 1992 with the approval of the NFRA (formerly known as the China Banking Regulatory Commission) and is subject to the supervision of the NFRA, with its principal business being the provision of financial services (including, but not limited to, deposit services, loan and entrusted credit services, discounting services and settlement services) to the China Baowu Group and its members. Its ultimate beneficial owner is China Baowu.

As advised by the representatives of the Company, the regulations imposed on finance companies of enterprise groups such as Baowu Finance are no less stringent than the regulations imposed on commercial banks. We noted from the Measures for the Administration of Finance Companies of Enterprise Groups* (《企業集團財務公司管理辦法》) (the “Measures”) promulgated by the China Banking and Insurance Regulatory Commission (now known as the NFRA) and an appendix to the Notice of Issuing the Measures for the Regulatory Ratings of Finance Companies of Enterprise Groups* (《國家金融監督管理總局關於印發企業集團財務公司監管評級辦法的通知》) despatched by the NFRA that the capital adequacy ratio for finance companies of enterprise groups shall not be lower than 10.5%, which is higher than that for commercial banks of 8% as stipulated in the Administrative Measures for the Capital of Commercial Banks* (《商業銀行資本管理辦法》) issued by the NFRA. Baowu Finance has confirmed that it has been in compliance with all the requirements and regulatory indicators set forth by the NFRA in the past three years.

We have obtained and reviewed the latest available audited annual report of Baowu Finance for FY2023 and noted that (i) the total assets and total equity of Baowu Finance amounted to approximately RMB87.0 billion and RMB10.2 billion respectively as at 31 December 2023, among which cash and deposits amounted to approximately RMB3.1 billion and deposits from peers amounted to approximately RMB29.5 billion; and (ii) the revenue and net profit of Baowu Finance amounted to approximately RMB609.7 million and RMB432.2



million respectively for FY2023. The total assets and total equity of Baowu Finance as at 31 December 2023 are higher than each of the proposed annual caps for the deposit services to be provided to the Group for the three years ending 31 December 2027, which indicated that Baowu Finance is likely to be able to perform payment obligations. We have also obtained and reviewed the major regulatory financial ratios of Baowu Finance as at 31 December 2022, 31 December 2023 and 30 September 2024, such as capital adequacy ratio and liquidity ratio, and noted that they were all in compliance with the Measures.

B. Reasons for and benefits of the Non-exempt Continuing Connected Transactions

As advised by the representatives of the Company, the sales of products and services by the China Baowu Group to the Group is conducive to the Group's use of China Baowu's brand, channels and resources advantages to ensure the stable and reliable supply of products and services at a reasonable price, which is crucial to the Group's production stability, cost reduction and benefit increase. The sales of products and services by the Group to the China Baowu Group can enhance the business opportunities of the Group and broaden the revenue base of the Group. Besides, Baowu Finance has been providing financial services to the Group for several years and has better understanding in the industry characteristics, capital structures, business operations, financing needs, capital flow patterns and the financial management system of the Group through its previous cooperation with the Group. The Directors considered that entering into the New Sale and Purchase of Products Agreement, the New Provision and Acceptance of Services Agreement and the New Financial Services Agreement will have a positive impact on the Group.

Besides, the Non-exempt Continuing Connected Transactions do not restrict the Group to sell/procure products/services to/from the corresponding contractual parties only. The Non-exempt Continuing Connected Transactions also do not prevent the Group from using deposit services and other financial services provided by other commercial banks or independent financial institutions in the PRC. The Group retains discretion to make its selection according to its business needs as well as the fees and quality of the goods and services and therefore the Non-exempt Continuing Connected Transactions offer additional options to the Group.

In light of the above, we concur with the Directors that the Non-exempt Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole.



C. Principal terms of the Non-exempt Continuing Connected Transactions and the Non-exempt Proposed Annual Caps

1.1 The New Sale and Purchase of Products Agreement

1.1.1 Principal terms of the New Sale and Purchase of Products Agreement

The Existing Sale and Purchase of Products Agreement entered into between the Company and China Baowu will expire on 31 December 2024. On 30 October 2024, the Company and China Baowu entered into the New Sale and Purchase of Products Agreement, pursuant to which the Group has agreed to continue to sell products to the China Baowu Group and the China Baowu Group has agreed to continue to sell products to the Group during the period from 1 January 2025 to 31 December 2027.

The price shall be based on state-prescribed price, if any. In the absence of state-prescribed price, the price shall be based on the market price, which shall be determined through open tenders, price comparison, arm's length negotiations between the parties, and shall be based on normal commercial terms.

Meanwhile, the price of the products to be sold by the Group to the China Baowu Group shall not be lower than the price of products of the same categories sold by the Group to independent third parties.

The price of the products to be sold by the China Baowu Group to the Group shall not be higher than the price of products of the same categories sold by independent third parties to the Group.

Further details of the terms of the New Sale and Purchase of Products Agreement are stated in the Letter from the Board.

Products sold by the Group to the China Baowu Group

The representatives of the Company advised us that the products sold by the Group to the China Baowu Group mainly comprise steel products, chemical products and power and energy medium. Therefore, we have requested, on a random basis, for the record (i.e. contracts and invoices) of a selected transaction for each of the aforementioned products for each quarter of FY2023 and the six months ended 30 June 2024 ("1H2024"). We consider the samples to be fair and representative for the purpose of assessing the pricing policies of the sales of products by the Group to the China Baowu Group, in particular, (i) the selected transactions covered major categories of products sold by the Group to the China Baowu Group; and (ii) we have selected the samples on a random basis for each quarter of FY2023 and 1H2024 and the samples covered the whole period of FY2023 and 1H2024.



For the steel products, we have obtained the contracts and invoices of each selected transaction and checked the unit prices of steel products sold to the China Baowu Group against the then unit prices of steel products sold to independent third parties. We noted that the unit prices of steel products sold to the China Baowu Group were not less favourable than those sold to independent third parties.

For the chemical products, we have obtained the contracts and invoices of each selected transaction, which involved the sales of coal tar and ammonium sulphate. For the coal tar, we have compared the unit prices of coal tar sold to the China Baowu Group against the then unit prices of coal tar as quoted from independent third parties. We noted that the unit prices of coal tar sold to the China Baowu Group were within the range of unit prices of coal tar quoted from the independent third parties. For the ammonium sulphate, we have compared the unit price of ammonium sulphate sold to the China Baowu Group against the price of ammonium sulphate disclosed on www.baiinfo.com, a widely used commodity information website and the data base of which is included in the Wind Financial Terminal. We noted that the unit price of ammonium sulphate sold to the China Baowu Group was within the range of prices of ammonium sulphate disclosed on www.baiinfo.com during the corresponding month.

For the power and energy medium, we have obtained the contracts and invoices of each selected transaction, which involved the sales of electricity and gas products. For the electricity, we have compared the unit prices of electricity sold to the China Baowu Group against the state prices of electricity of the corresponding month published on the website of the Development and Reform Commission of Anhui Province. We noted that the unit prices of electricity sold to the China Baowu Group were not less favourable than the state prices. For the gas products, we noted that the unit prices of gas products sold to the China Baowu Group were not less favourable than those sold to the independent third parties.

Products sold by the China Baowu Group to the Group

The representatives of the Company advised us that the products sold by the China Baowu Group to the Group mainly comprise imported iron ores, domestic iron ores, scrap steel and spare parts. Therefore, we have requested, on a random basis, for the record (i.e. contracts and invoices) of a selected transaction for each of the aforementioned products for each quarter of FY2023 and 1H2024. We consider the samples to be fair and representative for the purpose of assessing the pricing policies of the sales of products by the China Baowu Group to the Group, in particular, (i) the selected transactions covered major categories of products sold by the China Baowu Group to the Group; and (ii) we have selected the samples on a random basis for each quarter of FY2023 and 1H2024 and the samples covered the whole period of FY2023 and 1H2024.



For the imported iron ores, we have obtained the contracts and invoices of each selected transaction and checked the unit prices of imported iron ores sold by the China Baowu Group to the Group against the then unit prices of imported iron ores quoted from independent third parties. We noted that the unit prices of imported iron ores sold by the China Baowu Group to the Group were not less favourable than those quoted from the independent third parties.

For the domestic iron ores, we have compared the unit prices of domestic iron ores sold by the China Baowu Group to the Group against the then prices of similar domestic iron ores disclosed on www.mysteel.com, a widely used commodity information website set up by Shanghai Ganglian E-Commerce Holdings Co., Ltd., a company listed on the Shenzhen stock exchange. We noted that the unit prices of domestic iron ores sold by the China Baowu Group to the Group were not less favourable than the then prices of similar domestic iron ores disclosed on www.mysteel.com.

For the scrap steel, the representatives of the Company advised us that the Group maintains a monthly internal price guide for the scrap steel to be purchased from all relevant suppliers (including the China Baowu Group and other independent third parties). The prices in the internal price guide are derived from the average monthly prices of benchmark scrap materials in the proximate area of the Group's operations extracted from www.steelhome.cn and mysteelhome.cn and adjusted by the estimated transportation fees and storage fees. www.steelhome.cn is a widely used steel industry information website and the industrial data provider of Bloomberg, Refinitiv and Dow Jones. We have obtained the contracts and invoices of each selected transaction and noted that the unit prices of scrap steel sold by the China Baowu Group to the Group and the unit prices of scrap steel sold to the Group by the independent third parties were based on the internal price guide.

For the spare parts, we have obtained the contracts and invoices of each selected transaction and checked the unit prices of spare parts sold by the China Baowu Group to the Group against the then unit prices of spare parts quoted from independent third parties. We noted that the unit prices of spare parts sold by the China Baowu Group to the Group were not less favourable than those quoted from the independent third parties.

Therefore, we are of the view that the pricing principles stipulated in the New Sale and Purchase of Products Agreement are fair and reasonable so far as the Independent Shareholders are concerned.



1.1.2 Proposed annual caps for the New Sale and Purchase of Products Agreement

The following table sets out the historical transaction amounts of the mutual supply of products between the Group and the China Baowu Group for the two years ended 31 December 2023 and the six months ended 30 June 2024, and the proposed annual caps for the three years ending 31 December 2027 (“FY2025”, “FY2026” and “FY2027” respectively):

	Historical transaction amounts			Proposed annual caps		
	For the year ended		For the	For the year ending		
	31 December		six months	31 December		
	2022	2023	ended	2025	2026	2027
		30 June				
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Sales of products by the Group	6,413	8,773	4,720	10,416	10,835	11,075
Purchases of products by the Group	29,104	27,770	13,121	38,301	39,332	39,994

The proposed annual caps for the sales of products by the Group

The proposed annual caps for the products sold by the Group to the China Baowu Group mainly comprise (i) steel products; and (ii) power and energy medium, the aggregate amount of which accounted for approximately 87% of the proposed annual caps for the products sold by the Group to the China Baowu Group for each of the three years ending 31 December 2027.

Steel products

The expected transaction amounts of the sales of steel products by the Group to the China Baowu Group for the three years ending 31 December 2027 were approximately RMB7,018 million, RMB7,374 million and RMB7,586 million respectively. The expected price of steel products was determined based on the average sales price of the steel products for the five months ended 31 May 2024.



The expected sales volumes of steel products to the China Baowu Group for the three years ending 31 December 2027 were approximately 2.0 million tonnes, 2.1 million tonnes and 2.1 million tonnes respectively, which were determined based on the China Baowu Group's estimated demand for steel products for the three years ending 31 December 2027 and the historical or expected sales volumes of steel products to the China Baowu Group for FY2022, FY2023 and the year ending 31 December 2024 ("FY2024") of approximately 0.2 million tonnes, 1.1 million tonnes and 1.36 million tonnes, indicating the sharp increase in demand for the steel products from the China Baowu Group. The China Baowu Group proposed to enhance the synergistic effect among all the members of the China Baowu Group and between the China Baowu Group and its strategic cooperative partners, which is expected to lead to the increase in the China Baowu Group's estimated demand for steel products from the Group after considering the quality of steel products and the steel production advantages of the Group.

Power and energy medium

The expected transaction amount of the sales of power and energy medium by the Group to the China Baowu Group for each of the three years ending 31 December 2027 was approximately RMB2,032 million, which was close to the annualised transaction amount for FY2024 of approximately RMB2,100 million. The expected price of power and energy medium was determined based on the historical price of power and energy medium for 3Q2024. The expected sales volumes of power and energy medium to the China Baowu Group for each of the three years ending 31 December 2027 were determined based on the historical volume of power and energy medium sold by the Group to the China Baowu Group for FY2023.

The proposed annual caps for the purchases of products by the Group

The proposed annual caps for the products sold by the China Baowu Group to the Group mainly comprise (i) scrap steel; (ii) imported iron ores and domestic iron ores; and (iii) coal and coke, the aggregate amount of which accounted for approximately 85% of the proposed annual caps for the products sold by the China Baowu Group to the Group for each of the three years ending 31 December 2027.

Scrap steel

The expected transaction amounts of the sales of scrap steel by the China Baowu Group to the Group for the three years ending 31 December 2027 were approximately RMB7,507 million, RMB8,228 million and RMB8,588 million respectively. The expected price of scrap steel was determined based on the average purchase price of scrap steel for 3Q2024.



The expected transaction volumes of scrap steel purchased by the Group from the China Baowu Group for the three years ending 31 December 2027 were approximately 2.9 million tonnes, 3.2 million tonnes and 3.2 million tonnes respectively, which were determined based on the historical purchase volume for FY2023 of approximately 2.8 million tonnes and the estimated demand for scrap steel for the three years ending 31 December 2027. As advised by the representatives of the Company, the Group's production volume of steel products for FY2023 was relatively low as compared to that for FY2022 and was below the production capacity of the Group. The steel industry is expected to improve in FY2025 and the production volume of the steel products of the Group is expected to increase accordingly. Besides, both iron ores and scrap steel are the raw materials for production of steel products. When the cost of iron ores for steel production is higher than the cost of scrap steel for steel production, the Group may consider to increase the purchase volume of scrap steel.

Imported iron ores

The expected transaction amounts of the sales of imported iron ores by the China Baowu Group to the Group for the three years ending 31 December 2027 were approximately RMB15,516 million, RMB15,731 million and RMB15,951 million respectively. The expected price of imported iron ores was determined with reference to the average price of Platts Fe 62% Iron Ore Index and Platts Fe 65% Iron Ore Index for each of FY2022, FY2023 and the nine months ended 30 September 2024 and the historical proportion of the purchase volume of standard grade iron ores which were comparable to 65% iron ore and the purchase volume of low grade iron ores which were comparable to 62% iron ore. The Platts Iron Ore Index is a benchmark assessment of the spot price of physical iron ores issued by S&P Global Platts.

The expected transaction volumes of imported iron ores purchased by the Group from the China Baowu Group for the three years ending 31 December 2027 were approximately 19.7 million tonnes, 19.9 million tonnes and 20.1 million tonnes respectively, which were determined based on the historical transaction volume of imported iron ores purchased by the Group from or via the China Baowu Group for FY2023 of approximately 21.0 million tonnes.

The representatives of the Company advised us that the Group is expected to change the procurement policies of imported iron ores with a member of the China Baowu Group. As a result, the role of this member of the China Baowu Group will be changed from the sourcing agent to the seller since FY2025, and the Group will purchase the imported iron ores from this subsidiary of China Baowu. The representatives of the Company also advised us that the procurement policies of imported iron ores with the rest of the members of the China Baowu Group will remain unchanged.



Domestic iron ores

The expected transaction amount of the sales of domestic iron ores by the China Baowu Group to the Group for each of the three years ending 31 December 2027 was approximately RMB5,800 million. The expected price of domestic iron ores was determined with reference to the average price of Platts Fe 65% Iron Ore Index for each of FY2022, FY2023 and the nine months ended 30 September 2024. The expected purchase volume of domestic iron ores from the China Baowu Group for each of the three years ending 31 December 2027 was approximately 5.8 million tonnes, which was determined based on the average of the historical transaction volume of domestic iron ores purchased by the Group from the China Baowu Group for FY2023 and the annualised transaction volume of domestic iron ores purchased by the Group from the China Baowu Group for FY2024.

Coal and coke

The expected transaction amounts of the sales of coal and coke by the China Baowu Group to the Group for the three years ending 31 December 2027 were approximately RMB3,681 million, RMB3,741 million and RMB3,802 million respectively. The expected price of coal and coke was determined with reference to the average coal and coke price for the six months ended 30 June 2024 as disclosed on www.mysteel.com and adjusted by the estimated transportation fees and moisture content.

The expected purchase volume of coal and coke of the Group for each of the three years ending 31 December 2027 was approximately 2.3 million tonnes, which was determined based on the historical transaction volume of coal and coke purchased by the Group from or via the China Baowu Group for FY2023 of approximately 2.0 million tonnes and the estimated demand for coal and coke for the three years ending 31 December 2027. As advised by the representatives of the Company, the Group's production volume of steel products for FY2023 was relatively low as compared to that for FY2022 and was below the production capacity of the Group. The steel industry is expected to improve in FY2025 and the production volume of the steel products of the Group is expected to increase accordingly.

The representatives of the Company advised us that the Group is expected to change the procurement policies of coal and coke with a member of the China Baowu Group. As a result, the role of this member of the China Baowu Group will be changed from the sourcing agent to the seller since FY2025, and the Group will purchase the coal and coke from this subsidiary of China Baowu. The representatives of the Company also advised us that the procurement policies of coal and coke with the rest of the members of the China Baowu Group will remain unchanged.



Therefore, we are of the view that the proposed annual caps for the New Sale and Purchase of Products Agreement 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.

1.2 The New Provision and Acceptance of Services Agreement

1.2.1 Principal terms of the New Provision and Acceptance of Services Agreement

The Existing Provision and Acceptance of Services Agreement entered into between the Company and China Baowu will expire on 31 December 2024. On 30 October 2024, the Company and China Baowu entered into the New Provision and Acceptance of Services Agreement, pursuant to which the Group has agreed to continue to provide services to the China Baowu Group and the China Baowu Group has agreed to continue to provide services to the Group during the period from 1 January 2025 to 31 December 2027.

The price shall be based on state-prescribed price, if any. In the absence of state-prescribed price, the price shall be based on the market price, which shall be determined through open tenders, price comparison, arm's length negotiations between the parties, and shall be based on normal commercial terms.

Meanwhile, the price of the services to be provided by the Group to the China Baowu Group shall not be lower than the price of services of the same categories provided by the Group to independent third parties.

The price of the services to be provided by the China Baowu Group to the Group shall not be higher than the price of services of the same categories provided by the independent third parties to the Group.

Further details of the terms of the New Provision and Acceptance of Services Agreement are stated in the Letter from the Board.



Services provided by the Group to the China Baowu Group

The representatives of the Company advised us that the services provided by the Group to the China Baowu Group mainly comprise the rental services and the other services. The Group does not enter into rental service agreements with the China Baowu Group every quarter. Therefore, we have requested, on a random basis, for (i) the record (i.e. contracts and invoices) of a selected transaction for the rental services for properties and lands for each half-year period of FY2023 and 1H2024, and have obtained and reviewed three contracts and related invoices; and (ii) the record (i.e. contracts and invoices) of a selected transaction for the other services for each quarter of FY2023 and 1H2024, and have obtained and reviewed six contracts and related invoices, which involved metering and inspection services and industrial sewage treatment. We consider the samples to be fair and representative for the purpose of assessing the pricing policies of the provision of services by the Group to the China Baowu Group, in particular, (i) the total amount of the samples represented approximately 25% and 14% of the total amount of the services provided by the Group to the China Baowu Group for FY2023 and 1H2024 respectively; and (ii) we have selected the samples on a random basis for each quarter (or half-year for the rental services) of FY2023 and 1H2024 and the samples covered the whole period of FY2023 and 1H2024.

For the rental services of properties and lands, we have obtained and reviewed three contracts and related invoices. In relation to the rental service of properties, we have obtained a valuation report issued by an independent valuer and noted that the rental price of property leased to the China Baowu Group was determined based on the fair rental value stated in the valuation report and the market approach was adopted for the valuation. In relation to the rental service of lands, we have checked the rental unit prices of lands leased to the China Baowu Group against the then rental unit prices of lands in the proximate area which were owned by independent third parties. We noted that the rental unit prices of lands leased to the China Baowu Group were not less favourable than the rental unit prices of lands in the proximate area which were owned by independent third parties.

For the metering and inspection services, we have obtained and reviewed five contracts and related invoices. In relation to the metering services, we have checked the unit prices of metering service provided by the Group to the China Baowu Group against the metallurgical system metering and control, automation, information equipment internal accounting and charging standard* (冶金系統計控、自動化、信息化設備內部核算收費規範) (the “Standard”) prepared by the Metallurgy Branch of China Metrology Association, which is a national industrial association approved by the Ministry of Civil Affairs of the PRC. We noted that the unit prices of metering service provided by the Group to the China Baowu Group were not less favourable than the

unit prices in the Standard. In relation to the inspection services, we have checked the unit prices and fee rates for inspection services provided by the Group to the China Baowu Group against the then unit prices and fee rates quoted from independent third parties. We noted that the unit prices and fee rates for inspection services provided by the Group to the China Baowu Group were not less favourable than those quoted from the independent third parties.

For the industrial sewage treatment service, we have obtained and reviewed one contract and related invoices and checked the unit prices of industrial sewage treatment service provided to the China Baowu Group against the then unit prices of industrial sewage treatment service quoted from independent third parties. We noted that the unit prices of industrial sewage treatment service provided to the China Baowu Group were not less favourable than those quoted from the independent third parties.

Services provided by the China Baowu Group to the Group

The representatives of the Company advised us that the services provided by the China Baowu Group to the Group mainly comprise the transportation services, the infrastructural and technological renovation projects and major/medium maintenance of equipment, and the energy conservation and environmental protection projects. Therefore, we have requested, on a random basis, for the record (i.e. contracts and invoices) of a selected transaction for each of the aforementioned services for each quarter of FY2023 and 1H2024, and have obtained and reviewed six contracts and related invoices for each of the aforementioned services. We consider the samples to be fair and representative for the purpose of assessing the pricing policies of the provision of services by the China Baowu Group to the Group, in particular, (i) the selected transactions covered major categories of services provided by the China Baowu Group to the Group; and (ii) we have selected the samples on a random basis for each quarter of FY2023 and 1H2024 and the samples covered the whole period of FY2023 and 1H2024.

For the transportation services, we have obtained and reviewed six contracts and related invoices, which were the transportation for purchases of raw materials and the transportation for sales of products. In relation to the transportation for purchases of raw materials, we noted that the unit prices of the purchase transportation service provided by the China Baowu Group to the Group were determined based on the monthly unit prices of similar transportation service in the nearby area published on the website of Shanghai Shipping Exchange with adjustments for the distance. Shanghai Shipping Exchange is a widely used shipping information platform which was set up by the Ministry of Transport of the PRC and the People Government of



Shanghai. In relation to the transportation for sales of products, we have checked the unit prices of the sales transportation service provided by the China Baowu Group to the Group against the then unit prices of transportation service quoted from independent third parties. We noted that the unit prices of the sales transportation service provided by the China Baowu Group were not less favourable than those quoted from the independent third parties.

For the infrastructural and technological renovation projects and major/medium maintenance of equipment, we have obtained and reviewed six contracts and invoices. We were advised that the Group selects the service providers through tender. We have obtained the tender offer assessment reports of each selected transaction and noted that the prices quoted by the China Baowu Group were not less favourable than those offered by independent third parties.

For the energy conservation and environmental protection projects, we have obtained and reviewed six contracts and invoices, and noted that the management fees comprise of (i) the power and energy medium costs; (ii) the labour costs; (iii) the maintenance fees; and (iv) the fees of byproducts disposal. For the power and energy medium costs, the representatives of the Company advised us that the power and energy medium consumed in the energy conservation and environmental protection projects was sold by the Group, and the power and energy medium costs of the energy conservation and environmental protection projects provided by the China Baowu Group were charged on the reimbursement basis. We have checked and noted that the unit prices of the power and energy medium consumed in the energy conservation and environmental protection projects were equal to the unit cost prices of the power and energy medium of the China Baowu Group. The labour costs were determined with reference to the average annual salary of the urban employees in the non-private sectors in Anhui Province published by the Bureau of Statistics of Anhui Province. We have compared and noted that the unit prices of the labour offered by the China Baowu Group to the Group were not less favourable than the unit prices of the labour published by the Bureau of Statistics of Anhui Province. For the maintenance fees, we have compared and noted that the maintenance fee rates provided by the China Baowu Group to the Group were not less favourable than those provided by the China Baowu Group to independent third parties. For the fees of byproducts disposal, we have compared and noted that the fee rates of byproducts disposal adopted by the China Baowu Group were not less favourable than the fee rates of byproducts disposal provided by independent third parties to the China Baowu Group and the fee rates of byproducts disposal quoted from independent third parties to the Group.

Therefore, we are of the view that the pricing principles stipulated in the New Provision and Acceptance of Services Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

1.2.2 Proposed annual caps for the New Provision and Acceptance of Services Agreement

The following table sets out the historical transaction amounts of the mutual supply of services between the Group and the China Baowu Group for the two years ended 31 December 2023 and the six months ended 30 June 2024, and the proposed annual caps for the three years ending 31 December 2027:

	Historical transaction amounts			Proposed annual caps		
	For the year ended		For the	For the year ending		
	31 December		six months	31 December		
	2022	2023	ended	2025	2026	2027
		30 June				
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Provision of services by						
the Group	49	51	2	170	170	170
Acceptance of services by						
the Group	7,445	8,905	2,908	8,525	8,354	8,429

The proposed annual caps for the provision of services by the Group

The proposed annual caps for the services provided by the Group to the China Baowu Group for the three years ending 31 December 2027 mainly comprise (i) steel billet processing services; (ii) metering and inspection services; and (iii) rental services, the aggregate amount of which accounted for approximately 94% of the proposed annual caps for the services provided by the Group to the China Baowu Group for each of the three years ending 31 December 2027.

Steel billet processing services

The expected transaction amount of the provision of steel billet processing services by the Group to the China Baowu Group for each of the three years ending 31 December 2027 was approximately RMB90 million. The expected price of steel billet processing services was determined based on the historical average price of the steel billet processing services for FY2023. The expected volumes of steel billet processing services provided to the China Baowu Group for each of the three years ending 31 December 2027 was approximately 50,000 tonnes of steel billets, which



was determined based on the (i) historical transaction amount of approximately 270,000 tonnes for FY2023; (ii) the China Baowu Group's estimated demand for steel billet processing services for the three years ending 31 December 2027; and (iii) the remaining capacity of the Group for steel processing.

Metering and inspection services

The expected transaction amount of the provision of metering and inspection services by the Group to the China Baowu Group for each of the three years ending 31 December 2027 was approximately RMB53 million, which was mainly determined based on the average historical amount of the metering and inspection services provided by the Group to an independent third party client of the Group in the last three years of approximately RMB50 million. As advised by the representatives of the Company, this client of the Group is expected to become a connected person of the Company since FY2025.

Rental services

The expected transaction amount of properties and lands leased by the Group to the China Baowu Group for each of the three years ending 31 December 2027 was approximately RMB17 million, which was determined based on the signed rental contracts for 2024 of approximately RMB16 million and a buffer of approximately RMB1 million for the possible increase in rental price of properties and lands leased by the Group to the China Baowu Group.

The proposed annual caps for the acceptance of services by the Group

The proposed annual caps for the services provided by the China Baowu Group to the Group for the three years ending 31 December 2027 mainly comprise (i) construction services; (ii) transportation services; (iii) environmental protection services; and (iv) repair and maintenance services, the aggregate amount of which accounted for approximately 91%, 92% and 92% of the proposed annual caps for the services provided by the China Baowu Group to the Group for the three years ending 31 December 2027, respectively.

Construction services

The construction services are related to the upgrade and modification of the Group's infrastructural and technological renovation projects. The expected transaction amounts of the acceptance of construction services by the Group from the China Baowu Group for the three years ending 31 December 2027 were approximately RMB2,073 million, RMB1,893 million and RMB1,889 million respectively. The aforesaid transaction amounts were determined based on (i) the signed contracts together with the respective estimated progress of the contracts in the three years ending 31 December 2027; (ii) the proposed construction projects of the Group which will be available for the bidding submission of the China Baowu Group together with the respective estimated progress of the contracts in the three years ending 31 December 2027; and (iii) the expected miscellaneous work, the expected transaction amounts of which for the three years ending 31 December 2027 were determined based on the historical transaction amounts for FY2023. We have obtained a project list for the signed contracts and the proposed construction projects of the Group which will be available for the bidding submission of the China Baowu Group and noted that the expected transaction amounts of the acceptance of construction services by the Group from the China Baowu Group for the three years ending 31 December 2027 were determined based on the project list.

Transportation services

The expected transaction amounts of the acceptance of transportation services by the Group from the China Baowu Group for the three years ending 31 December 2027 were approximately RMB1,821 million, RMB1,836 million and RMB1,854 million respectively. As advised by the representatives of the Company, the transportation services provided by the China Baowu Group to the Group mainly comprise (i) the transportation for sales of steel products (the "**Sales Transportation**"); (ii) the transportation for purchases of raw materials (the "**Purchase Transportation**"); and (iii) the internal transportation among the production units and the warehouses (the "**Internal Transportation**").

The expected transaction amounts of the Sales Transportation for the three years ending 31 December 2027 were determined based on the expected production capacity of the steel products of the Group for the three years ending 31 December 2027 and the average price of the Sales Transportation for the nine months ended 30 September 2024. The expected transaction amounts of the Purchase Transportation for the three years ending 31 December 2027 were determined based on (i) the annualised transportation volume for FY2024 and the expected growth rate of 5% in FY2025; (ii) the expected increase in purchase volume of scrap steel as the Group planned to increase the scrap steel processing capacity; and (iii) the average price of the

Purchase Transportation for the nine months ended 30 September 2024. The expected transaction amounts of the Internal Transportation for the three years ending 31 December 2027 were determined based on the expected order volumes from clients for the three years ending 31 December 2027 and the average price of the Internal Transportation for the nine months ended 30 September 2024.

Environmental protection services

The environmental protection services are related to the management of the Group's environmental system in the energy conservation and environmental protection projects to meet the requirement of waste emissions of the PRC. The expected transaction amounts of the acceptance of environmental protection services by the Group from the China Baowu Group for the three years ending 31 December 2027 were approximately RMB1,218 million, RMB1,250 million and RMB1,283 million respectively. The aforesaid transaction amounts were determined based on (i) the signed contracts of the energy conservation and environmental protection projects; (ii) the proposed energy conservation and environmental protection projects of the Group which are available for the bidding submission of the China Baowu Group for the three years ending 31 December 2027. We have obtained a project list for the signed contracts and the proposed energy conservation and environmental protection projects of the Group which will be available for the bidding submission of the China Baowu Group, and noted that the expected transaction amounts of the acceptance of environmental protection services by the Group from the China Baowu Group for the three years ending 31 December 2027 were determined based on the project list.

Repair and maintenance services

The expected transaction amounts of the acceptance of repair and maintenance services by the Group from the China Baowu Group for the three years ending 31 December 2027 were approximately RMB2,644 million, RMB2,688 million and RMB2,697 million respectively. The aforesaid transaction amounts were determined based on the historical transaction amount of the repair and maintenance services provided by the China Baowu Group to the Group for FY2023 of approximately RMB2,560 million and the expected transaction amount of the repair and maintenance services provided by the China Baowu Group to the Group for FY2024 of approximately RMB2,500 million taking into account the historical transaction amount for 3Q2024 of approximately RMB1,700 million and the centralised settlement of expenses in the fourth quarter of FY2024 of approximately RMB800 million. The Company expects an improvement in the steel industry in FY2025 and therefore the production volume of the steel products of the Group and the amount of repair and maintenance services accepted by the Group will increase accordingly.

Therefore, we are of the view that the proposed annual caps for the New Provision and Acceptance of Services Agreement 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.

1.3 The New Financial Services Agreement

1.3.1 Principal terms of the New Financial Services Agreement in relation to the provision of deposit services by Baowu Finance

The Existing Financial Services Agreement for the years from 2022 to 2024 entered into between the Company and Baowu Finance on 15 November 2022 will expire on 31 December 2024. On 30 October 2024, the Company and Baowu Finance entered into the New Financial Services Agreement for the years from 2025 to 2027, pursuant to which Baowu Finance has agreed to provide the Group with relevant financial services within its business scope approved by the NFRA in accordance with the law.

Baowu Finance provides deposit services to the Group at the deposit interest rate determined in accordance with that of the same type and under the same terms promulgated by the PBOC, in principle, not lower than the deposit interest rate of the same type and under the same terms of the independent major commercial banks in the PRC.

We have obtained sample documents for deposit agreements and current deposits covering each quarter from May 2023 (i.e. the month of shifting the deposit of the Group from Magang Group Finance Company Limited (“Masteel Finance”) to Baowu Finance) to June 2024 and noted that the deposit interest rates offered by Baowu Finance to the Group were determined with reference to the deposit rates promulgated by the PBOC. Besides, we have compared the interest rates offered by Baowu Finance to the Group for deposit agreements and current deposits for each quarter from May 2023 to June 2024 against the deposit rates offered by the independent major commercial banks in the PRC and noted that they were no less favourable than the deposit rates offered by the independent major commercial banks in the PRC.

As such, we are of the view that the pricing principle of the provision of deposit services by Baowu Finance is fair and reasonable so far as the Independent Shareholders are concerned.

1.3.2 Proposed annual caps for the provision of deposit services by Baowu Finance

The following table sets out the historical amounts of the interest on deposits and maximum daily deposit balance (accrued interest inclusive) (tax exclusive) placed by the Group with Baowu Finance for the two years ended 31 December 2023 and the six months ended 30 June 2024, and the proposed annual caps for the three years ending 31 December 2027:

	Historical amounts		Proposed annual caps		
	For the year ended 31 December 2023 <i>RMB million</i>	For the six months ended 30 June 2024 <i>RMB million</i>	For the year ending 31 December		
			2025 <i>RMB million</i>	2026 <i>RMB million</i>	2027 <i>RMB million</i>
Maximum daily deposit balance	4,273	4,357	9,500	9,500	9,500
Interest	27	18	190	190	190

The representatives of the Company advised us that the proposed annual caps for the provision of deposit services by Baowu Finance to the Group for the three years ending 31 December 2027 were determined with reference to the cash and bank balances (excluding foreign currency deposits), notes receivable, trade receivables within one year and financing receivables of the Group as at 30 June 2024.

According to the interim report of the Company for 1H2024 and the data provided by the representatives of the Company, the cash and bank balances (excluding foreign currency deposits), notes receivable, trade receivables within one year and financing receivables of the Group as at 30 June 2024 were approximately RMB5,425 million, RMB1,180 million, RMB1,841 million and RMB1,436 million respectively. The sum of the aforesaid current assets of the Group were approximately RMB9,882 million, which represented approximately 104% of the proposed annual caps for the deposit services to be provided to the Group. The representatives of the Company have advised us that it is assumed that all of the trade receivables within one year will be collected from clients, and the payment from the clients and the fund from the discount on notes receivable and financing receivables will be placed with Baowu Finance.



As advised by the representatives of the Company, the maximum daily balance of the deposits placed with Masteel Finance by the Group was recorded at approximately RMB9,687 million, RMB8,965 million and RMB8,653 million for FY2021, FY2022 and the four months ended 30 April 2023 respectively, which represented approximately 101.97%, 94.37% and 91.08% of the proposed annual caps for the deposit services to be provided to the Group. On 30 April 2023, a merger was settled where the Company transferred 91% equity interest in Masteel Finance to Baowu Finance in exchange for 29.68% equity interest in Baowu Finance. Baowu Finance was the absorbing party and the surviving party of the merger while Masteel Finance was the absorbed party and the non-surviving party. The Group shifted its deposits from Masteel Finance to Baowu Finance since May 2023. Despite the change of deposit service provider to Baowu Finance, the Group's demand and expected demand for deposit services are similar to those in the past. Accordingly, the Group has made reference to the historical maximum daily deposit balance placed by the Group with Masteel Finance.

The proposed annual caps for the interest on deposits for the three years ending 31 December 2027 were determined mainly based on the quotation of the longest term deposit rate provided by Baowu Finance to the Group and the proposed annual caps for the maximum daily deposit balance for the three years ending 31 December 2027.

Therefore, we are of the view that the proposed annual caps for the deposit services to be provided to the Group 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.

D. Internal control measures

The representatives of the Company advised us that the continuing connected transactions of the Group will be executed in accordance with the Internal Control Management Measures of Related Transactions (the "Measures") to monitor and ensure that the pricing policies and annual caps of the continuing connected transactions are complied with. We have obtained the Measures and noted that the connected transaction management committee of the Company, which directly reports to the Board on quarterly basis, is responsible for the on-going monitoring of all the continuing connected transactions of the Company. The responsibilities of the connected transaction management committee include, among other things, managing and monitoring of continuing connected transactions including but not limited to the relevant annual caps and the pricing management aspect, and gathering information for disclosure of continuing connected transactions. The relevant functional departments, units and companies of the Group will provide actual trading situation to the operation and accounting department of the Company quarterly. The operation and accounting



department of the Company and the relevant functional departments will report on a quarterly basis to the connected transaction management committee regarding the transaction amounts of the continuing connected transactions conducted during the previous quarter. Hence, we have obtained and reviewed the quarterly reports for FY2023 and 1H2024 and noted that both transaction amounts and annual caps for the continuing connected transactions for the corresponding year were recorded in the quarterly reports.

According to the Letter from the Board, the marketing department of the Company will be responsible for the pricing management and will guide various departments and units to establish the procedures and mechanism of professional price management, so as to ensure that the pricing standard is fair and reasonable, and conform with the market principle. Market prices will be obtained through, among other things, open tenders/quotations from independent third party suppliers and service providers, recent transaction prices of the Group with independent third parties, pricing information obtained through subscription service and researches on industry websites. The market price information will be circulated by the department to other departments and companies of the Group to enable them to determine the prices for the continuing connected transactions.

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

As stated in the 2023 Annual Report, all Directors of the Board (including the Independent Non-executive Directors) who are not associated with China Baowu and Baowu Finance considered that the continuing connected transactions were carried out in the daily course of business under normal commercial terms and in accordance with the terms of the Existing Sale and Purchase of Products Agreement, the Existing Provision and Acceptance of Services Agreement and the Existing Financial Services Agreement. The terms were fair and were in the best interest of the shareholders of the Company as a whole. During FY2023, each transaction amount was under the annual caps for FY2023 for those agreements.

In addition, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, that the Non-exempt Continuing Connected Transactions contemplated under the New Sale and Purchase of Products Agreement, the New Provision and Acceptance of Services Agreement and the New Financial Services Agreement are carried out in accordance with the pricing policies of the Group, and the Non-exempt Proposed Annual Caps are not being exceeded. In the event that the total amounts of the Non-exempt Continuing Connected Transactions exceed the Non-exempt Proposed Annual Caps, or that there is any material amendment to the terms of the New Sale and Purchase of Products Agreement, the New Provision and Acceptance of Services Agreement and the New Financial Services Agreement, the Company, as confirmed by the Directors, shall comply with the applicable provisions of the Listing Rules governing continuing connected transactions.



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Taking into account of the internal control measures as stated above, we concur with the Directors that there are adequate measures in place to monitor the Non-exempt Continuing Connected Transactions (including the Non-exempt Proposed Annual Caps) and hence the interest of the Independent Shareholders would be safeguarded.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that the terms of the Non-exempt Continuing Connected Transactions (including the Non-exempt Proposed Annual Caps) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the Non-exempt Continuing Connected Transactions 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 resolutions to be proposed at the EGM to approve the Non-exempt Continuing Connected Transactions.

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 purposes only*