



RAINBOW CAPITAL (HK) LIMITED  
溢博資本有限公司

8 December 2023

*To the Independent Board Committee and the Independent Shareholders*

Chongqing Iron & Steel Company Limited  
No. 2 Jiangnan Avenue  
Jiangnan Street  
Changshou District  
Chongqing, the PRC

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS  
SERVICE AND SUPPLY AGREEMENT  
AND FINANCIAL SERVICE AGREEMENT**

**INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the Service and Supply Agreement and the Financial Service Agreement (the “**Agreements**” and the “**Transactions**”) and the proposed annual caps (the “**Proposed Annual Caps**”), details of which are set out in the “Letter from the Board” (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 8 December 2023 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 1 April 2021, the Company entered into the Original Service and Supply Agreement with China Baowu, pursuant to which the Group agreed to provide materials to China Baowu Group and China Baowu Group agreed to provide materials and services to the Group. The transactions contemplated under the Original Service and Supply Agreement were approved by the then independent Shareholders at the 2020 annual general meeting of the Company held on 29 June 2021. On 8 July 2022, the Company and China Baowu entered into the Supplemental Service and Supply Agreement, pursuant to which the type

of materials and services to be sold and the proposed annual caps for the transactions contemplated under the Original Service and Supply Agreement were revised. To continue the transactions under the Original Service and Supply Agreement and the Supplemental Service and Supply Agreement, on 10 November 2023, the Company entered into the Service and Supply Agreement with China Baowu to renew the term for the three years ending 31 December 2026.

In addition, on 1 April 2021, the Company entered into the Original Financial Service Agreement with Baowu Finance Company, whereby Baowu Finance Company agreed to provide comprehensive credit services, treasury management services and other financial services to the Company. To continue the transactions under the Original Financial Service Agreement, on 10 November 2023, the Company entered into the Financial Service Agreement with Baowu Finance Company to renew the term for the three years ending 31 December 2026.

As at the Latest Practicable Date, China Baowu is interested in approximately 27.63% of the issued share capital of the Company, among which approximately 1.46% is directly held by China Baowu and approximately 26.17% is indirectly controlled or held by China Baowu through the corporation it controls. Accordingly, China Baowu is an indirect substantial shareholder of the Company and a connected person under Chapter 14A of the Listing Rules. Given that Baowu Finance Company is a company controlled by China Baowu, Baowu Finance Company is also a connected person under Chapter 14A of the Listing Rules. As such, the transactions contemplated under the Agreements constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio for the Proposed Annual Caps is more than 5%, the transactions contemplated under the Agreements constitute non-exempt continuing connected transactions under Chapter 14A of the Listing Rules, which are subject to the reporting, announcement, the Independent Shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules. Furthermore, the deposit services contemplated under the Financial Service Agreement also constitute provision of financial assistance under Rule 14.04(1)(e) of the Listing Rules. Since the applicable percentage ratios under the Listing Rules in respect of the maximum daily balance limit of the deposit services contemplated under the Financial Service Agreement exceed 5% but less than 25%, such transactions also constitute discloseable transactions of the Company under the Rule 14.06(2) of the Listing Rules and are subject to the notification and announcement requirements under Chapter 14 of the Listing Rules. China Baowu together with its associates (namely Changshou Iron & Steel, Baowu Group Zhongnan Iron and Steel Co., Ltd., Sinosteel Equipment & Engineering Co., Ltd., Baosight Software (Wuhan) Co., Ltd., Shanghai Baosight Software Co., Ltd., Chongqing Baocheng Carbon Material Co. Ltd., Baosteel Engineering & Technology Group Co., Ltd. and Baowu Heavy Industries Co., Ltd.), holding 2,463,850,046 shares (approximately 27.63% of the issued share capital) of the Company, will be required to abstain from voting at the EGM with respect to the ordinary resolution in connection with the Agreements. Save as aforesaid, no other shareholder of the Company has a material interest in the transactions under the Agreements and is required to abstain from voting at the EGM.

The Independent Board Committee, comprising all the three independent non-executive Directors, namely Mr. Sheng Xuejun, Mr. Zhang Jinruo and Mr. Guo Jiebin, has been formed to advise the Independent Shareholders on (i) whether the entering into of the Agreements are conducted in the ordinary and usual course of business of the Group; and (ii) whether the terms of the Agreements (including the Proposed Annual Caps) are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole, and as to voting. We, Rainbow Capital, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

As at the Latest Practicable Date, we did not have any relationships or interests with the Group and China Baowu Group that could reasonably be regarded as relevant to our independence. We have acted as the independent financial adviser to the independent board committee and the independent shareholders of the Company in relation to the continuing connected transaction in relation to the Supplemental Service and Supply Agreement entered into between China Baowu Group and the Group, details of which are set out in the circular of the Company dated 10 August 2022. Other than that, there was no engagement or connection between the Group or China Baowu Group and us in the last two years. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no other arrangements exist whereby we had received any fees or benefits from the Group or China Baowu Group. Accordingly, we are independent from the Company pursuant to the requirement under Rule 13.84 of the Listing Rules and therefore we are qualified to give independent advice in respect of the Agreements (including the Proposed Annual Caps).

## **BASIS OF OUR OPINION**

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the Circular.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the businesses, affairs, operations, financial position or future prospects of the Group, China Baowu Group or any of their respective substantial shareholders, subsidiaries or associates.

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In considering whether the terms of the Agreements (including the Proposed Annual Caps) are fair and reasonable, we have taken into account the principal factors and reasons set out below:

### **1. Information on the Group, China Baowu Group and Baowu Finance Company**

The Company was established in 1997 and its Shares have been listed on the Main Board of the Stock Exchange since 1997 and on the Shanghai Stock Exchange since 2007. The Group is principally engaged in the production, processing and sale of steel products such as steel plates, steel sections, wire rods, bar materials, billets and thin plates, as well as the production and sale of coking and coal chemical products, pig iron and grain slag, steel slag and steel scrap. The Group's products are applied in various industries such as machinery, architecture, engineering, automobile, motorbike, shipbuilding, offshore oil, gas cylinder, boiler and oil and gas pipelines.

According to the interim report of the Company for the six months ended 30 June 2023, the Company recorded revenue of approximately RMB21.0 billion for the six months ended 30 June 2023, representing an increase of approximately 16.5% as compared to approximately RMB18.0 billion for the corresponding period in the prior year. The increase in revenue was mainly driven by the increase in steel production and steel export. However, due to the fall in steel price and increase in the price of imported iron ore, the Group incurred an increase in operating costs and resulted in net loss of approximately RMB434.7 million for the period. As at 30 June 2023, the Group had cash and bank balances, net assets and total assets of approximately RMB3.1 billion, RMB20.9 billion and RMB38.0 billion, respectively.

China Baowu is a state-owned capital investment company controlled by the State-owned Assets Supervision and Administration Commission of the State Council. Its business scope includes operating state-owned assets within the scope authorised by the State Council, as well as carrying out relevant state-owned capital investment and operation. China Baowu has been maintaining a leading position in the iron and steel manufacturing industry.

Baowu Finance Company, a company controlled by China Baowu, is a non-banking financial institution regulated by the China Banking and Insurance Regulatory Commission (“**CBIRC**”) and is principally engaged in provision of financial services to the members of China Baowu Group (including the Group). Its business scope covers the provision of financial services and financing advisory services, credit verification and related consultancy, agency services, etc.

We are advised by the management of the Group that the regulation imposed on finance companies of enterprise groups such as Baowu Finance Company are no less stringent than the regulations imposed on commercial banks. The Company confirms that CBIRC has not taken any disciplinary actions, or imposed penalties or fines on Baowu Finance Company since its incorporation.

We have obtained and reviewed the latest available audited annual report of Baowu Finance Company for the year ended 31 December 2022 (“**FY2022**”) and noted that (i) total assets and total equity of Baowu Finance Company amounted to approximately RMB52.1 billion and RMB5.0 billion, respectively as at 31 December 2022, among which cash and deposits amounted to approximately RMB1.9 billion and deposits from peers amounted to approximately RMB6.6 billion; (ii) revenue and net profit of Baowu Finance Company amounted to approximately RMB609.7 million and RMB372.4 million, respectively for FY2022; and (iii) Baowu Finance Company recorded net interest income of approximately RMB471.4 million, which represented the principal source of income of Baowu Finance Company for FY2022. We have also obtained and reviewed the major regulatory ratios of Baowu Finance Company as at 31 December 2022 such as capital adequacy ratio, non-performing loan ratio and non-performing assets ratio, and noted they are all in compliance with the “Measures for the Administration of Finance Companies of Enterprise Group” promulgated by CBIRC.

## **2. Reasons for entering into the Agreements**

On 1 April 2021, the Company entered into the Original Service and Supply Agreement with China Baowu, pursuant to which the Group agreed to provide materials to China Baowu Group and China Baowu Group agreed to provide materials and services to the Group. The transactions contemplated under the Original Service and Supply Agreement were approved by the then independent Shareholders at the 2020 annual general meeting of the Company held on 29 June 2021. On 8 July 2022, the Company and China Baowu entered into the Supplemental Service and Supply Agreement, pursuant to which the type of materials and services to be sold and the proposed annual caps for the transactions contemplated under the Original Service and Supply Agreement were revised. As the Original Service and Supply Agreement (as supplemented by the Supplemental Service and Supply Agreement) will expire on 31 December 2023, with a view to continue the transactions thereunder, on 10 November 2023, the Company enter into the Service and Supply Agreement with China Baowu to renew the term for the three years ending 31 December 2026.

As set out in the Letter from the Board, the entering into of the Service and Supply Agreement between the Company and China Baowu is conducive to the Company's use of China Baowu's brand, advantages, channels and resources to ensure stable and reliable supply of materials and services at a reasonable price, which is crucial to the Company's production stability, cost reduction and benefit increase. On the one hand, through entering into the Service and Supply Agreement with China Baowu, the Company could obtain the materials and services in need, which will help ensure the stability and continuity of the Company's future production; on the other hand, based on the transaction and pricing principle stipulated in the Service and Supply Agreement, the connected transaction will have a positive impact on the Company.

As advised by the management of the Group, as a leading iron and steel manufacturer, China Baowu Group is specialised in providing the products and services under the Service and Supply Agreement. As mentioned in the section headed "1. Information on the Group, China Baowu Group and Baowu Finance Company" above, the Group recorded increase in production and export of steel in 2023. As such, it is important for the Group to maintain a stable supply for the production of steels and hence we concur with the Directors that the procurement from China Baowu Group is in line with the Group's strategy to strengthen its procurement system by cooperating with high-quality suppliers and the production stability and continuity of the Group can be maintained through the entering into of the Service and Supply Agreement. Moreover, given China Baowu Group is a leading iron and steel manufacturer with strong financial position, the Company considers China Baowu Group is a reliable partner with high credit standing. We consider that the entering into of the Service and Supply Agreement is consistent with the business and commercial objectives of the Group as the sales of products and services by the Group to China Baowu Group can enhance the business opportunities of the Group and broaden the revenue base of the Group.

In addition, on 1 April 2021, the Company entered into the Original Financial Service Agreement with Baowu Finance Company, whereby Baowu Finance Company agreed to provide comprehensive credit services, treasury management services and other financial services to the Company. Under the Original Financial Service Agreement, Baowu Finance Company, as a non-banking financial institution, can provide the Group with the financial management and diversified financial services. This is conducive for the Group to broaden its financing channels, optimise its financial management, improve the fund utilisation efficiency and reduce the financing costs and risks. As disclosed in the third quarterly report of the Company for the nine months ended 30 September 2023 (the "**2023Q3 Report**"), the Group's cash and bank balances amounted to approximately RMB2.8 billion as at 30 September 2023. As advised by the management of the Group, the Group's cash and bank balances are currently either placed with independent commercial banks or Baowu Finance Company for treasury management. Baowu Finance Company has been providing financial services for the Group for years and has deep understanding in the industry characteristics, capital structures, business operations, financing need, capital flow patterns and the entire financial management system of the Group through its previous cooperation with the Company. Generally, Baowu Finance Company provides services to the Group on equal or better commercial terms compared

to those offered by other external independent commercial banks. As such, the Group is expected to continue to benefit from Baowu Finance Company's better understanding of the operation of the Group, which will facilitate more expedient and efficient services than those rendered by the major commercial banks in the PRC.

As the Original Financial Service Agreement will expire on 31 December 2023, with a view to continue the transactions thereunder, on 10 November 2023, the Company entered into the Financial Service Agreement with Baowu Finance Company to renew the term for the three years ending 31 December 2026.

Based on the above, we concur with the Directors that the entering into of the Agreements and the transactions contemplated thereunder are conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole.

### **3. Principal terms of the Agreements**

#### ***(i) Service and Supply Agreement***

The Service and Supply Agreement was entered into on 10 November 2023 between the Company and China Baowu. Details of the terms of the Service and Supply Agreement are set out in the Letter from the Board, which are summarised as follows:

Term : From 1 January 2024 to 31 December 2026

Subject Matter : (a) China Baowu (by itself and/or China Baowu Group) agreed to provide the Group with materials and services as follows:

- (1) raw materials such as iron ore, scrap steel, refractory materials, accessories (including dolomite, limestone, etc.), steel billets, coal, etc.;
- (2) production materials such as materials and spare parts, equipment, water etc.; and
- (3) services such as technical services (including construction, software development and labour services, etc.), road transportation services and sanitation and greening services, etc.

(b) The Company (by itself and/or the Group) agreed to provide China Baowu Group with the materials and services as follows:

(1) materials such as water, electricity, natural gas, steel billets, steel products, pig iron, solid waste, iron ore, etc.; and

(2) services such as processing, quality control and technical consultation and other technical services, etc.

Condition Precedent : The Service and Supply Agreement is conditional upon the passing of the resolution(s) approving the Service and Supply Agreement and the transactions contemplated thereunder (including the annual caps) by the Independent Shareholders at the EGM to be convened.

Price : The price shall be based on the state-prescribed price. In the absence of the state-prescribed price, the price shall be based on the market price, which shall be determined with negotiation on an arm's length between the parties, on normal commercial terms and with reference to the comparable transaction market price.

Meanwhile, the price regarding the materials or services to be sold or provided by the Group to China Baowu Group shall not be lower than the price of the same type of materials or services sold or provided by the Group to an independent third party on the same terms. The price regarding the materials or services to be sold or provided by China Baowu Group to the Group shall not be higher than the price of the same type of materials or services purchased or received by the Group from an independent third party on the same terms.



In accordance with the prevailing pricing standards, the basis of price for each of the transactions under the Service and Supply Agreement is as follows:

| <b>Type</b>  | <b>Pricing principle</b>  |
|--|---|
| Materials provided by China Baowu Group to the Group | <ul style="list-style-type: none"> <li>(a) Market pricing for raw materials such as iron ore, scrap steel, refractory materials, accessories (including dolomite, limestone, etc.), steel billets, coal, etc.; and production materials such as materials and spare parts, equipment, etc.</li> <li>(b) State-prescribed pricing for water</li> </ul> |
| Services provided by China Baowu Group to the Group  | Market pricing for services such as technical services (including construction, software development and labour services, etc.), road transportation services and sanitation and greening services, etc.  |
| Materials provided by the Group to China Baowu Group | <ul style="list-style-type: none"> <li>(a) State-prescribed pricing for water, electricity, gas, etc.</li> <li>(b) Market pricing for steel billets, steel products, pig iron, solid waste, iron ore, etc.</li> </ul>   |
| Services provided by the Group to China Baowu Group  | Market pricing for services such as processing, quality control and technical consultation and other technical services, etc.   |

Payment : The price for the provision of services or materials may be settled by one-off payment or installments. The time of payment shall be determined by the parties based on the nature of the services or materials and the usual business practice for the provision of the services or materials.

We have compared the terms of the Service and Supply Agreement with those of the Original Service and Supply Agreement (as supplemented by the Supplemental Service and Supply Agreement) and noted that except for the term, other principal terms of the Original Service and Supply Agreement (as supplemented by the Supplemental Service and Supply Agreement) and the Service and Supply Agreement remained the same, including but not limited to the scope of services, pricing basis and payment terms.

*In respect of procurement of raw materials*

We have reviewed the historical transaction amount of each type of raw materials provided by China Baowu Group to the Group for the years ended 31 December 2021 and 2022, and the six months ended 30 June 2023 (“FY2021”, “FY2022” and “6M2023”, respectively), and noted the Group mainly purchased iron ore and steel billets from China Baowu Group. In this regard, we have selected on a random basis and obtained and reviewed (a) six sample contracts of procurement of iron ore from China Baowu Group; (b) six sample contracts of procurement of iron ore from independent third parties; and (c) six sample contracts of procurement of steel billets from China Baowu Group during 2021 to 2023, being the term of Original Service and Supply Agreement. As advised by the management of the Group, the Group didn’t purchase steel billets from independent third parties during 2021 to 2023.

Based on our review, we noted that (a) the final settlement prices for iron ore were determined with reference to the Platts Iron Ore Index or MB Iron Ore Index, being market-recognised indexes for pricing of iron ore in the industry; (b) the prices for steel billets procured from China Baowu Group were equal to or less than those sold by other independent third parties in the market, with reference to the price on [www.mysteel.com](http://www.mysteel.com), a widely-used commodity information website set up by Shanghai Ganglian E-Commerce Holdings Co., Ltd. (300226.SZ); and (c) other terms of the sample contracts between the Group and China Baowu Group were no less favourable to the Group than those between the Group and independent third parties.

*In respect of procurement of production materials*

In respect of the historical procurement of equipment, materials and spare parts by the Group from China Baowu Group, we have obtained two contracts entered into between the Group and China Baowu Group in 2021 to 2023, being the term of Original Service and Supply Agreement. As advised by the management of the Group, the Group didn’t enter into contracts with independent third parties for procurement of equipment, materials and spare parts. Based on our review, we noted that (a) in order to centralise procurement and reduce procurement costs, the Group, as a subsidiary of China Baowu Group, engaged China Baowu Group to purchase equipment, materials and spare parts for the Group; (b) the purchase price payable by the Group consists of three parts: costs, management and service fee and incentive fee, among which (i) the costs refers to actual purchase price and transportation costs; (ii)

the management and service fee includes the labor costs, management expenses and other expenses required for the purchase of materials and spare parts; and (iii) the incentive fee is variable fee that is determined based on the material qualification rate, the completion rate of the Group's procurement plan, the decrease in purchase price as compared to the Group's historical purchase and other factors; and (c) the payment shall be settled within 60 days in cash or 15 days in 6-months bank acceptance bill from the invoice date. Given (a) the purchase price payable by the Group to China Baowu Group is mainly determined based on the actual costs and expenses with reasonable incentive fee; and (b) as advised by the management of the Group, the payment term is also applied to other subsidiaries of China Baowu Group, we consider the terms of contracts in respect of procurement of production materials to be fair and reasonable.

*In respect of procurement of technical services*

We have reviewed the historical transaction amount of each type of technical services provided by China Baowu Group to the Group for FY2021, FY2022 and 6M2023, and noted that the Group mainly purchased construction and labour services from China Baowu Group. In this regard, we have selected on a random basis and obtained and reviewed the tender records of two, two and three construction projects awarded to China Baowu Group, independent third parties and the consortium of China Baowu Group and independent third parties, respectively, during 2021 to 2023, being the term of Original Service and Supply Agreement.

As advised by the management of the Group, the suppliers for all of the Group's fixed asset construction projects are selected through tender. Based on our review, the terms of construction services provided by China Baowu Group were no less favourable than those provided by other independent third parties. As such, we consider the terms of contracts in respect of procurement of technical services to be fair and reasonable.

*In respect of sale of materials*

We have reviewed the historical transaction amount of each type of materials sold by the Group to China Baowu Group for FY2021, FY2022 and 6M2023, and noted the Group mainly sold steel products China Baowu Group. In this regard, we have randomly obtained and reviewed (a) six sample contracts of sale of steel products to China Baowu Group; and (b) six sample contracts of sale of steel products to independent third parties during 2021 to 2023, being the term of Original Service and Supply Agreement. Based on our review, we noted that (a) the prices for the steel products sold to China Baowu Group were no less favourable than those sold to independent third parties; and (b) the payment terms were the same, i.e. the payment shall be settled within one month after placing the order by China Baowu Group or independent third parties. As such, we consider the terms of contracts for sale of materials to China Baowu Group to be fair and reasonable.

*In respect of provision of services*

The Group mainly provides processing services for steel billets to China Baowu Group. We have randomly obtained and reviewed (a) two sample contracts of provision of processing services to China Baowu Group; and (b) four sample contracts of provision of processing services to independent third parties during 2022 to 2023, being the term of the Supplemental Service and Supply Agreement. Based on our review, we noted that (a) the service fee for provision of processing services to China Baowu Group was no less favourable than the service fee charged to independent third parties; and (b) the payment terms were the same, i.e. the payment shall be settled in one month by China Baowu Group or independent third parties. As such, we consider the terms of contracts for provision of processing services to China Baowu Group to be fair and reasonable.

*Internal control*

As disclosed in the Letter from the Board, in relation to the provision of materials and services by China Baowu Group to the Group, the finance department of the Company will carry out the pricing management and will lead the relevant managing department of each profession to conduct research on market prices for the continuing connected transactions involving provision of products and services by China Baowu Group to the Group. Open market prices will be obtained through quotations from independent third party service providers, including recent transaction prices of the Group with independent third parties, enquiry with industry players, researches on industry websites, and attending events and gatherings organised by industrial associations. The Company will procure to obtain at least two quotations from independent third party service providers. The market price information will be circulated by the finance department to other departments and companies of the Group to facilitate the determination of prices for the continuing connected transactions. Other than obtaining of quotations, the Group may award a contract through a tender process. The contract will be awarded to the service provider who offers the best commercial terms and technical terms to the Company.

In relation to the provision of materials and services by the Group to China Baowu Group, the price shall be determined based on state-prescribed price or market price (as appropriate), which shall not be lower than the price of the same type of products or services provided by the Group to independent third parties with reference to the market price information gathered by (i) internal data base maintained by the operation departments of the Company based on the recent invoices issued to independent third parties, and (ii) leading websites providing information regarding iron and steel such as [www.mysteel.com](http://www.mysteel.com) and [www.steelhome.cn](http://www.steelhome.cn).

In assessing whether the above internal control procedures are sufficient and effective, we have reviewed (a) six sample contracts of procurement of iron ore from China Baowu Group, and six sample contracts of procurement of iron ore from independent third parties; (b) six sample contracts of procurement of steel billets from China Baowu Group; (c) two contracts of procurement of equipment, materials and spare parts from China Baowu Group; (d) the tender records of seven construction projects; (e) six sample contracts of sale of steel products to China Baowu Group, and six sample contracts of sale of steel products to independent third parties; and (f) two sample contracts of provision of processing services to China Baowu Group, and four sample contracts of provision of processing services to independent third parties. As discussed above, we noted that (a) the prices for similar materials or services under the sample contracts entered into between the Group and China Baowu Group were no less favourable to the Group than those entered into between the Group and independent third parties; (b) appropriate tender process has been implemented when necessary; and (c) the prices are comparable to the price information collected from the leading industry websites. We are of the view that the internal control procedures stated above allow the Group to obtain sufficient market information including the market prices from independent sources and assist in ensuring the pricing terms between the Group and China Baowu Group are no less favourable to the Group than those between the Group and independent third parties. On this basis, we consider the above internal control procedures are sufficient and effective.

### *Conclusion*

To sum up, based on the sample contracts for procurement of major materials and services from China Baowu Group as well as sale of materials and services to China Baowu Group under the Original Service and Supply Agreement we have obtained and reviewed, we noted that the pricing policy and the internal control procedures for the transactions contemplated under the Original Service and Supply Agreement are the same as those applicable to the Service and Supply Agreement. Since the principal terms of the Original Service and Supply Agreement and the Service and Supply Agreement were identical, we consider that our review and comparison of the historical transactions under the Original Service and Supply Agreement could assist us in evaluating the fairness and reasonableness of the terms of the Service and Supply Agreement. Based on the above, we consider that the terms of the Service and Supply Agreement are fair and reasonable.

**(ii) Financial Service Agreement**

The Financial Service Agreement was entered into on 10 November 2023 between the Company and Baowu Finance Company. Details of the terms of the Financial Service Agreement are set out in the Letter from the Board, which are summarised as follows:

Term : From the effective date of the agreement to 31 December 2026

Subject Matter : Baowu Finance Company agreed to provide the Company with the services as follows:

**(a) Settlement services**

The Company establishes a settlement account at Baowu Finance Company, and Baowu Finance Company will provide collection and payment services and other auxiliary services related to settlement business as per the Company's instructions.

**(b) Deposit services**

The Company deposits funds into the deposit account at Baowu Finance Company based on the principle of free access to and withdrawal of funds.

**(c) Credit services**

Baowu Finance Company provides comprehensive credit services for the Company, including loans, bill acceptance, bill discounting and other types of financial services. The credit services to be provided by Baowu Finance Company will not be secured by any of the Group's assets.

**(d) Other financial services**

Baowu Finance Company may provide other financial services to the Company within the scope of its business, and the parties shall negotiate and sign a separate agreement before the provision of other financial services.

Pricing basis : The terms of the Financial Service Agreement were entered into after negotiation on an arm's length basis and on normal commercial terms. The price or consideration of the Financial Service Agreement will be determined with reference to the following:

**(a) Settlement services**

The fees to be charged by Baowu Finance Company to the Company for providing various settlement services to the Company will be negotiated between the two parties in accordance with the requirements of price charging guidance by the People's Bank of China and the market principles, and shall not be higher than the fees charged by an independent third party to the Company for the same type of services of the same term in principle.

**(b) Deposit services**

The deposit rates for the deposit services to be provided by Baowu Finance Company to the Company are determined with reference to the deposit rates available to the Company from major domestic commercial banks in the PRC for the same type of deposit of the same term, and shall not be lower than the benchmark rates of deposits of the same type for the same term promulgated by the People's Bank of China.

**(c) Credit services**

The preferential credit interest rates and rates for the credit business including loans, bills acceptance, bills discounting to be provided by Baowu Finance Company to the Company, shall be determined through negotiation with reference to the credit interest rates and rates standard available to the Company from other major domestic financial institutions for the same type of credit business of the same term and the same grade, and shall not, in principle, be higher than the credit interest rates and rates standard available to the Company from other domestic independent financial institutions for the same type of credit business of the same term and the same grade.

**(d) Other financial services**

The fees to be charged by Baowu Finance Company for providing the other financial services to the Company shall follow the principles of fairness and reasonableness and shall be determined by the two parties through negotiation in accordance with the principle of being market-oriented, and shall not, in principle, be higher than the fees charged by an independent third party to the Company for the same type of financial services of the same term.

Conditions precedent : The Financial Service Agreement is conditional upon the passing of the resolution(s) approving the Financial Service Agreement and the transactions contemplated thereunder (including the annual caps) by the Independent Shareholders at the EGM to be convened.

We have reviewed the Financial Service Agreement and noted that the Company will give priority to Baowu Finance Company for procuring the relevant financial services, provided that the terms provided by Baowu Finance Company are no less favourable to the Group than those provided by independent third parties. In other words, the Financial Service Agreement provides the Company with an additional option (instead of an obligation) of obtaining relevant financial services. Pursuant to the Financial Service Agreement, Baowu Finance Company shall promptly notify the Company if there is any significant change in its operation status.

In order to assess the fairness and reasonableness of the terms of the Financial Service Agreement, we have reviewed the financial service agreements entered into by the Comparable Companies (as defined below) which are similar to the arrangement under the Financial Service Agreement. Based on our review, we noted that (a) the financial services received by the Comparable Companies were similar to those under the Financial Service Agreement, including but not limited to loan services, deposit services, settlement services and other miscellaneous financial services; and (b) the pricing basis of the financial services received by the Comparable Companies were similar to those under the Financial Service Agreement, which include making reference to the credit interest rates and deposit interest rates offered by independent financial institutions and commercial banks in the PRC.



As advised by the management of the Group, in order to protect the interests of the Shareholders, the Group has adopted certain internal control procedures and corporate governance measures to regulate the utilisation of financial services under the Financial Service Agreement. For instance, after the end of each year, the Company will request Baowu Finance Company to provide sufficient information, including the audited financial statement, to enable it to review and assess the financial condition of Baowu Finance Company. If the Company considers that there is any material adverse change in the financial condition of Baowu Finance Company, the Company will take appropriate measures (including early withdrawal of deposits) to safeguard its assets. In this regard, we have obtained and reviewed the audited annual reports of Baowu Finance Company for the three years ended 31 December 2022 and the unaudited management accounts for the six months ended 30 June 2023. As mentioned in the section headed “1. Information on the Group, China Baowu Group and Baowu Finance Company” above, Baowu Finance Company had total assets and total equity of approximately RMB52.1 billion and RMB5.0 billion, respectively as at 31 December 2022, and Baowu Finance Company generated revenue and net profit of approximately RMB609.7 million and RMB372.4 million, respectively for FY2022. Given the strong financial position of Baowu Finance Company and that Baowu Finance Company would regularly provide sufficient financial information to allow the Company to understand its financial condition, we are of the view that the above internal control measures adopted by the Group for monitoring the transactions contemplated under the Financial Service Agreement have been effectively implemented.

In respect of the deposit services, as confirmed by the management of the Group, from 2021 to 2023, being the term of the Original Financial Service Agreement, the Group’s deposits in Baowu Finance Company were mainly demand deposits without fixed duration and the Group had entered into only one deposit contract with Baowu Finance Company. As part of our due diligence on the deposit services under the Financial Service Agreement, we have obtained and reviewed the aforementioned contract and noted that it has agreed in the contract that the deposit interest rate provided by Baowu Finance Company shall be 50 basis points higher than the latest RMB benchmark deposit rate prescribed by the PBOC for deposits of a similar type for the same period. As such, we consider that the pricing policy of the deposit services has been adherence in accordance with the Group’s internal control procedures.

In addition, as confirmed by the management of the Group, from 2021 to 2023, being the term of the Original Financial Service Agreement, the Group had entered into only one credit contract with Baowu Finance Company (the “**Credit Contract**”). As part of our due diligence on the credit services under the Financial Service Agreement, we have obtained and reviewed the Credit Contract and noted that under the Credit Contract, Baowu Finance Company, together with other six independent commercial banks, provided a syndicated loan to the Company for a term of 60 months. Given that the credit interest rate paid by the Company to Baowu Finance Company was equal to the credit interest rate paid by the Company to other six independent commercial banks under the Credit Contract, we consider that the pricing policy of the credit services has been adherence in accordance with the Group’s internal control procedures.

Taking into account (a) the Group has the option but not the obligation to use the financial services provided by Baowu Finance Company under the Financial Service Agreement; (b) the internal control and risk management measures implemented by the Group to safeguard its assets as mentioned above; (c) the pricing terms under the Financial Service Agreement shall be no less favourable to the Group than those provided by independent third parties; and (d) the scope and pricing basis under the Financial Service Agreement are similar to those received by the Comparable Companies (as defined below), we consider that the terms of the Financial Service Agreement are on normal commercial terms which are fair and reasonable.

#### 4. Review of the historical figures

Set out below are the historical annual caps and actual transaction amounts regarding the transactions contemplated under the Original Service and Supply Agreement for the periods indicated:

|   | <b>For the<br/>period from<br/>1 September<br/>2020 to<br/>31 December<br/>2021 (the “2021<br/>Period”)</b> | <b>FY2022</b>        | <b>6M2023</b>        |
|---|---|----------------------|----------------------|
|   | <i>(RMB million)</i>  | <i>(RMB million)</i> | <i>(RMB million)</i> |
| <b>Procurement of materials and services from<br/>China Baowu Group</b>   |   |                      |                      |
| – Raw materials such as iron ore, scrap steel, refractory materials, accessories (including dolomite, limestone, etc.), steel billets, coal, etc.                     |   |                      |                      |
| Historical annual caps  | 24,626  | 40,446               | 46,682               |
| Actual transaction amounts  | 10,305  | 10,857               | 6,754                |
| Utilisation rate  | 41.8%   | 26.8%                | 14.5%                |
| – Production materials such as materials and spare parts, equipment, water, etc.  |   |                      |                      |
| Historical annual caps  | 1,119   | 2,574                | 2,585                |
| Actual transaction amounts  | 994   | 1,336                | 955                  |
| Utilisation rate  | 88.8%   | 51.9%                | 36.9%                |
| – Technical services (including construction, software development and labour services, etc), road transportation services and sanitation and greening services, etc. |   |                      |                      |
| Historical annual caps  | 3,115   | 4,753                | 4,316                |
| Actual transaction amounts  | 1,386   | 1,591                | 1,176                |
| Utilisation rate  | 44.5%   | 33.5%                | 27.2%                |

|  | <b>For the<br/>period from<br/>1 September<br/>2020 to<br/>31 December<br/>2021 (the “2021<br/>Period”)<br/>(RMB million)</b> | <b>FY2022<br/>(RMB million)</b> | <b>6M2023<br/>(RMB million)</b> |
|--|---|---------------------------------|---------------------------------|
| <b>Supply of materials and services to China Baowu Group</b> |   |                                 |                                 |
| –  | Materials such as water, electricity, natural gas, steel billets, steel products, pig iron, solid waste, etc.                 |                                 |                                 |
|  | Historical annual caps  | 15,521                          | 16,706                          |
|  | Actual transaction amounts  | 9,156                           | 7,527                           |
|  | Utilisation rate  | 59.0%                           | 45.1%                           |
|  |   |                                 | 20,051                          |
|  |   |                                 | 2,921                           |
|  |   |                                 | 14.6%                           |
| –  | Other services (including processing, quality control and technical consultation and other technical services), etc.          |                                 |                                 |
|  | Historical annual caps  | –                               | 7,150                           |
|  | Actual transaction amounts  | –                               | 877                             |
|  | Utilisation rate  | –                               | 12.3%                           |
|  |   |                                 | 7,975                           |
|  |   |                                 | –                               |
|  |   |                                 | –                               |

As shown in the table above, the actual transaction amount of the Group’s procurement of raw materials from China Baowu Group amounted to approximately RMB10,305 million, RMB10,857 million and RMB6,754 million for the 2021 Period, FY2022 and 6M2023, respectively, representing approximately 41.8%, 26.8% and 14.5% of the total annual caps for the 2021 Period, FY2022 and the year ending 31 December 2023 (“FY2023”), respectively.

As for the Group’s procurement of production materials from China Baowu Group under the Original Service and Supply Agreement, the actual transaction amount amounted to approximately RMB994 million, RMB1,336 million and RMB955 million for the 2021 Period, FY2022 and 6M2023, respectively, representing approximately 88.8%, 51.9% and 36.9% of the total annual caps for the 2021 Period, FY2022 and FY2023, respectively.

The actual transaction amount of the Group’s procurement of technical services from China Baowu Group under the Original Service and Supply Agreement amounted to approximately RMB1,386 million, RMB1,591 million and RMB1,176 million for the 2021 Period, FY2022 and 6M2023, respectively, representing approximately 44.5%, 33.5% and 27.2% of the total annual caps for the 2021 Period, FY2022 and FY2023, respectively.

On the other hand, the actual transaction amount regarding the Group's sale of production materials to China Baowu Group amounted to approximately RMB9,156 million, RMB7,527 million and RMB2,921 million for the 2021 Period, FY2022 and 6M2023, respectively, representing approximately 59.0%, 45.1% and 14.6% of the total annual caps for the 2021 Period, FY2022 and FY2023, respectively.

As advised by the management of the Group, the low utilisation rates of the annual caps for procurement of raw materials, production materials and technical services from China Baowu Group and sale of materials to China Baowu Group were mainly attributable to (a) the Group expected to produce approximately 10 million tonnes, 11 million tonnes and 12 million tonnes of steel for FY2021, FY2022 and FY2023, respectively, while the actual production volume of steel amounted to approximately 7.1 million tonnes and 7.9 million tonnes for FY2021 and FY2022 due to the government control on steel billet production since the second half of 2021. The Group expects to maintain the steel production volume at approximately 7.1 million tonnes for the year ending 31 December 2023; (b) the prices of iron ore and steel products has decreased significantly as compared with the prices when the historical annual caps were determined resulting a decrease in transaction amount; and (c) due to the operating loss in 2022 and 2023 and that most of the planned construction projects have been completed during the period, the Group has cancelled or reduced non-essential capital expenditure so that its demand for the purchase of equipment and technical services mainly including construction and labour services decreased.

As for the Group's sale of other services to China Baowu Group, the actual transaction amount amounted to approximately RMB877 million and nil for FY2022 and 6M2023, respectively, representing approximately 12.3% and nil of the total annual caps in 2022 and 6M2023, respectively. As advised by the management of the Group, during the 6M2023, the Group's production capacity was all used to produce steel billets for its own use. The Group was engaged by China Baowu Group to provide processing service for steel billets in the second half of 2023, and the transaction amount for the three months ended 31 October 2023 amounted to approximately RMB1,440 million.

Set out below are the historical annual caps and actual transaction amounts regarding the transactions contemplated under the Original Financial Service Agreement for the periods indicated:

|   | <b>For the year<br/>ended<br/>31 December 2021<br/>(RMB million)</b> | <b>For the year<br/>ended<br/>31 December 2022<br/>(RMB million)</b> | <b>For the year<br/>ending<br/>31 December 2023<br/>(RMB million)</b> |
|---|--|--|---|
| <b>Comprehensive credit services:</b>   |  |  |   |
| <b>maximum daily credit limit (inclusive of interest)</b>   |  |  |   |
| Historical annual caps  | 2,000  | 2,000  | 2,000   |
| Actual transaction amounts  | 206  | 328  | 97  |
|   |  |  | (from<br>1 January 2023 to<br>23 October 2023<br>(the “2023 Period”)) |
| Utilisation rate  | 10.3%  | 16.4%  | 4.9%  |
| <b>Deposit services:</b>  |  |  |   |
| <b>maximum daily balance limit (inclusive of interest)</b>  |  |  |   |
| Historical annual caps  | 2,000  | 2,000  | 2,000   |
| Actual transaction amounts  | 521  | 1,294  | 1,231   |
|   |  |  | (from<br>1 January 2023 to<br>23 October 2023)                        |
| Utilisation rate  | 26.1%  | 64.7%  | 61.6%   |
| <b>Treasury management services (including settlement services but excluding deposit services) and other financial services</b> |  |  |   |
| Historical annual caps  | 1  | 1  | 1   |
| Actual transaction amounts  | –  | –  | –   |
|   |  |  | (from<br>1 January 2023 to<br>23 October 2023)                        |
| Utilisation rate  | –  | –  | –   |

As shown in the table above, the actual maximum daily credit balance (inclusive of interest) of comprehensive credit services under the Original Financial Service Agreement amounted to approximately RMB206 million, RMB328 million and RMB97 million for FY2021, FY2022 and the 2023 Period, respectively, representing approximately 10.3%, 16.4% and 4.9% of the total annual caps in 2021, 2022 and 2023, respectively. As advised by the management of the Group, the low utilisation rates in 2021, 2022 and 2023 were primarily attributable to that instead of borrowing money from Baowu Finance Company, the Company has used external bank borrowings to fulfill its financing needs in view of the lower loan rates offered by external banks in recent years. The Group belongs to the manufacturing industry, which is eligible for preferential loans from state-owned banks while the Group's energy-saving and environmental protection projects can benefit from the national carbon emission reduction policy. Therefore, the loan rates offered by external banks were better than those offered by Baowu Finance Company.

As for the deposit services under the Original Financial Service Agreement, the actual maximum daily balance (inclusive of interest) amounted to approximately RMB521 million, RMB1,294 million and RMB1,231 million for FY2021, FY2022 and the 2023 Period, respectively, representing approximately 26.1%, 64.7% and 61.6% of the total annual caps in 2021, 2022 and 2023, respectively. As advised by the management of the Group, the low utilisation rates in 2021 and 2022 were primarily attributable to that the annual caps were determined with reference to the maximum deposits requirement amount, while the Group has the option to obtain deposit services from other financial institutions with more favourable terms.

The actual transaction amounts incurred from the treasury management services (including settlement services but excluding deposit services) and other financial services under the Original Financial Service Agreement amounted to nil, nil and nil for FY2021, FY2022 and the 2023 Period, respectively, representing nil, nil and nil of the total annual caps in 2021, 2022 and 2023, respectively. As advised by the management of the Group, the low utilisation rates in 2021, 2022 and 2023 were primarily attributable to that the Group has the option to obtain financial services from other financial institutions with more favourable terms in choosing suppliers.

## 5. The proposed annual caps for the transactions under the Service and Supply Agreement

The proposed annual caps (tax exclusive) for the transactions under the Service and Supply Agreement for the three years ending 31 December 2026 (“FY2024”, “FY2025” and “FY2026”, respectively) are set out below:

|   | <b>For the year<br/>ending<br/>31 December<br/>2024<br/>(RMB million)</b> | <b>For the year<br/>ending<br/>31 December<br/>2025<br/>(RMB million)</b> | <b>For the year<br/>ending<br/>31 December<br/>2026<br/>(RMB million)</b> |
|---|---|---|---|
| <b>Procurement of materials and services<br/>from China Baowu Group</b>   |   |   |   |
| – Raw materials such as iron ore, scrap steel, refractory materials, accessories (including dolomite, limestone, etc.), steel billets, coal, etc.                     | 28,300  | 30,900  | 32,000  |
| – Production materials such as materials and spare parts, equipment, water, etc.  | 920   | 960   | 1,000   |
| – Technical services (including construction, software development and labour services, etc), road transportation services and sanitation and greening services, etc. | 3,000   | 2,650   | 2,600   |
| <b>Supply of materials and services to China Baowu Group</b>  |   |   |   |
| – Materials such as water, electricity, natural gas, steel billets, steel products, pig iron, solid waste, etc.   | 7,620   | 8,020   | 8,247   |
| – Other services (including processing, quality control and technical consultation and other technical services), etc.  | 1,830   | 2,180   | 2,203   |



(i) **Procurement of materials and services from China Baowu Group**

As set out in the Letter from the Board, the proposed annual caps for the procurement of materials and services from China Baowu Group under the Service and Supply Agreement were determined with reference to, among other things, (a) the recent market prices or state-prescribed prices applicable to the relevant materials and/or services; (b) the Group's anticipated demand for China Baowu Group's materials and services to meet its production plans; and (c) China Baowu Group's anticipated capacity in providing materials and services to the Group. In assessing the fairness and reasonableness of the proposed annual caps, we have discussed each of the factors with the management of the Group and reviewed the calculation of the proposed annual caps.

(a) **Raw materials**

|  | FY2024                               |   | FY2025                           |   |   | FY2026                           |   |                                     |               |
|--|--------------------------------------|---|----------------------------------|---|---|----------------------------------|---|-------------------------------------|---------------|
|  | Purchase amount<br>(thousand tonnes) | Transaction Unit price<br>(RMB per tonne) | Purchase amount<br>(RMB million) | Transaction amount<br>(thousand tonnes) | Transaction Unit price<br>(RMB per tonne) | Purchase amount<br>(RMB million) | Transaction Unit price<br>(RMB per tonne) | Transaction amount<br>(RMB million) |               |
| Steel billets  | 4,400                                | 3,400                                     | 14,960                           | 4,900                                   | 3,500                                     | 17,150                           | 5,080                                     | 3,500                               | 17,780        |
| Iron ore   | 13,000                               | 815                                       | 10,595                           | 13,500                                  | 815                                       | 11,003                           | 14,000                                    | 815                                 | 11,410        |
| Coal, scrap steel, refractory materials, accessories and other materials | -                                    | -   | 2,737                            | -                                       | -   | 2,764                            | -   | -                                   | 2,782         |
| <b>Total transaction amount</b>  |                                      |   | <b>28,292</b>                    |   |   | <b>30,917</b>                    |   |                                     | <b>31,972</b> |
| <b>Proposed annual caps</b>  |                                      |   | <b>28,300</b>                    |   |   | <b>30,900</b>                    |   |                                     | <b>32,000</b> |

As shown above, the procurement of iron ore and steel billets contribute to over 90% of the estimated total transaction amount in relation to procurement of raw materials for each of FY2024, FY2025 and FY2026.

*In respect of procurement of iron ore*

The estimated purchase price of iron ore is approximately RMB815 per tonne for each of FY2024, FY2025 and FY2026, which is determined with reference to the Platts Iron Ore Index and after taken into account the price of iron ore generally fluctuates. The Platts Iron Ore Index provides the price of iron ore on a daily basis and is a benchmark assessment of the spot price of physical iron ore issued by the S&P Global Platts, a leading independent provider of information, benchmark prices and analytics for the energy and commodities markets.

Under the Platts Iron Ore Index, the current average price for iron ore index was approximately US\$120 per tonne. Considering that the iron ore has a moisture content of 7%, the management of the Group estimates that the average purchase price of iron ore would be approximately US\$111.6 per tonne for each of FY2024, FY2025 and FY2026 (equivalent to approximately RMB815 per tonne, based on the exchange rate of RMB7.3 = US\$1.0). Given the estimated purchase price of iron ore of RMB815 per tonne is determined with reference to the historical prices of iron ore, we consider that the estimated purchase price of iron ore for setting the proposed annual caps is fair and reasonable.

As for the estimated purchase amounts, the Group is expected to procure approximately 13.0 million tonnes, 13.5 million tonnes and 14.0 million tonnes for FY2024, FY2025 and FY2026, respectively, which are determined with reference to the Group's production plan, as follows:

|   | <b>FY2024</b> | <b>FY2025</b> | <b>FY2026</b> |
|---|---------------|---------------|---------------|
| Production volume of pig iron<br>(million tonnes) (A)                             | 9.4           | 9.5           | 9.5           |
| Amount of iron ore needed for<br>every tonne of pig iron produced<br>(tonnes) (B) | 1.7           | 1.7           | 1.7           |
| Amount of iron ore needed for the<br>production plan<br>(million tonnes) (C=AxB)  | 16.0          | 16.2          | 16.2          |
| Percentage of iron ore purchased<br>from China Baowu Group (D)                    | 80%           | 80%           | 80%           |
| Amount of iron ore procured from<br>China Baowu Group<br>(million tonnes) (Cx D)  | 12.8          | 13.0          | 13.0          |
| Buffer  | 1.6%          | 3.8%          | 7.7%          |
| <b>Purchase amount (million tonnes)</b>   | <b>13.0</b>   | <b>13.5</b>   | <b>14.0</b>   |

As shown above, according to the Group's production plan, the Group plans to produce pig iron of approximately 9.4 million tonnes, 9.5 million tonnes and 9.5 million tonnes for FY2024, FY2025 and FY2026, respectively. Iron ore is one of the major raw materials for the production of pig iron. Generally, approximately 1.7 tonnes of iron ore are required by the Group for producing one tonne of pig iron. As such, it is estimated that the Group is required to procure iron ore of approximately 16.0 million tonnes, 16.2 million tonnes and 16.2 million tonnes to fulfill the its production plan for FY2024, FY2025 and FY2026, respectively.

Approximately 80% of the Group's iron ore is currently supplied by China Baowu Group. The Group plans to continue to procure most of its required iron ore from China Baowu Group after considering the followings: (1) it is time-consuming to negotiate with the Group's other suppliers of iron ore which are primarily located in overseas; (2) as one of the largest iron and steel manufacturers in the world, China Baowu Group has close relationship with iron ore suppliers in different overseas markets. By leveraging China Baowu Group's overseas network, the Group could procure high-quality iron ore with favorable prices; and (3) as the de facto controller of the Company, China Baowu is committed to providing a stable supply of high-quality iron ore to the Group.

Given (1) the estimated purchase price of iron ore for setting the proposed annual caps is determined with reference to the Platts Iron Ore Index which is a market-recognised index for pricing iron ore in the industry; and (2) the estimated purchase amounts of iron ore are determined with reference to the Group's production plan and a certain buffer to tailor for any unexpected business growth in the future, we consider that the proposed annual caps for procurement of iron ore are fair and reasonable.

*In respect of procurement of steel billets*

The purchase prices of steel billets are RMB3,400 per tonne, RMB3,500 per tonne and RMB3,500 per tonne for FY2024, FY2025 and FY2026, respectively, which are estimated based on the current purchase price executed between the Group and China Baowu Group. In this relation, we have obtained and reviewed three contracts for procurement of steel billets entered into between the Group and China Baowu Group in August and September 2023, and we noted the current purchase price of steel billets is RMB3,504 per tonne.

As for the estimated purchase amounts, the Group is expected to procure approximately 4.4 million tonnes, 4.9 million tonnes and 5.1 million tonnes for FY2024, FY2025 and FY2026, respectively, which are determined with reference to the Group's production plan. Steel billets refer to semi-finished products used in the production of steel products. According to the Group's production plan, the Group expects to produce approximately 7.1 million tonnes of steel billets for each of FY2024, FY2025 and FY2026 for sales and its own production of steel products, and expects to produce approximately 10.3 million tonnes, 10.6 million tonnes and 10.8 million tonnes of steel products for FY2024, FY2025 and FY2026, respectively. As advised by the management of the Group, one tonne of steel billets can be processed into about 0.95 tonnes of steel products. As such, the Group would need a total of approximately 10.8 million tonnes, 11.2 million tonnes, and 11.4 million tonnes of steel billets for FY2024, FY2025 and FY2026, respectively, to achieve its production

plan of steel products, while the Group's own capacity of steel billets can't fulfill the demand. The Group plans to fulfill the shortage of steel billets by purchasing from China Baowu Group as the Group did in 2022 and 2023.

Given (1) the estimated purchase price of steel billets for setting the proposed annual caps is determined with reference to the current purchase price; and (2) the estimated purchase amounts of steel billets are determined with reference to the Group's production plan, we consider that the proposed annual caps for procurement of iron ore are fair and reasonable.

**(b) *Production materials***

In reviewing the calculation of the proposed annual caps, we noted that the estimated transaction amounts of production materials are all in relation to procurement of equipment, materials and spare parts. The Group expects to purchase approximately RMB920 million, RMB960 million and approximately 1,000 million of equipment, materials and spare parts for FY2024, FY2025 and FY2026, respectively.

The historical transaction amounts in relation to the Group's procurement of equipment, materials and spare parts amounted to approximately RMB890 million, RMB1,336 million and RMB955 million for FY2021, FY2022 and 6M2023, respectively, of which the transaction amount for procurement of materials and spare parts were approximately RMB890 million, RMB782 million and RMB725 million.

Due to the operating loss for FY2022 and the nine months ended 30 September 2023 and that most of the planned construction projects have been completed, the Group plans to reduce non-essential capital expenditure so that its demand for procurement of equipment will decrease. Nevertheless, the Company is expected to require to purchase the necessary equipment for its production from time to time. Taking into account the estimated transaction amounts for production materials are mainly calculated based on the historical transaction amount for procurement of materials and spare parts, we consider that the proposed annual caps are sufficient, fair and reasonable.

(c) *Services*

|  | <b>FY2024</b>        | <b>FY2025</b>        | <b>FY2026</b>        |
|--|----------------------|----------------------|----------------------|
|  | <i>(RMB million)</i> | <i>(RMB million)</i> | <i>(RMB million)</i> |
| Construction                             | 1,100                | 680                  | 580                  |
| Labour services                          | 1,341                | 1,371                | 1,392                |
| Road transportation services             | 419                  | 438                  | 447                  |
| Other services                           | 136                  | 136                  | 136                  |
| <b>Total transaction amount</b>          | <b>2,997</b>         | <b>2,626</b>         | <b>2,556</b>         |
| <b>Proposed annual caps for services</b> | <b>3,000</b>         | <b>2,650</b>         | <b>2,600</b>         |

As shown above, the proposed annual caps for the procurement of services mainly consist of the procurement of construction as well as transportation and labour services.

*In respect of procurement of construction services*

Construction services are required for (1) daily maintenance of the Group's production facilities; and (2) upgrading the Group's current facilities. The estimated transaction amount of construction services amounted to approximately RMB1,100 million, RMB680 million and RMB580 million for FY2024, FY2025 and FY2026, respectively. The historical transaction amounts of construction services were approximately RMB1,010 million, RMB1,063 million and RMB591 million for FY2021, FY2022 and 6M2023, respectively. Due to the operating loss for FY2022 and the nine months ended 30 September 2023 and that most of the planned construction projects have been completed, the Group plans to reduce non-essential capital expenditure so that its demand for construction services will decrease.

Taking into account the estimated transaction amounts of construction services are determined with reference to the historical transaction amounts and the Group's capital expenditure plan, we consider that the proposed annual caps for the procurement of construction services are fair and reasonable.

*In respect of procurement of transportation and labour services*

The transaction amounts of transportation service are estimated to be approximately RMB419 million, RMB438 million and RMB447 million for FY2024, FY2025 and FY2026, respectively, which are determined with reference to historical transaction amounts. The historical transaction amounts of procurement of transportation service from China Baowu Group were approximately RMB23 million, RMB193 million and RMB125 million for FY2021, FY2022 and 6M2023, respectively. As advised by the management of the Group, an independent third party group, which provided transportation service to the Group of approximately RMB189 million for 6M2023, is expected to become an associate of China Baowu. Given the total transaction amount of procurement of transportation service from China Baowu Group and such independent third party group are approximately RMB314 million for 6M2023, which would be amounted to approximately RMB628 million when annualized, we consider the estimated transaction amounts of transportation service to be fair and reasonable.

The transaction amounts of labour service are estimated to be approximately RMB1,341 million, RMB1,371 million and RMB1,392 million for FY2024, FY2025 and FY2026, respectively, which are determined with reference to historical transaction amounts. The historical transaction amounts of procurement of labour service from China Baowu Group were approximately RMB146 million, RMB303 million and RMB360 million for FY2021, FY2022 and 6M2023, respectively. As advised by the management of the Group, the Group purchased labour service of approximately RMB990 million for 6M2023, which would be amounted to approximately RMB1,980 million when annualized. The Group expects that the proportion of labor services purchased from China Baowu Group will further increase in 2024 to 2026. Taking into account, since becoming the de facto controller of the Company, China Baowu Group is continuing to promote resource integration within the group, which is in line with the increase in historical transaction amounts of procurement of labour service from China Baowu Group from 2021 to 2023, we consider the estimated transaction amounts of labour service to be fair and reasonable.

(ii) **Provision of materials and services to China Baowu Group**

(a) **Materials**

|  | <b>FY2024</b>        | <b>FY2025</b>        | <b>FY2026</b>        |
|--|----------------------|----------------------|----------------------|
|  | <i>(RMB million)</i> | <i>(RMB million)</i> | <i>(RMB million)</i> |
| Steel products                                     | 4,750                | 5,070                | 5,265                |
| Water, electricity, gas                            | 1,330                | 1,351                | 1,334                |
| Steel billets                                      | 680                  | 700                  | 700                  |
| Other materials                                    | 854                  | 901                  | 947                  |
| <b>Total estimated transaction amount</b>          | <b>7,614</b>         | <b>8,022</b>         | <b>8,246</b>         |
| <b>Proposed annual caps for sales of materials</b> | <b>7,620</b>         | <b>8,020</b>         | <b>8,247</b>         |

As shown above, the proposed annual caps for sales of products mainly consist of sales of steel products, water, electricity, gas and steel billets. As advised by the management of the Company, the proposed annual caps for sales of materials are determined with reference to the Group's production plan and historical transaction amounts.

*In respect of sales of steel products*

The proposed annual caps for sales of steel products are determined with reference to the Group's production plan and historical selling prices, details of which are set out below:

|   | <b>FY2024</b> | <b>FY2025</b> | <b>FY2026</b> |
|---|---------------|---------------|---------------|
| Production volume of steel products<br>(million tonnes) (A)                   | 10.25         | 10.57         | 10.77         |
| Amount of steel products sold to<br>China Baowu Group<br>(million tonnes) (B) | 1.25          | 1.30          | 1.35          |
| Percentage of steel products sold to<br>China Baowu Group (B/A)               | 12.2%         | 12.3%         | 12.5%         |
| Estimated average selling price<br>(RMB per tonne) (C)                        | 3,800         | 3,900         | 3,900         |
| Estimated transaction amount<br>(RMB million) (BxC)                           | 4,750         | 5,070         | 5,265         |

According to the Group's production plan, the Group plans to produce steel products of approximately 10.25 million tonnes, 10.57 million tonnes and 10.77 million tonnes for FY2024, FY2025 and FY2026, respectively. Given that (1) sales to China Baowu Group allow the Group to generate additional revenue from the Group's increasing production capacity; (2) the prices and other terms provided by China Baowu Group shall be no less favourable to the Group than those available from other independent third parties; and (3) the amount of steel products sold to China Baowu Group is expected to remain at approximately 12% of the Group's production volume, which is in line with the historical ratio of approximately 12% for 6M2023, the amounts of steel products sold to China Baowu Group are estimated to be approximately 1.25 million tonnes, 1.30 million tonnes and 1.35 million tonnes for FY2024, FY2025 and FY2026, respectively.

The estimated average selling prices of steel products are, on the other hand, determined with reference to the average selling price of approximately RMB3,682 per tonne for 6M2023. Based on the historical selling price of approximately RMB3,682 per tonne and an annual inflation rate of approximately 3%, the average selling prices of steel products are estimated to be approximately RMB3,800 and RMB3,900 for FY2024 and FY2025, respectively. The selling price is expected to remain stable at RMB3,900 for FY2026. Given (1) the sales amounts to China Baowu Group are determined with reference to the production plan; and (2) the average selling prices of steel products are determined with reference to historical selling price, we consider that proposed annual cap for the sales of steel products from the Group to China Baowu Group are fair and reasonable.

*In respect of sales of water, electricity, gas*

The estimated transaction amounts of sales of water, electricity, gas are approximately RMB1,330 million, RMB1,351 million and RMB1,334 million for FY2024, FY2025 and FY2026, respectively, which are determined with reference to the historical transaction amounts. The historical transaction amounts of sales of water, electricity and gas to China Baowu Group were approximately RMB9 million, RMB36 million and RMB107 million for FY2021, FY2022 and 6M2023, respectively. As advised by the management of the Group, an independent third party group, which purchased water, electricity, gas from the Group of approximately RMB417 million for 6M2023, is expected to become an associate of China Baowu.



The estimated average selling prices of approximately RMB2.88 per tonne for water, RMB0.73 per kilowatt hour for electricity and RMB0.53 per cubic meters for gas are determined based on the selling prices executed by the Group and China Baowu Group in 2023. In this regard, we have obtained and reviewed the energy supply agreement entered into between the Group and China Baowu Group in 2023, and noted the estimated average selling prices of water, electricity, gas are generally in line with the current prices.

Given (1) the total transaction amount of sales of water, electricity, gas to China Baowu Group and to such independent third party group are approximately RMB524 million for 6M2023, which would be amounted to approximately RMB1,048 million when annualized; (2) since becoming the de facto controller of the Company, China Baowu Group is continuing to promote resource integration within the group, which is in line with the increase in historical transaction amounts of sales of water, electricity, gas to China Baowu Group from 2021 to 2023; and (3) the estimated selling prices are determined based on the historical selling prices, we consider the proposed annual cap for the sales of water, electricity, gas from the Group to China Baowu Group to be fair and reasonable.

*In respect of sales of steel billets*

The proposed annual caps for sales of steel billets are determined with reference to the Group's production plan and historical selling prices, details of which are set out below:

|  | <b>FY2024</b> | <b>FY2025</b> | <b>FY2026</b> |
|--|---------------|---------------|---------------|
| Production volume of steel billets<br>(million tonnes) (A)                   | 7.12          | 7.12          | 7.12          |
| Amount of steel billets sold to<br>China Baowu Group<br>(million tonnes) (B) | 0.2           | 0.2           | 0.2           |
| Percentage of steel billets sold to<br>China Baowu Group (B/A)               | 2.8%          | 2.8%          | 2.8%          |
| Estimated average selling price<br>(RMB per tonne) (C)                       | 3,400         | 3,500         | 3,500         |
| Estimated transaction amount<br>(RMB million) (BxC)                          | 680           | 700           | 700           |

According to the Group's production plan, the Group plans to produce steel billets of approximately 7.12 million tonnes for each of FY2024, FY2025 and FY2026, respectively. Given that (1) sales to China Baowu Group allow the Group to generate additional revenue; (2) the prices and other terms provided by China Baowu Group shall be no less favourable to the Group than those available from other independent third parties; and (3) the amount of steel billets sold to China Baowu Group is expected to be only approximately 2.8% of the Group's production volume, which is close to the expected ratio for the year ending 31 December 2023 of approximately 2.2%, the amounts of steel billets sold to China Baowu Group are estimated to be approximately 0.2 million tonnes for each of FY2024, FY2025 and FY2026.

The estimated average selling prices of steel billets are, on the other hand, determined with reference to the average selling price of approximately RMB3,355 per tonne for 6M2023. Based on the historical selling price of approximately RMB3,355 per tonne and an annual inflation rate of approximately 3%, the average selling prices of steel billets are estimated to be approximately RMB3,400 and RMB3,500 for FY2024 and FY2025, respectively. The selling price is expected to remain at RMB3,500 for FY2026. Given (1) the sales amounts to China Baowu Group are determined with reference to the production plan; and (2) the average selling prices of steel billets are determined with reference to historical selling prices, we consider that proposed annual cap for the sales of steel billets from the Group to China Baowu Group are fair and reasonable.

**(b) Services**

The transaction amounts for provision of processing services to China Baowu Group are expected to amount approximately RMB1,830 million, RMB2,180 million and RMB2,203 million for FY2024, FY2025 and FY2026, respectively.

Based on the Group's production plan, the Group expects to provide processing services to customers for approximately 3.4 million tonnes, 3.7 million tonnes and 3.9 million tonnes of steel billets for FY2024, FY2025 and FY2026, among of which, the Group expects to provide processing services to China Baowu Group for 0.8 million tonnes, 0.9 million tonnes and 0.9 million tonnes of steel billets for FY2024, FY2025 and FY2026, respectively, representing approximately 23.7%, 24.5% and 23.2% of the planned processing volumes which are less than the historical ratio of approximately 30% in 2023.

The estimated processing service fee is approximately RMB2,300 per tonne, RMB2,400 per tonne and RMB2,450 per tonne for FY2024, FY2025 and FY2026, respectively. As advised by the management of the Group, the average processing service fee is approximately RMB2,300 per tonne in 2023.

Given (1) the estimated processing volumes are determined by reference to the Group's production plan; and (2) the estimated processing service fee is based on the historical service fee, we consider the proposed annual caps for provision of processing services to China Baowu Group to be fair and reasonable.

## 6. The proposed annual caps for the transactions under the Financial Service Agreement

### (i) Settlement services

From the effective date of the Financial Service Agreement up to 31 December 2026, the maximum annual caps of the service charges for the settlement services under the Financial Service Agreement to be provided by Baowu Finance Company to the Company and its subsidiaries will be RMB0.2 million (other than acceptance charge, settlement handling fee, handling fee for opening letter of credit and other fees charged by banks on behalf).

|                     | <b>From the<br/>effective date<br/>of the Financial<br/>Service<br/>Agreement up<br/>to 31 December<br/>2024</b> | <b>For the year<br/>ending<br/>31 December<br/>2025</b> | <b>For the year<br/>ending<br/>31 December<br/>2026</b> |
|---------------------|--|---|---|
| Settlement services | RMB0.2 million   | RMB0.2 million  | RMB0.2 million  |

According to the management of the Group, for the settlement services provided by Baowu Finance Company, the settlement services fees charged by Baowu Finance Company are charged on behalf of the independent commercial banks while Baowu Finance Company would not charge the Group any additional fees for the settlement services. Based on our review of the fee schedule of Baowu Finance Company on the settlement services, depending on the size of settlement amount, the service fees vary in the range from RMB5 to RMB200 per transaction.

|               | <b>For the nine months<br/>ended 30 September<br/>2023 (“9M2023”)<br/>(RMB million)</b> | <b>FY2022<br/>(RMB million)</b> |
|---------------|---|---------------------------------|
| Revenue       | 30,012.8  | 36,561.5                        |
| Cost of sales | 30,128.8  | 36,592.4                        |
| <b>Sum</b>    | <b>60,141.6</b>   | <b>73,153.9</b>                 |

Source: the annual report of the Company for FY2022 (the “2022 Annual Report”) and the 2023Q3 Report

As shown in the table above, the Group's revenue and cost of sales amounted to approximately RMB36,561.5 million and RMB36,592.4 million for FY2022, respectively and amounted to approximately RMB30,012.8 million and RMB30,128.8 million for 9M2023, respectively. It is in the ordinary business of the Group to collect payments from its customers and settle payments to its suppliers which would require the settlement services provided by Baowu Finance Company from time to time, including but not limited to bills of exchange, entrusted fund collection and online settlement. The proposed annual caps for the settlement services of RMB0.2 million accounted for approximately 0.0003% and 0.0003% of the sum of the Group's revenue and cost of sales for FY2022 and 9M2023, respectively, which we consider immaterial.

Based on the above, we are of the view that the proposed annual caps of the settlement services under the Financial Service Agreement, to be fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole

**(ii) Deposit service**

From the effective date of the Financial Service Agreement up to 31 December 2026, the maximum daily balance limit for deposit cash of deposit services to be provided by Baowu Finance Company to the Company will be RMB2 billion (inclusive of interests).

**From the effective date of the  
Financial Service Agreement  
up to 31 December 2026**

Maximum daily balance limit RMB2 billion

With reference to 2022 Annual Report and the 2023Q3 Report, the Group's cash and cash balances, which indicates the Group's possible demand on the deposit services to be provided by Baowu Finance Company and other commercial banks, amounted to approximately RMB3,995.7 million and RMB2,770.1 million as at 31 December 2022 and 30 September 2023, respectively. The proposed annual cap of RMB2 billion represent approximately 50.1% and 72.2% of the Group's cash position as at 31 December 2022 and 30 September 2023, respectively. In addition, as stated in the section headed "4. Review of the historical figures" above, the utilisation rate of the annual cap of the deposit services has increased from approximately 26.1% in 2021 to approximately 64.7% and 61.6% in 2022 and 2023, respectively. As advised by the management the Group, since the deposit interest rate offered by Baowu Finance Company is similar to or more favourable than those offered by other commercial banks, the Group plans to deposit more funds in Baowu Finance Company to improve fund management efficiency and earn similar or more favourable interest income.

Furthermore, in assessing the fairness and reasonableness of the maximum daily balance limit of the deposit services under the Finance Service Agreement, we have researched and identified companies listed on the Stock Exchange (the “**Comparable Companies**”) utilising the deposit services provided by finance companies held by parent companies, with their respective circulars published during the period from to 1 June 2023 to 10 November 2023 (being approximately five months prior to the date of the Financial Service Agreement) (the “**Comparable Period**”). Based on the aforesaid criteria, we have identified an exhaustive list of 11 Comparable Companies. We consider that the Comparable Companies represent fair and representative samples given (a) the Comparable Period adequately covers the prevailing market conditions and sentiments of the capital market in Hong Kong; (b) the Comparable Companies represent the prevailing market practice for utilising similar kinds of deposit services as the Group does during the period and allow the Independent Shareholders to have a general understanding in this regard; and (c) the sufficient number (i.e. size of 11) of the Comparable Companies identified. We have reviewed the proposed maximum daily deposit balances to be placed by the Comparable Companies with their respective finance companies, and the Comparable Companies’ cash balance, including cash and cash equivalents, bank balances and time deposits (the “**Cash Balance**”), as disclosed on their respective latest published financial reports prior to the respective dates of their circulars.

Independent Shareholders should note that the businesses, market capitalisation and prospects of the Company are not the same as, or even substantially vary from, those of the Comparable Companies. However, we consider the Comparable Companies are relevant to our analysis given they are reflecting recent market practice or normal commercial terms.

Set out below are the details of the Comparable Companies:

| <b>Date of circular</b> | <b>Company name (stock code)</b>                                       | <b>Maximum daily deposit balance<br/>(million)<br/>(A)</b> | <b>Cash Balance<br/>(million)<br/>(B)</b>                             | <b>Maximum daily deposit balance as a percentage of the Cash Balance<br/>(%)<br/>(A/B)</b> |
|-------------------------|--|--|---|--|
| 9 November 2023         | China Suntien Green Energy Corporation Limited (956.HK)                | RMB4,500.0   | RMB3,272.0  | 137.5  |
| 13 October 2023         | KunLun Energy Company Limited (135.HK)                                 | RMB2,403.0   | RMB42,028.0   | 5.7  |
| 20 September 2023       | Petrochina Company Limited (857.HK)                                    | RMB10,000.0  | RMB262,554.0  | 3.8  |
| 18 August 2023          | China Power International Development Limited (2380.HK)                | RMB9,000.0   | RMB4,228.1  | 212.9  |
| 8 August 2023           | Beijing Enterprises Holdings Limited (392.HK)                          | RMB8,700.0   | HK\$31,347.3<br>(equivalent to approximately RMB28,212.6)<br>(Note 1) | 30.8   |
| 2 August 2023           | China Electronics Optics Valley Union Holding Company Limited (798.HK) | RMB600.0   | RMB2,254.2  | 26.6   |
| 15 June 2023            | Lushang Life Services Co., Ltd.(2376.HK)                               | RMB350.0   | RMB428.8  | 81.6   |

| Date of circular                                    | Company name (stock code)                                    | Maximum daily deposit balance<br>(million)<br>(A) | Cash Balance<br>(million)<br>(B)                                    | Maximum daily deposit balance as a percentage of the Cash Balance |
|---|--|---|---|---|
|   |  |   |   | Balance<br>(%)<br>(A/B)   |
| 12 June 2023  | Capital Industrial Financial Services Group Limited (730.HK) | RMB306.0  | HK\$322.9<br>(equivalent to approximately RMB290.6)<br>(Note 1)     | 105.3   |
| 7 June 2023   | China Gold International Resources Corp. Ltd. (2099.HK)      | RMB3,000.0  | US\$428.5<br>(equivalent to approximately RMB2,999.5)<br>(Note 1)   | 100.0   |
| 6 June 2023   | Fountain Set (Holdings) Limited (420.HK)                     | RMB155.0  | HK\$1,393.7<br>(equivalent to approximately RMB1,254.3)<br>(Note 1) | 12.4  |
| 6 June 2023   | Haier Smart Home Co., Ltd. (6690.HK)                         | RMB34,000.0                                       | RMB53,369.0   | 63.7  |
|   |  |   | <b>Maximum</b>  | <b>212.9</b>  |
|   |  |   | <b>Minimum</b>  | <b>3.8</b>  |
|   |  |   | <b>Median</b>   | <b>63.7</b>   |
|   |  |   | <b>Average</b>  | <b>70.9</b>   |
| <b>Proposed annual caps of the deposit services</b> |  | <b>RMB2,000</b>                                   | <b>RMB2,770.1</b>   | <b>72.2</b>   |

Source: the latest published financial reports and circulars of the Comparable Companies published on the website of the Stock Exchange

Note:

1. We have adopted an approximate exchange rate of HK\$1 to RMB0.9 and US\$1 to RMB7.0 for illustrative purpose.

As shown in the table above, the proposed maximum daily deposit balances of the Comparable Companies represent approximately 3.8% to 212.9% of their respective Cash Balances, with an average and median of approximately 70.9% and 63.7%, respectively. The proposed maximum daily balance limit of RMB2 billion for the deposit service provided by Baowu Finance Company under the Financial Service Agreement represents approximately 72.2% of the Group's total cash balance as at 30 September 2023, which is within the aforesaid range and slightly higher than the average of that of the Comparable Companies, implying that the proposed annual caps of the deposit services under the Financial Service Agreement are set in a level consistent with the market practice.

Taking into account that (a) the historical amount of deposits of the Group with Baowu Finance Company incurred from 2021 to 2023, which have significantly increased in 2022 and 2023; (b) the Group's cash and cash balances as at 30 September 2023 is larger than the proposed annual caps of the deposit services under the Financial Service Agreement; (c) as the Company is developing and growing, it may have more financing needs and conduct more financing through the capital market; and (d) the percentage of the proposed annual caps of the deposit services under the Financial Service Agreement in terms of the Group's total cash balances as at 30 September 2023 is within the market range, we consider the proposed annual caps of the deposit services under the Financial Service Agreement, which are the same during the term of the Original Financial Service Agreement, to be fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

**(iii) Credit services**

From the effective date of the Financial Service Agreement up to 31 December 2026, the maximum daily credit limit to be provided by Baowu Finance Company to the Company in respect of the credit services under the Financial Service Agreement will be RMB2 billion (inclusive of simple interests).

**From the effective date of the  
Financial Service Agreement  
up to 31 December 2026**

Maximum daily credit limit

RMB2 billion

In assessing the fairness and reasonableness of the maximum daily credit limit of the credit services under the Finance Service Agreement, we have discussed with the management of the Group on the basis and assumptions underlying the projections. As advised by the management of the Group, in determining the above maximum daily credit limit, the Directors have taken into account, among other things, (a) the current financial position of the Group; and (b) the Group's future demand for credit services generated from business development.



|                                | <b>As at 30 September<br/>2023</b> | <b>As at 31 December<br/>2022</b> |
|--------------------------------|------------------------------------|-----------------------------------|
|                                | <i>(RMB million)</i>               | <i>(RMB million)</i>              |
| Trade receivables              | 1,547.4                            | 38.8                              |
| Receivables financing          | 1,211.8                            | 799.7                             |
| <b>Net current liabilities</b> | <b>4,264.9</b>                     | <b>4,548.3</b>                    |
| Short-term borrowings          | 200.1                              | 1,106.4                           |
| Long-term borrowings           | 4,539.2                            | 2,751.9                           |
| <b>Total debts</b>             | <b>4,739.3</b>                     | <b>3,858.3</b>                    |

*Source: the 2022 Annual Report and the 2023Q3 Report*

As stated in the 2023Q3 Report, the Group's trade receivables amounted to approximately RMB1,547.4 million as at 30 September 2023, representing a significant increase of approximately 3,888.1% as compared to approximately RMB38.8 million as at 31 December 2022. Meanwhile, for the purpose of improving the liquidity of the Group, the Group endorses and discounts partial of bank acceptance bills in daily money management, aiming at receiving contractual cash flow. Receivables financing of the Group increased by approximately 51.5% from approximately RMB799.7 million as at 31 December 2022 to approximately RMB1,211.8 million as at 30 September 2023. Among the receivables financing of approximately RMB1,211.8 million as at 30 September 2023, approximately RMB83.2 million was pledged for issuing bank acceptances and the remaining balance of approximately RMB1,128.6 million could be managed with the credit services provided by Baowu Finance Company in the future, including the discount of bank acceptances, as advised by the management of the Group.

According to the management of the Group, Baowu Finance Company could also provide loans, letter of credit and other credit services to support the working capital of the Group. As at 31 December 2022 and 30 September 2023, the Group had net current liabilities position of approximately RMB4,548.3 million and RMB4,264.9 million, respectively. Total debts of the Group, comprising short-term borrowings and long-term borrowings, increased by approximately 22.8% from approximately RMB3,858.3 million as at 31 December 2022 to approximately RMB4,739.3 million as at 30 September 2023. Among the total debts of approximately RMB4,739.3 million as at 30 September 2023, the short-term borrowings of approximately RMB200.1 million would be due within one year. With reference to the interim report of the Group for the six months ended 30 June 2023, in the first half of 2023, the demand for steel in the domestic market was lower than expected, with the prices of steel fluctuating at low levels and the price of imported iron ore remaining at a high level,

resulting in the production and operation of iron and steel enterprises suffering from a severe situation. Considering the net current liabilities position of the Group in recent year, the decreasing demand for steel in the domestic market and the uncertainty of the current global economy and capital market, especially their impacts on the interest rate, we concur with the Directors that the credit services provided by Baowu Finance Company could assist and provide flexibility to the Group in managing its working capital and stabilising its production and operation in the face of the complex situation and arduous tasks.

Taking into account (a) the Group's net current liabilities position and debt position as at 30 September 2023, which are larger than the proposed annual caps of the credit services under the Financial Service Agreement; (b) the Group's financing needs for production and operation in the face of uncertain global economy and steel industry; and (c) the Group's use of credit services to endorse and discount bank acceptance bills in its daily money management, we consider the proposed annual caps of the credit services under the Financial Service Agreement, which are the same during the term of the Original Financial Service Agreement, to be fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

**(iv) Other financial services**

From the effective date of the Financial Service Agreement up to 31 December 2026, the maximum caps of the service charges for the other financial services under the Financial Service Agreement to be provided by Baowu Finance Company to the Company and its subsidiaries will be RMB1 million (other than acceptance charge, settlement handling fee, handling fee for opening letter of credit and other fees charged by banks on behalf).

|                          | <b>From the<br/>effective date<br/>of the Financial<br/>Service<br/>Agreement up<br/>to 31 December<br/>2024</b> | <b>For the year<br/>ending 31<br/>December 2025</b> | <b>For the year<br/>ending 31<br/>December 2026</b> |
|--------------------------|--|---|---|
| Other financial services | RMB1 million   | RMB1 million  | RMB1 million  |

As disclosed in the 2022 Annual Report and the 2023Q3 Report, for FY2022 and 9M2023, the Group's general and administrative expenses amounted to approximately RMB418.3 million and RMB225.3 million, respectively. The proposed annual caps for the other financial services accounted for approximately 0.2% and 0.4% of the general and administrative expenses for FY2022 and 9M2023, respectively, which we consider immaterial.

Taking into account (a) Baowu Finance Company, as a non-banking financial institution and an important long-term partner of the Company in the future, can provide the Company with diversified financial services including the other financial services, which is conducive for the Company to optimise its financial management and improve the fund utilisation efficiency; (b) the estimated transaction amounts associated with provision of the other financial services under the Financial Service Agreement are immaterial; and (c) as the Company is developing and growing, it may require the other financial services to be provided by Baowu Finance Company from time to time, we consider the proposed annual caps of the other financial services under the Financial Service Agreement, to be fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

## **7. Reporting requirements and conditions of the continuing connected transactions**

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the Transactions are subject to the following annual review requirements:

- (i) the independent non-executive Directors must review the Transactions and confirm in the annual report and accounts that the Transactions have been entered into:
  - (a) in the ordinary and usual course of business of the Group;
  - (b) on normal commercial terms or better; and
  - (c) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (ii) the Company must engage its auditors to report on the Transactions every year. The Company's auditors must provide a letter to the Board (with a copy to be provided to the Stock Exchange at least ten business days before the bulk printing of the Company's annual report) confirming whether anything has come to their attention that causes them to believe that the Transactions:
  - (a) have not been approved by the Board;
  - (b) were not, in all material respects, in accordance with the pricing policies of the Group if the Transactions involve the provision of goods or services by the Group;
  - (c) were not entered into, in all material respects, in accordance with the relevant agreement governing the Transactions; and
  - (d) have exceeded the Proposed Annual Caps;

- (iii) the Company must allow, and ensure that the counter-parties to the Transactions allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the Transactions as set out in paragraph (ii); and
- (iv) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or auditors of the Company cannot confirm the matters as required.

In light of the reporting requirements attached to the Transactions, in particular, (i) the restriction of the value of the Transactions by way of the Proposed Annual Caps; and (ii) the ongoing review by the independent non-executive Directors and the auditors of the Company of the terms of the Transactions and the Proposed Annual Caps not being exceeded, we are of the view that appropriate measures have been in place to monitor the conduct of the Transactions and assist in safeguarding the interests of the Independent Shareholders.

#### **OPINION AND RECOMMENDATION**

Having taken into account the above principal factors and reasons, we consider that (i) the entering into of the Agreements and the Transactions are conducted in the ordinary and usual course of business of the Group; and (ii) the terms of the Agreements (including the Proposed Annual Caps) are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to approve the Transactions.

Yours faithfully,  
For and on behalf of  
**Rainbow Capital (HK) Limited**



**Larry Choi**  
*Managing Director*

*Mr. Larry Choi is a licensed person and a responsible officer of Rainbow Capital (HK) Limited registered with the Securities and Futures Commission to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activity under the SFO. He has over ten years of experience in the corporate finance industry.*