20 May 2025

Dear Sirs and Madams

MAJOR AND CONNECTED TRANSACTIONS IN RELATION TO THE EQUITY TRANSFER AGREEMENT AND CAPITAL INCREASE AGREEMENT

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the independent board committee and the independent shareholders of Maanshan Iron & Steel Company Limited (the "**Company**") in relation to the major and connected transaction ("**Transactions**") contemplated under Equity Transfer Agreement and Capital Increase Agreement (the "**Agreements**"). Details of the Transactions and Agreements are set out in the "Letter from the Board" (the "**Board Letter**") contained in the circular of the Company to the shareholders dated 20 May 2025 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined herein.

On 17 April 2025, the Company entered into the Equity Transfer Agreement with Baosteel and the Target Company, pursuant to which the Company has agreed to transfer the Target Equity Interest held by theCompany to Baosteel, and Baosteel has agreed to acquire the Target Equity Interest at a consideration of RMB5.139 billion.

On 17 April 2025, the Company entered into the Capital Increase Agreement with Baosteel and the Target Company, pursuant to which Baosteel agreed to make a capital contribution of RMB3.861 billion in theTarget Company, of which RMB266 million is used as the newly increased registered capital of the Target Company, and RMB3.595 billion is used as the capital reserve of the Target Company.

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As set out in the Board Letter, as of the date of this circular, the Target Company was a wholly-owned subsidiary of the Company, and China Baowu is the controlling Shareholder of the Company, indirectly holding a total of approximately 53.00% of the Company's shares. China Baowu directly and indirectly holds approximately 63.10% of the shares in Baosteel. Under the definition of the Listing Rules, Baosteelis a subsidiary of China Baowu and a connected person of the Company. Accordingly, the Equity Transferand the Capital Increase constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

Upon completion of the Equity Transfer and the Capital Increase, the Company's equity interest in the Target Company will be diluted from 100% to 51%. As such, both the Equity Transfer and the CapitalIncrease will constitute a deemed Transactions under Chapter 14 of the Listing Rules. Given that both theEquity Transfer Agreement and the Capital Increase Agreement are entered into within a 12-month periodand are inter-conditional, the transactions contemplated thereunder shall be aggregated and treated as a single transaction pursuant to Rules 14.22 and 14A.81 of the Listing Rules.

As the highest applicable percentage ratio (as aggregated) in respect of the transactions contemplated under the Equity Transfer Agreement and the Capital Increase Agreement (namely, the Equity Transfer and the Capital Increase) exceeds 25%, the Equity Transfer and the Capital Increase constitute major transactions of the Company under Chapter 14 of the Listing Rules. Accordingly, the Equity Transfer Agreement and the Capital Increase Agreement and the transactions contemplated thereunder (namely, the Equity Transfer and the Capital Increase) are subject to the requirements of reporting, announcement,circular (including independent financial advice) and the approval of Independent Shareholders under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising all independent non-executive Directors, namely Mr.Guan Bingchun, Mr. He Anrui, Mr. Qiu Shengtao and Mrs. Zeng Xiangfei, has been established to makea recommendation to the Independent Shareholders in relation to the Agreements. We, Messis Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

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 our independence. Apart from normal professional fees paid or payable to us in connection with this transaction, no other arrangement exists whereby we had received or would receive any fees or benefits from the Company or any parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider ourselves independent in accordance with Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to give independent advices in respect of the Capitalisation.

BASIS OF OUR OPINION

In formulating our advice, we have relied solely on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Group and/or the Directors. We have assumed that all such statements, information, opinions and representations contained or referred to in the Circular or otherwise provided or made or given by the Group and/or the Directors and/or its senior management staff (the "**Management**") for which they are solely responsible, are true and accurate at the time when they were provided and continue to be so as at the Latest Practicable Date. Shareholders will be notified of material changes as soon as possible, if any, to the information and representations provided and made to us after the Latest Practicable Date andup to and including the date of the EGM. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in this circular were reasonably made after due enquiryand careful consideration. We have no reason to suspect that any material facts or information have beenwithheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its adviser and/or the Directors,which have been provided to us. We have also relied on certain information available to the public andhave assumed such information to be accurate and reliable and there are no reasons to doubt the accuracyand reliability of such public information. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at afterdue and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement contained in this circular misleading.

We consider that we have reviewed all information and documents which are made available to usto enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our advice. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Group and/or the Directors and/or the Management and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Groupor the Target Company.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion with respect to the Transactions, we have taken into account the principal factors and reasons set out below:

1. Information on the Group

The Company is one of the PRC's largest steel producers and distributors, principally engaged inthe manufacturing and sales of steel products.

Set out below is a summary of the audited consolidated financial information of the Group for the year ended 31 December 2022 ("**FY 22**"), 2023 ("**FY 23**") and 2024 ("**FY 24**") as extracted from the annual report of the Group for the year ended 31 December 2023 and the annual report of the Group for the year ended 31 December 2024, respectively.

	For the year ended 31 December *Renminbi Yuan*		
	2024	**2023**	**2022**
Revenue	81,816,891,739	98,937,969,364	102,153,602,375
– Principal operating income	79,365,028,160	96,403,138,119	99,020,437,614
– Other operating income	2,451,863,579	2,534,831,245	3,133,164,76 1
Cost of sale	(82,591,668,039)	(97,308,142,081)	(98,846,467,731)
Gross profit/(loss)	(774,776,300)	1,629,827,283	3,307,134,644
Selling expenses	(303,636,480)	(341,240,952)	(295,129,468)
General and administrative expenses	(872,041,999)	(933,378,645)	(1,263,771,737)
R&D expenses	(1,103,101,885)	(1,231,049,205)	(1,167,297,776)
Other income	512,641,397	714,197,840	172,641,171
Investment income	8,405,954	308,185,072	814,285,702
(Loss)/gain from Transactions of assets	(270,368,636)	93,861,158	440,339,732
Operating loss	(4,721,510,347)	(1,593,781,357)	(483,950,030)
Loss before tax	(4,829,857,723)	(1,596,659,516)	(560,617,244)
Net loss attributable to owners of the parent in year	(4,659,156,254)	(1,327,161,500)	(857,615,094)

The Group recorded a revenue of approximately RMB81,817 million for FY 24, representing a decrease of approximately 17.30% from the revenue of RMB98,938 million as generated for FY 23, which was mainly due to the decrease in revenue from steel plates and long products during the same period. The Group turned from a gross profit approximately RMB1,630 million for FY 23 to a gross loss of approximately RMB775 million for FY 24, which was primarily due to thedecrease in gross margin from sales of steel plates and long products by approximately 2% and 3.04%, respectively. The net loss attributable to shareholders of the Company was approximately RMB4,659 million for FY 24, representing an increase of 251.06% in loss from that of FY 23.

From FY 22 to FY 23, the Group's revenue decreased from approximately RMB102,154 million to approximately RMB98,938 million, representing a decrease of approximately 3.15%, with the gross profit decreased from approximately RMB3,307 million to approximately RMB1,630 million, which was mainly due to the decrease in revenue from sale of long products and decreaseof gross margin from sale of long products and sale of wheel and axles by approximately 4.36%and 0.98%, respectively. The net loss attributable to shareholders of the Company was recorded as approximately RMB1,327 million for FY 23, representing an increase of approximately 54.64% from FY 22.

	As of 31 December	
	2024	**2023**
	Renminbi Yuan	
Current assets	19,472,010,226	22,041,620,102
Non-current assets	59,490,963,387	62,510,632,833
Total assets	78,962,973,613	84,552,252,935
Current liabilities	44,845,617,126	44,054,616,027
Non-current liabilities	6,796,304,286	8,218,095,557
Total liabilities	51,641,921,412	52,272,711,584
Net assets	27,321,052,201	32,279,541,351
Cash and bank balances	**6,434,105,447**	**5,569,797,722**

As at 31 December 2024, the Group's total assets amounted to RMB78,963 million, representing a decrease of 6.61% from the total assets of RMB84,552 million as of 31 December 2023, which was primarily due to (i) the decrease in construction in progress from approximately RMB4,014 millionto approximately RMB795 million under non-current assets; and (ii) the decrease in inventory from approximately RMB9,918 million to approximately RMB7,909 million under current assets during the same period.

The cash position of the Group increased from approximately RMB5,570 million as of 31 December 2023 to approximately RMB6,434 million as of 31 December 2024.

2. Information of Baosteel

With reference to the Board Letter, Baosteel is principally engaged in iron and steel industry, trading, shipping, coal chemical industry and information services. Baosteel is ultimately beneficially owned by China Baowu.

3. Information of the Target Company

With reference to the Board Letter, the Target Company is principally engaged in steel manufacturing which specifically includes steel and iron smelting; steel rolling and processing; coking; production and sales of steel products such as high-quality special steel, plate and strip products and others; and production and sales of other steel products and wheel and axle products.The Target Company is a wholly-owned subsidiary of the Company as at the date of this circular.

As set out in the Board Letter, the Target Company was incorporated on 23 December 2024 in the PRC and has no operation between 23 December 2024 and 28 February 2025. The Target Company recorded audited total assets of approximately RMB53.90 billion and net assets book value of approximately RMB10.077 billion as at 28 February 2025.

Taking into consideration the above, including reviewing the Extract of Valuation Report and the underlying valuation methodology and assumptions, the Board considered that the Transfer Consideration is fair and reasonable and in the interest of the Company and Shareholder as a whole.

4. Reasons for and benefits of the Transactions

As stated in the Board Letter, the Transactions enable the Target Company to leverage on Baosteel's nationwide and worldwide marketing and processing service network, technological leadership, talent resources and synergistic expertise to achieve a viable and sustainable development, and further to improve its competitiveness in the market, which is in line with the Group's long-term high-quality development.

We have conducted our independent research and reviewed the report dated 21 January 2025 on the website of China Iron and Steel Association regarding the developments and challenges of theiron & steel industry in China to get a better understanding of the iron & steel industry status in thecurrent social and economic environmental circumstances and the reasons for the Transactions as disclosed in the Board Letter.

According to the report, the traditional iron & steel industry is under pressure by "reduced development and stock optimisation". During the 2024, the price of fuels soared, the iron & steelindustry faced challenges of "high production, high costs, high exports, low demand, low prices and low efficiency" situation. Overall, the degree of reduction in steel consumption is significantlygreater than degree of decline in production, and thus, the market has stronger supply than demand.

Also, the structural adjustment of iron & steel products is still on-going. The iron & steel manufacturing companies are strongly encouraged to transform and adopt the green and low-carbon technology innovations for long-term sustainable development.

We have reviewed the annual report of the Company for the year ended 31 December 2024 and noted that the Company has been persisting in reform and innovation for deepening its business integration and synergy. The Company has put emphasis on extending, deepening and specializing the steel industry chain to establish a robust "R&D-production-sales". Further, we noted that the Company has accelerated the transformation of its products to become more environmentally friendly and focused on enhancing the competitiveness of its special steel products. The Company, as a major market participant in the iron & steel industry, has strong awareness for green developmentand its social responsibilities.

The Board Letter also stated that Baosteel demonstrates high synergies with Target Company, in terms of both products and geographical coverage. We have discussed with the Management regarding the major attraction to collaborate with Baosteel. Besides the government policy support,it is noted that the Company has strived to expand its market shares, customers base, as well as improve the quality of products in low-carbon production via green technology. We are of the view that the participation by Baosteel into the business of the Target Company will facilitate the structural adjustments of the efficient and environmentally friendly production for the Target Company, which aligns with the Company's sustainable development and awareness of social responsibilities, given (i) Baosteel has advanced technology such as hydrogen metallurgy and high-end automotive panels and capital resources for the manufacturing of steel products, especially in increasing the utilisation of Baosteel's systemic advantages, market influence, technological leadership to improve standard of iron & steel products; (ii) the Target Company and Baosteel can integrate production capacity and supply chain to improve cost-efficiency.

According to the Board Letter, the Company also wishes to improve its capital structure by applying certain percentage of proceeds from the Transactions to repay the loans which will be due in nearfuture and enhance the equity base. We are of the view that such capital structure enhancement is reasonable given the Group can reduce debt burdens and enhance equity base so as to obtain highercredit ranking if it has need for loan facility from banks.

It is noted that the strategic partnership facilitates technology transfers and supply chain synergiesthat drive cost efficiencies, while the strengthened balance sheet improves creditworthiness to secure favorable financing for long-term projects. It is further noted that part of the proceeds willbe applied to the Company and the Target Company for new project construction (including green production upgrades and high-value product development), strengthening core productivity and functions, development of upstream and downstream of the industrial chain, among others. As such,this partnership contributes to financial stability and enhanced competitive positioning for businessexpansion.

In light of above, we considered that although the Transactions are not in the ordinary and usualcourse of business of the Group, it is in the interests of the Company and the Shareholders as awhole.

5. Principal terms of the Transactions

(i) Equity Transfer Agreement

Set out below are the principal terms and conditions of the Equity Transfer Agreement as extracted from the Board Letter.

Date

17 April 2025

Parties

(1) The Company;

(2) Baosteel; and

(3) The Target Company

Subject Matter

The Company agreed to transfer the Target Equity Interest held by the Company to Baosteel, and Baosteel agreed to acquire the Target Equity Interest at a consideration of RMB5.139 billion.

Consideration

The Transfer Consideration for the Target Equity Interest is RMB5.139 billion, which is determined by the Company and Baosteel with reference to (i) the net asset value of the Target Company (RMB14.506 billion) as assessed by the Independent Valuer multiplythe proportion of equity interest (35.42%) to be transferred as RMB5.139 billion on the Valuation Reference Date according to the Valuation Report; and (ii) appropriate rounding adjustments, after arm's length negotiation. The above Transfer Consideration is ultimately determined on the basis of the appraised value of the net assets of the Target Company.

Based on the asset-based approach, as at the Valuation Reference Date, under the premise that all assumptions hold true, the total assets of Target Company had a carrying value of RMB53,897.7743 million with an assessed value of RMB58,131.7820 million, reflecting an appreciation of RMB4,234.0077 million and an appreciation rate of 7.86%. The total liabilities had a carrying value of RMB43,820.377 million with an assessed value of RMB43,625.6758 million, reflecting a devaluation of RMB194.7012 million and a devaluation rate of 0.44%. The total equity value of shareholders had a carrying value of RMB10,077.3973 million with an assessed value of RMB14,506.1062 million, representing an appreciation of RMB4,428.7089 million, and the appreciation rate is 43.95%.

Conditions Precedent

Save as the relevant applicable law and listing rules, there is no pre-condition for Baosteel, the Company and the Target Company to enter into the Capital Increase Agreement and the Equity Transfer Agreement, which are aggregated and treated as a single transaction.

Payment Terms

Within 10 business days after the satisfaction (or written waiver by Baosteel) of the relevant preconditions for payment under the Equity Transfer Agreement, Baosteel shall pay 50% of the Transfer Consideration (the "**First Equity Interest Transfer Payment**"). Subject to the satisfaction of the remaining preconditions for payment, or mutual confirmation that such payment will not materially and adversely affect the Target Company's productionand operation under the Equity Transfer Agreement, and in any event no later than 180 days after the completion of the First Equity Interest Transfer Payment, Baosteel shall pay the remaining 50% of the Transfer Consideration (the "**Second Equity Interest Transfer Payment**"). If the Completion Date is before 30 June 2025, the Second Equity Interest Transfer Payment shall be paid no later than 31 December 2025.

Baosteel shall pay the entire Transfer Consideration in its own funds, to the bank account designated by the Company.

Effectiveness of the Equity Transfer Agreement:

The Equity Transfer Agreement shall take effect upon being signed and sealed by all parties to the agreement or the date when it is approved by Shareholders at General Meeting, whichever is later, and shall remain in full force and effect unless terminated earlier according to the agreement signed by the parties to the Equity Transfer Agreement.

Arrangements during the Transition Period

Changes in assets during the Transition Period shall be enjoyed or borne by the original shareholder through a special dividend distribution, the mechanism of which will be, duringthe Transition Period, any increase in the Target Company's net assets from profits will bedistributed as a special dividend to the Company proportional to such increase. Conversely, any decrease in net assets from losses will reduce the Company's special dividend on dollar- for-dollar basis from the distributable profits (if any) of the Target Company. In any event, there will be no adjustments to the Transfer Consideration.

We have reviewed the executed version of the Equity Transfer Agreement and are of the view that the principal terms have fulfilled the key elements of normal commercial contract, which includes but not limited to, the consideration and its basis, the intention for the transactions, the parties' rights and obligations during the contract performance period (including but notlimited to the stipulated conditions for payment for each instalments). We considered that the principal terms of the Equity Transfer Agreement including the arrangement for the special dividend distribution is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(ii) Capital Increase Agreement

Set out below are the principal terms and conditions of the Capital Increase Agreement as extracted from the Board Letter.

Date

17 April 2025

Parties

(1) The Company;

(2) Baosteel; and

(3) The Target Company

Subject Matter

On 17 April 2025, the Company entered into the Capital Increase Agreement with Baosteel and the Target Company, pursuant to which Baosteel agreed to make a capital contribution of RMB3.861 billion in the Target Company, of which RMB266 million as the newly increased registered capital of the Target Company, and RMB3.595 billion as the capital reserve of the Target Company.

Change in Shareholding Structure

The amount of Capital Injection has been determined based on the appraised value of the Target Company in the Valuation Report issued by an independent third party, to ensure fair transaction pricing. In addition, according to the Extract of Valuation Report, the valueof the Target Company on the Valuation Reference Date was assessed to be RMB14.506 billion according to the asset-based approach, and the original registered capital was RMB1billion. The corresponding value of each registered capital is RMB14.506, and the total capital increase of Baosteel is RMB3.861 billion. The total capital increase is divided by thevalue of each registered capital, and the registered capital corresponding to Baosteel's capital increase should be RMB266 million.

It is noted that RMB266 million would be used by the Target Company to increase its registered capital to RMB1.266 billion, whereas RMB3.595 billion is used as capital reserve, specifically as share premium, 50% of the capital contribution will be used for new projectconstruction (including green production upgrades and high-value product development), and the rest will be used for daily production and operations.

On the Completion Date of the Equity Transfer Agreement, the Company transferred its 35.42% equity of the Target Company (before equity dilution) to Baosteel in accordance with the Equity Transfer Agreement. On the same day, Baosteel shall simultaneously increase thecapital of the Target Company with RMB3.861 billion, of which RMB266 million would be used as new registered capital, aiming to increase the registered capital of the Target Company to RMB1.266 billion. Baosteel will hold about 21% of the equity of the Target Company (being the new registered capital of RMB266 million divided by the new total registered capital of RMB1.266 billion), plus about 28% after the completion of the EquityTransfer (being the share of this equity transfer of 35.42% multiplied by the original total registered capital of RMB1 billion divided by the new total registered capital of RMB1.266billion), and finally achieve 49% equity ratio.

Payment Terms

With reference to the assessed net asset value of the Target Company as set out in the Valuation Report, Baosteel shall conduct a simultaneous capital increase into the Target Company on the Completion Date of the Equity Transfer Agreement. The aforementioned capital increase shall be subscribed by Baosteel in cash, with a total subscription amount of RMB3.861 billion, payable in full within 180 days after the effective date of the CapitalIncrease Agreement. If the effective date of the Capital Increase Agreement is 18 June 2025 (being the date of the upcoming General Meeting), then the Completion Date of the Equity Transfer Agreement occurs before 30 June 2025 and the latest payment deadline shall be nolater than 31 December 2025.

Effectiveness of the Capital Increase Agreement:

The Capital Increase Agreement shall take effect upon being signed and sealed by all parties to the agreement or the date when it is approved by Shareholders at General Meeting, whichever is later, and shall remain in full force and effect unless terminated earlier according to the agreement signed by the parties to the Capital Increase Agreement.

We have reviewed the calculation workings for the shareholding structure upon the completion of the Transactions. Given there is a mutual consent between the Company and Baosteel to use RMB266 million for the increased registered capital purpose and the remaining amount of RMB3.595 billion for the capital reserve, it is fair and reasonable to calculate the shareholdings of the Baosteel in the Target Company based on the updated total registered capital of RMB1.266 billion of the Target Company considering both the increase in shareholdings by Baosteel from transaction contemplated under Equity Transfer Agreement and the Capital Increase Agreement. We noted that the extent of amount of capital injected into registered capital or capital reserve is allowed under PRC accounting standard and applicable laws. We are of the view that the Baosteel shareholdings of approximately 49% in the Target Company upon the completion of the Transactions is fair and reasonable.We also considered that the capital contribution to be used for investment and constructionof new projects, as well as for daily production and operation of the Target Company willultimately benefit the Company.

As such, the Company will hold approximately 51% equity interests of the Target Company upon the completion of Transactions, which enables itself to retain the controlling shareholder position and the veto right to assign the directors in the board seat to represent it for material business and corporate governance decisions of the Target Company. Takinginto account of the benefits to enter into the Transactions as set out under section headed "4. Reasons for and benefits of the Transactions", we are of the view that such retaining controlling interest in the Target Company is in line with the Company business strategy forits group business optimization and is in the interests of the Company and its Shareholders asa whole.

We have reviewed the Agreements and are of the view that the Agreements are in normalcommercial terms including the Transfer Consideration of the Target Company which was based on the valuation and the arrangement during the transition period.

6. Evaluation of the consideration

With reference to the Board Letter, the consideration was determined after arm's length negotiations between the Company and Baosteel with reference to the appraised asset value of the entire equity interest in Target Company as at the Valuation Reference Date as appraised by the Independent Valuer.

According to the Valuation Report, the appraised value of Target Company's entire equity interest as at the Valuation Reference Date amounted to RMB14.506 billion. Based on the aforesaid valuation conclusion, the Company and Baosteel agreed that the consideration of the Target Equity Interest shall be RMB5.139 billion, being approximately 35.42% of the appraised asset value of the entireequity interest in Target Company as at the Valuation Reference Date. In preparing the ValuationReport, the Independent Valuer selected the asset-based approach to conclude the Valuation.

For due diligence purpose, we have reviewed the Valuation Report prepared by the Independent Valuer and have discussed with the Independent Valuer regarding the valuation of the Target Company with details set out below. We have reviewed the valuation input adopted by the valuer,the calculation workings as provided by the valuer, and the reasons for the differences between thebook and appraised values.

(a) Scope of work and qualifications of the Independent Valuer

The Independent Valuer was engaged to prepare the Valuation Report which sets out independent valuations on the value of 100% equity interest in Target Company as at the Valuation Reference Date. The Valuation Report has been prepared in compliance with the relevant professional standards issued by China Appraisal Society. We have discussed the expertise of the Independent Valuer with its relevant staff members. We understand that the Independent Valuer is certified with the relevant PRC qualifications required to perform this valuation exercise and has over 10 years' industry experience in conducting valuation exercises. We have also reviewed the terms of the Independent Valuer's engagement letter and noted that the purpose of the Valuation is to provide an opinion of value of Target Company. The Independent Valuer's engagement letter also contains standard valuation scopes that are typical of company valuations carried out by independent valuers.

In the course of our review, we have discussed with the Independent Valuer the methodologies, bases and assumptions adopted in the Valuation Report, further details are set out below.

(b) ***Valuation methodologies***

As mentioned above, the Valuation was concluded based on the asset-based approach. We noted from the Valuation Report that the Valuation Report was prepared by the IndependentValuer in accordance with various requirements/standards, including《中華人民共和國資產評估法》(Asset Appraisal Law of the PRC*), Law of the PRC on State-owned Assets of Enterprises《中華人民共和國企業國有資產法》as passed by the National People's Congress of the PRC and other relevant valuation standards published by the PRC government. Based on our discussion with the Independent Valuer, we understand that the Independent Valuer has considered these three commonly used valuation approaches for valuation of a company, namely the asset-based approach, the market approach and the income approach, and adoptedthe asset-based approach for the reasons below:

(i) the income approach determines value by capitalizing or discounting the expected earnings of the subject asset. However, the steel industry is currently experiencing sustained declines in profitability due to macroeconomic volatility, slow demand recovery, and intensifying supply-demand imbalances. Since the income approach relies on long term, stable cash flow projections, factors such as the industry's long investment cycles, macroeconomic policies, industry trends, and the efficient utilization of assets may lead to deviations in the valuation results. Therefore, the income approach is not the most appropriate method;

(ii) the market approach determines the value of the subject asset by comparing it with comparable references and basing the valuation on their market prices. However, dueto the scarcity of comparable transactions with a combination of similar asset scale, product structure, and competitive dynamics as the Target Equity Interest, the marketapproach is not the most appropriate method; and

(iii) the asset-based approach determines the current value of the subject asset by a combination of calculating the full cost required to replace or reconstruct it in its entirety under realistic conditions, adjusted for depreciation and obsolescence. Since asset-based approach reflects the replacement value of the Target Company's assets asof the Valuation Reference Date, and given that acquisition and construction costs are relatively stable. Therefore, the asset-based approach is deemed the most appropriate valuation method.

Given the (i) uncertainty of the geopolitical tensions and unstable macroeconomic environment; (ii) the iron & steel industry is under pressure for sound development and under challenge for structural adjustment according to the report as mentioned under section headed "4. Reasons for and benefits of the Transactions"; and (iii) the inventory of the iron& steel products are able to be retained for a long period, we concurred with the view of the Independent Valuer that the income approach is not an appropriate method for the Valuation as of the Valuation Reference Date.

We noted that the Independent Valuer did not adopt the market approach on the basis of the scarcity of comparable transactions with a combination of similar asset scale, product structure, and competitive dynamics as the Target Equity Interest. We have discussed with the Independent Valuer and understood that their focus was on the comparable transaction.

For our due diligence purpose, we have tried to identify comparable companies listed on the Main Board of the Stock Exchange with similar principal businesses as the Company and the Target Company (i.e. manufacturing and sales of steel products in the PRC). Based on the above selection criteria, we have identified four comparable companies which will be discussed below for a cross-reference purpose.

Having considered (i) that the Valuation Report was prepared by the Independent Valuer in accordance with various requirements/standards; (ii) that the Independent Valuer had also considered market approach and income approach during the course of the Valuation before concluding the Valuation with the asset-based approach; and (iii) the aforesaid reasons for not adopting the market approach and income approach, we concur with the Independent Valuer on the adoption of asset-based approach to conclude the valuation.

(c) Valuation assumptions

The valuation is subject to certain assumptions, including but not limited to: (i) the Target Equity Interest is assumed to be in a transaction process, and the Independent Valuer has estimated its value by simulating market conditions; (ii) the Target Equity Interest, whetheralready on the market or intended to be transacted, is presumed to be traded between partiesof equal standing, with both sides having sufficient access to market information and time, and acting voluntarily and rationally to assess the Target Equity Interest's functionality, utility, and transaction price before making informed judgments; (iii) the Target Equity Interest will continue to be used in its current manner and for its existing purpose; and (iv)no other material changes in factors or circumstances are anticipated.

We have reviewed the Valuation Report and discussed with the Independent Valuer in respect of the key assumptions adopted for performing the Valuation. We understand from the Independent Valuer that the assumptions are commonly adopted in other valuationsof similar assets and there is no unusual assumption which has been adopted during the Valuation. We also consider the assumptions adopted in the Valuation Report are general in nature and are not aware of any material facts which lead us to doubt the assumptions adopted by the Independent Valuer.

(d) Details of valuation

In arriving at the Valuation, the Independent Valuer categorised the assets and liabilities ofTarget Company into different categories. Based on the Valuation Report and our discussionwith the Independent Valuer, in determining the valuation of the assets and liabilities of Target Company, the Independent Valuer has considered the applicable valuation methodologies taking into account the nature of the subject assets/liabilities in accordance with the relevant valuation requirements/standards, which set out, among others, the requirements, key steps and methodologies in the valuation of tangible assets, intangible assets and real estates.

As confirmed by the Independent Valuer, the appraisal methodologies of assets and liabilities are consistent with normal market practice. We have also reviewed the Valuation Report and enquired with the Independent Valuer the details of asset-based approach valuation, including the basis of appraising different categories of assets and liabilities and the reasonsfor difference between the book value and appraised value.

During our discussion with the Independent Valuer, we have not identified any major factors which caused us to doubt the fairness and reasonableness of the principal bases andassumptions adopted for the asset-based approach valuation. The appraisals of the assets and liabilities of Target Company are summarised below:

The Independent Valuer has categorized the assets belonging to current assets, long-term equity investments, investment properties, buildings, fixed assets of equipment, construction in progress, right-of-use assets, land use rights and other intangible assets-software copyrights, respectively.

(i) *Current assets*

We have reviewed the valuation methods of current assets and noted that the Independent Valuer arrived at the value of different sub-category of current assets according to their nature, function to the business of the Group, the relevant verification work and the general valuation practice. For instance, we understood from the Independent Valuer that the fair value of the account receivables and otherreceivables depends on the likelihood of such balances to be recovered by Target Company and the amount that is expected to be recovered.

As for inventories, an cost approach was adopted for the inventory turnover materials. The valuation of finished goods in stock took into account of the sales profit and relevant market conditions.

(ii) *Long-term Equity Investments*

We noted that the Independent Valuer use the similar rationale to calculate the long-term equity investments based on the percentage of share interest in the investee and the total equity value of the investee, which is fair and reasonable.

(iii) *Investment Properties and Buildings*

After assessing the nature and characteristics of the investment properties and buildings, considering lack of data availability, the valuation for investment properties and buildings both adopted the cost approach. We have enquired the Independent Valuer and was confirmed that it is normal valuation practice based on similar situations.

(iv) *Fixed Assets of Equipment*

The Independent Valuer adopted the replacement cost method in assessing the appraised value of machinery and equipment, transportation vehicles, electronic equipment and adopted the comparable market prices for equipment with active secondary market transactions.

Upon our enquiry, the Independent Valuer advised us that the adoption of replacement cost method could estimate the cost to replace/construct such relevant fixed assets with similar utility which usually have no active or liquid market and is consistent with normal market practice.

As the fixed assets which were valued by replacement cost method include machinery and equipment, transportation vehicles, electronic equipment which have been usedby Target Company for certain period of time and did not have active second hand market transactions, we concurred with the view of the Independent Valuer that the replacement cost method could estimate the cost to replace/construct the relevant assetswith similar utility. Having considered the above, in particular that (i) the adoption of replacement cost method is consistent with normal market practice; and (ii) the assets were appraised based on individual conditions such as the replacement cost if there were no active second-hand market transactions, we consider the appraisal methodologies of the fixed assets to be fair and reasonable.

(v) Construction in Progress

We noted that the cost approach was adopted for the valuation of construction in progress based on different project types (including civil engineering & equipment installation and deferred investment) and specific circumstances. We considered that valuation based on the specific nature of the project is fair and reasonable.

(vi) Right-of-use Assets

We considered it is fair and reasonable to assess the right-of-use assets based on recognised accounting standards.

(vii) Land Use Rights

We noted that the Independent Valuer justified various commonly adopted valuation approaches to arrive the estimated value of land use rights to different nature of land. We considered it is fair and reasonable to take into all the circumstances suchas changes in land prices in recent years, urbanization, enhanced infrastructure and supporting facilities into account before concluding the valuation.

(viii) Other Intangible Rights

The other intangible assets included in the valuation scope consist of production capacity indicators, technology-related intangible assets, and software copyrights.

We noted that the Independent Valuer justified various commonly adopted valuation approaches to arrive the valuation of other intangible rights based on the nature. We considered it is fair and reasonable to take into all the circumstances into account before concluding the valuation.

(ix) Liabilities

The liabilities' carrying value was assessed mainly based on the book amount of the debts, which is fair and reasonable.

Having considered that (i) the asset-based approach valuation was performed by the Independent Valuer in accordance with various requirements/standards; (ii) the Independent Valuer has considered the applicable valuation methodologies taking into account the natureof the subject assets/liabilities; and (iii) the appraisal methodologies of assets and liabilities are consistent with normal market practice, we consider that the valuation methodologies adopted by the Independent Valuer in assessing Target Company's assets and liabilities are fair and reasonable.

(e) Conclusion for valuation bases and assumptions

Having discussed with the Independent Valuer and reviewed with them the reasons for adopting the various valuation methodologies, the bases and assumptions used for the Valuation and the valuation result, we are of the view that the chosen valuation methodologies, bases and assumptions in establishing the appraised value as at the Valuation Reference Date are in line with the industry practice. In assessing the fairness of the Transfer Consideration, we considered it is appropriate to refer to the independent valuation conducted by the Independent Valuer in respect of the appraised value of Target Company.

(f) Valuation Results by items

We have noted that there are differences between the carrying value and assessed value ofthe asset items and liabilities items from the Valuation Report.

We reviewed the reasons as provided by the Independent Valuer for the difference by item if there are material differences:

Assets Items:

(i) as for current assets, it was mentioned that the appreciation of current assets was mainly due to the consideration of the profit generated by inventory sales. We considered it is fair and reasonable to consider the potential economic benefit tobe generated by the inventory sales given this will better reflect the value of the inventory;

(ii) as for the long-term equity investment, it was mentioned that the primary reason forthe appreciation was due to fact that original investment cost of the subsidiary was based on the carrying value on the Valuation Reference Date, while the appraisal value was the valuation of the subsidiary based on the asset-based method on the Valuation Reference Date, resulting in the appreciation. We considered it is reasonable that thevaluation of long-term equity investment in a company based on asset-based method instead of carrying value is adopted as it is likely to gain higher premium than the original investment costs;

(iii) as for the investment properties, it was mentioned that the appreciation was due to the fact that the house was mainly built in 2009, and the increase in building materials prices and labor costs up to the Valuation Reference Date. We are of the view that given inflation factor, what as disclosed is reasonable;

(iv) it was noted that the impairment of fixed assets was mainly due to the appraised economic life of some equipment and structures being shorter than the accounting depreciation life of the enterprise, and the replacement price of some equipment beinglower than the carrying value of the equipment. We considered that such adjustment isfair and reasonable taking into account of the practical residue value of the fix assetsinstead of their carrying values;

(v) we noted that there is impairment of construction in progress which is primarily due to the completed and converted projects being evaluated in the corresponding fixed assets this time, resulting in the impairment. We considered that it is reasonable to consider the current status of construction in progress; and

(vi) it was provided that the appreciation of intangible assets was mainly due to the factthat the company acquired the land earlier, and the continuous rise in land prices inrecent years led to the evaluation appreciation; and other appreciation came from other intangible assets, including patents, know-how, and software copyrights which was not recorded on the book account but was included in this evaluation, resulting in the appreciation. We considered that it is reasonable given appreciation is based on updated prices of land and other intangible assets;

Liabilities Items:

The impairment of non-current liabilities-deferred income was mainly due to the fact that government grants associated with revenue and non-replicable were assessed to zero in this evaluation, resulting in the impairment. We are of the view that given the government grants was non-replicable, it is fair and reasonable to estimate as zero for the valuation purpose.

Evaluation of the consideration

The Transfer Consideration for the Target Equity Interest is RMB5.139 billion, which is equal to approximately 35.42% of the appraised asset value of the entire equity interest in Target Company as appraised by the Independent Valuer. The subscription amount of the capital increase in the Target Company from Baosteel was also with reference to the assessednet asset value of the Target Company. Having considered the details and our due diligencework on the valuation as set out above, we are of the view that the Transfer Consideration isfair and reasonable as far as the Independent Shareholders are concerned.

Our industry comparable analysis

The Target Company is principally engaged in steel manufacturing and is a wholly-owned subsidiary of the Company as at the date of the Circular. For conducting comparable analysis, comparable transactions and comparable companies are the two commonly adoptedmethods. It is noted from the Valuation Report that there were insufficient comparable corporate transactions with the target companies' principal business similar to that of the Target Company.

Alternatively, comparable companies method was adopted in our analysis. We have identified an exhaustive list of comparable companies (the "**Industry Comparables**") based on the following selection criteria:

(i) listed on the Stock Exchange and the shares trading was not on suspension;

(ii) principally engaged in the manufacturing and sales of iron &steel products;

(iii) the market capitalisation ranged from RMB1 billion to RMB4.5 billion; and

(iv) with more than 75% of the latest reported annual revenue generated from the sale or trading of iron & steel products.

Based on the above selection criteria, four Industry Comparables were identified. Regardingthe selection of the valuation multiple, we have given regard to the two commonly adopted valuation multiples, namely price-to-earnings multiple ("**P/E Multiple**") and price-to- book multiple ("**P/B Multiple**"). We noted that Target Company has no record of revenue or profits for FY24. As such, the P/E Multiple was not adopted in our analysis. The P/B Multiple is effective in valuing asset-intensive companies, which is applicable for the Target Company.

Based on what has been mentioned above, we consider the P/B Multiple to be an appropriate valuation multiple. Set out below are the Industry Comparables together with the relevant P/B Multiples and the information of which we consider, to the best of our knowledge and ability, to be an exhaustive, fair and representative population for the purpose of arriving at a meaningful analysis of the Transfer Consideration. As the Target Company was wholly-owned by the Company (which is the listing entity) as of the date of our industry comparables analysis and will remain a non wholly-owned subsidiary upon the completion of the Transactions, we considered it may not be necessary to adopt lack of marketability parameter in the analysis, as the Target Company is leveraging on the Company's reputationand resources for its business development.

Name	**Principal Businesses**	**Market Cap (HKD)** *(Note 1)*	**Market Cap (RMB)** *(Note 2)*	**P/B Multiples** *(Note 3)*
Angang Steel Company Limited (00347. HK)	Mainly engaged in production and sale of steel products.	2,089,079,200	1,952,410,467	0.04
China Oriental Group Company Limited (00581. HK)	Mainly engaged in the manufacturing and sales of iron and steel products, trading of steel products, iron ore and related raw materials, sales of power equipment and real estate business.	4,169,277,280	3,896,520,822	0.17
Newton Resources Ltd. (01231. HK)	Mainly engaged in sourcing and supply of iron ores and other commodities.	1,000,000,000	934,579,439	4.39 *(Note 5)*
China Hanking Holdings Limited (03788. HK)	Principal activities of the group are iron ore business, high-purity iron business in the PRC, and gold business in Australia.	2,116,800,000	1,978,317,757	1.38
			Maximum	1.38
			Minimum	0.04
			Average	0.53
Target Company				**1.44** *(Note 4)*

Notes:

1. The market capitalisations as at 17 April 2025, being the date of announcement of the entering into of the Equity Transfer Agreement and the Capital Increase Agreement.

2. The exchange rate of CNY:HKD was adopted as 1:1.07.

3. The P/B Multiples of the Industry Comparables are calculated by dividing the respective market capitalisation of the Industry Comparable as at 17 April 2025, being the date of the announcement of the entering into of the Equity Transfer Agreement and the Capital Increase Agreement, by the net asset value ("**NAV**") attributable to the owners of the Industry Comparables as shown in their respective latest published financial results and/or reports.

4. The implied P/B Multiple (the "**Implied P/B Multiple**") of 1.44 times is calculated by dividing the Transfer Consideration by the net assets book value of the Target Equity Interest Value of the Target Equity Interest.

5. The P/B Multiple of Newton Resources Ltd. of 4.39 times is way higher than others. It is considered to be outlier and therefore not included in our analysis.

As set out above, the P/B Multiples of the Industry Comparables ranged from approximately 0.04 times to approximately 1.38 times with the average P/B Multiples of approximately 0.53 times. The Implied P/B Multiple of 1.44 times is higher than the range of P/B Multiples ofthe Industry Comparables without the outlier but within the range with the outlier.

Given the Implied P/B Multiple of 1.44 times for the disposal of equity interest in Target Company is higher than the range of P/B Multiples of Industry Comparables without the outlier but within the range with the outlier as of the date of announcement, being the dateof announcement of the entering into the Agreements, and the fact that the Transactions represent disposal of equity interest in the Target Company, we consider that the Transfer Consideration to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

7. Financial effects of the Transactions and use of proceeds

As set out in the Board Letter, upon completion of Transactions, Target Company will be owned as to 51% by the Company and 49% by Baosteel.

Upon completion of the Equity Transfer and Capital Increase, the registered capital of the Target Company will be increased from RMB1 billion to RMB1.266 billion. Upon the completion ofthe Equity Transfer and the Capital Increase, the Company's interest in the Target Company will decrease from 100% to 51%, resulting in the Target Company transitioning from a wholly-owned subsidiary to a non-wholly owned subsidiary, whereas the consolidated total assets and net assets ofthe Group will all be increased by RMB3.861 billion. The Target Company's financial results will continue to be consolidated into the Group's financial statements.

The Group intends to use the proceeds from the transfer of the Target Equity Interest in the following ways: (i) concerning RMB3.861 billion will be injected to the Target Company, 50% ofsuch amount will be used for new project construction, (including green production upgrades and high-value product development) and the rest will be used for daily production and operations; (ii) concerning RMB5.139 billion entered the Company as equity transfer proceeds, 3% of such amountwill be used for the Company's working capital, approximately 37% of such amount will be usedfor the Company to repay due debts such as notes payable, and the remaining 60% of such amountwill be used for strengthening its core productivity and functions, development of upstream and downstream of the industrial chain, among others.

We have reviewed the Company's plan for use of net proceeds and noted that the Company has allocated the funds into different aspects, among others, the maintenance of current business operation, the development strategy for new project to obtain more income sources, and the repayment for loans which resulted in better capital structure. We are of the view that such use ofnet proceeds is fair and reasonable, reflecting the Company's business strategy for its viable and sustainable businesses in the long run.

RECOMMENDATION

Having taken into account the above principal factors and reasons, we are of the view that (i) the terms of the Agreements are on normal commercial terms and are fair and reasonable; and (ii) although the Transactions are not in the ordinary and usual course of business of the Group, they are in the interests ofthe Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committeeto recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the EGM to approve the Agreements.

Yours faithfully,
For and on behalf of
Messis Capital Limited

Angus Au-Yeung
Managing Director

Mr. Angus Au-Yeung is a licensed person registered with the Securities and Futures Commission of Hong Kong to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulatory activity under the SFO and has over 20 years of experience in corporate finance industry.