



馬鞍山鋼鐵股份有限公司
Maanshan Iron & Steel Company Limited

(在中華人民共和國註冊成立之股份有限公司)

(股票代號：00323)

敬啟者：

茲提述本公司於2022年2月9日向股東發出的通函(「通函」)，本函件構成其中的一部分。除文意另有所指外，本函件中所使用的詞語與通函內所定義者具有相同涵義。

吾等已獲董事會委任就限制性股票激勵計劃、考核管理辦法及建議授予向閣下提供意見。新百利融資有限公司已獲委任為獨立財務顧問，就此方面向閣下及吾等就向關連人士授予首次授予項下的限制性A股股票提供意見。其意見詳情連同其達致該等意見經考慮的主要因素及理由，載於通函第48頁至第64頁，其他資料載於通函附錄。

經考慮若干因素，包括限制性股票激勵計劃的條款及新百利融資有限公司的意見，吾等認為(i)限制性股票激勵計劃、考核管理辦法及建議授予的條款乃一般商業條款並屬公平合理；及(ii)限制性股票激勵計劃、考核管理辦法及建議授予乃於本集團一般及日常業務中進行，符合本公司及股東之整體利益。因此，吾等建議閣下贊成將於臨時股東大會及H股類別股東大會上提呈之相關決議案。

此致

列位獨立股東 台照

獨立董事委員會

張春霞

朱少芳

王先柱

謹啟

2022年2月9日



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張春霞

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王先柱

2022年2月9日



SOMERLEY CAPITAL LIMITED

20/F., China Building, 29 Queen's Road Central, Hong Kong

Telephone: 2869 9090 Fax: 2526 2032 E-Mail: somerley@somerley.com.hk

The Board of Directors

Maanshan Iron & Steel Company Limited

No.8 Jiu Hua Xi Road

Maanshan City, Anhui Province

PRC

9 February 2022

Dear Sirs,

CONNECTED TRANSACTION – PROPOSED GRANT UNDER INCENTIVE SCHEME

We refer to the circular of Maanshan Iron & Steel Company Limited dated 9 February 2022 (the “**Circular**”) relating to the captioned matter. Unless otherwise defined, capitalised terms used in this letter shall have the same meanings as defined in the Circular.

We hereby confirm that we have given and have not withdrawn our written consent to the issue of the Circular with the inclusion of our letter, opinions and the references to our name in the form and context in which they respectively appear.

We also confirm that, as at the Latest Practicable Date, we did not have

- a) any interest, either direct or indirect, in any assets which have been, since 31 December 2020, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group; and
- b) any shareholding interests in any member of the Group and any right, whether legally enforceable or not, to subscribe for or nominate persons to subscribe for securities of any members of the Group.

Yours faithfully,

for and on behalf of

SOMERLEY CAPITAL LIMITED

Stephanie Chow

Director



SOMERLEY CAPITAL LIMITED

20/F., China Building, 29 Queen's Road Central, Hong Kong

Telephone: 2869 9090 Fax: 2526 2032 E-Mail: somerley@somerley.com.hk

9 February 2022

To: *the Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

CONNECTED TRANSACTION – PROPOSED GRANT UNDER INCENTIVE SCHEME

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Proposed Grant of Restricted A Shares to connected persons pursuant to the Incentive Scheme under the First Grant (the “**Proposed Connected Grant**”), details of which are set out in the “Letter from the Board” contained in the circular of the Company to the Shareholders dated 9 February 2022 (the “**Circular**”), of which this letter forms part. Unless otherwise specified, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

Under the First Grant, certain Participants are the directors or chief executive officers of the Company or certain subsidiaries of the Company and hence a connected person of the Company. The Proposed Connected Grant will constitute non-exempt connected transactions of the Company which are subject to reporting, announcement and Independent Shareholders’ approval requirements pursuant to Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising all independent non-executive Directors, namely Ms. Zhang Chunxia, Ms. Zhu Shaofang and Mr. Wang Xianzhu, has been established to consider and make a recommendation to the Independent Shareholders on (i) whether the terms of the Proposed Connected Grant are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned; and (ii) whether the Proposed Connected Grant is conducted in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole. We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.



During the past two years, Somerley Capital Limited has acted as the independent financial adviser to the independent board committee and independent shareholders of the Company in relation to continuing connected transactions as detailed in the Company's circular dated 8 June 2020. The past engagement was limited to providing independent advisory services to independent board committee and independent shareholders of the Company pursuant to the Listing Rules. Under the past engagement, Somerley Capital Limited received normal professional fees from the Company. Notwithstanding the past engagement, as at the Latest Practicable Date, there were no relationships or interests between (a) Somerley Capital Limited and (b) the Group and the Connected Participants (as defined below) that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Proposed Connected Grant as detailed in the Circular.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Company and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects at the time they were made and up to the date of the EGM. We have also sought and received confirmation from the executive Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have no reason to believe that any material information has been withheld, nor doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group and the Connected Participants, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation, we have taken into account the following principal factors and reasons:

1. Background of the Group

The Company is a joint stock limited company incorporated in the PRC. The H Shares of the Company are listed on the Stock Exchange and the A Shares of the Company are listed on the Shanghai Stock Exchange. The Group is principally engaged in the production and sale of iron and steel products and related by-products, with main business operations in the PRC.



As set out in the Company's 2021 interim report, the Group produced approximately 9.41 million tons of pig iron, 11.21 million tons of crude steel and 10.75 million tons of steel in the first half of 2021, respectively, up by approximately 1.62%, 9.90% and 11.05% over the same period of 2020. For the first half of 2021, the Group recorded revenue and net profit attributable to owners of the parent of approximately RMB56.9 billion and RMB4.6 billion, representing a year-on-year increase of approximately 51.9% and 471.7%, respectively. The increase in revenue was mainly due to the increase in both prices and sales volume of steel products while the increase in net profit attributable to owners of the parent of the Group was mainly due to, among others, the increase in gross profit of steel products of the Company during the first half of 2021 as compared with the same period of 2020. As at 30 June 2021, the Group's total assets and net assets attributable to owners of the parent were approximately RMB92.9 billion and RMB32.1 billion respectively.

As further set out in the Company's 2021 interim report, it is expected that the COVID-19 pandemic will continue to evolve and have a profound impact on the global economy, the international environment will become more complex and uncertain factors affecting the global economy will increase, causing a far-reaching impact on iron ore supply, steel exports and the downstream industry chain of steel. The Company will, among others, take the initiative to adapt to new situation, firmly focus on the theme of high-quality development, promote comprehensive lean and efficiency, and encourage all staff to compete bravely and strive to achieve the annual goal.

2. Reasons for and benefits of the Incentive Scheme and the Proposed Connected Grant

As stated in the Company's 2020 annual report, the Company is facing the pressure to speed up the improvement of profitability, accelerate the test of achieving scale leadership, and facilitate the task of promoting technology leadership and reforms in key areas. To achieve the goal of high-quality enterprise development, high ecological environment, high-quality factory appearance and high-quality life of employees, the Company will persist in, among others, reform and innovation, comprehensive lean operation, the principle of people-oriented, and focus on promoting all-round value creation of all employees, joint construction and sharing, so as to realise the common development of employees and the Company.

As further set out in the Company's 2020 annual report and as advised by the executive Directors, the Group plans to promote the innovation of market-oriented management mechanism; improve the market-oriented salary distribution mechanism; perfect the distribution system according to work and the award policy for major scientific and technological achievements; and explore medium- and long-term incentive mechanism, in order to stimulate the vitality of value creation of various talents.

On 24 December 2021 (the "**Announcement Date**"), the Company published an announcement in relation to the proposed adoption of the Restricted A Shares Incentive Scheme and the Proposed Grant. Full text of the Restricted Share Incentive Scheme is set out in Appendix I to the Circular.



As set out in the section headed “Restricted A Shares Incentive Scheme” in the “Letter from the Board” contained in the Circular, the purpose of the Incentive Scheme is to further establish and improve the long-term incentives mechanism of the Company, attract and retain outstanding talents, fully motivate the core staff, and effectively combine the interests of the Shareholders, the Company and the employees. The Incentive Scheme is formulated in accordance with the relevant regulations of the Company Law of the People’s Republic of China, the Securities Law of the People’s Republic of China, the Administrative Measures for Share Incentives of Listed Companies (Order No. 148 of the China Securities Regulatory Commission) (《上市公司股權激勵管理辦法》(中國證券監督管理委員會第148號令)) and the guidelines for the implementation of equity incentives of listed companies controlled by central enterprises (Guo Zi Kao Fen [2020] No. 178) (《中央企業控股上市公司實施股權激勵工作指引》(國資考分[2020] 178號)), combined with the Company’s current performance appraisal management system.

The total number of proposed Participants for the First Grant under this Scheme is no more than 262, among which 34 are connected persons of the Company (as defined under the Listing Rules), including directors or senior executives of the Company or certain subsidiaries of the Company (the “**Connected Participants**”). We understand from the executive Directors that each of the Connected Participant possesses expertise and experience in his/her own area (including corporate management, strategic planning, production, sales and marketing, supply chain management, financial management, risk management etc.) which is relevant to the Group’s operations, and that the Connected Participants’ years of services at the Group are up to approximately 18 years with an average of approximately 8 years. The Connected Participants hold senior positions in the Group and play significant roles in the Group’s development. Further details of the Connected Participants and the number of Restricted Shares to be granted to individual Connected Participants are set out in the sub-section headed “Allocation of the Restricted Shares under the Proposed First Grant” in the “Letter from the Board” contained in the Circular. We consider that, the retention of valuable personnel including the Connected Participants is critical for maintaining a stable and experienced senior management team, which in turn is crucial for the development and expansion of the Group. The Restricted A Shares to be granted under the Incentive Scheme are subject to (i) an initial 24-month Lock-up Period commencing from the date on which the registration of the grant of the Restricted Shares is completed; and (ii) subsequent Unlocking Periods in a total of 36 months. The granting and unlocking of Restricted A Shares are subject to certain conditions including, inter alia, performance of the Company and the Participants. After lifting the initial 24-month Lock-up Period, the Company shall proceed with the unlocking for the Participants who satisfy the unlocking conditions, and the Restricted Shares which do not satisfy the unlocking conditions shall be repurchased by the Company. The unlocking of the Restricted Shares spreads over a three-year period, further details of the unlocking period are discussed in the section headed “Principal terms of the Proposed Connected Grant” of this letter below. The executive Directors believe, and we concur, that, these features shall incentivise the Connected Participants to continue making contribution to the Group and strive for better results of the Group. By aligning the interest of the Connected Participants and that of the Group, the Incentive Scheme is expected to motivate the Connected Participants, ensure stability in the Group’s operations and enhance the performance of the Group which ultimately benefits the Group and the Shareholders as a whole.



The implementation of a restricted A shares incentive scheme is a common strategy adopted by companies listed on the Shanghai Stock Exchange to provide long-term incentives to their personnel and employees (including the directors and senior management). Based on our independent research, we noted that the proposed Incentive Scheme is, in a large part, similar to the Comparable Grants (as defined below) adopted by other companies listed on the Shanghai Stock Exchange. Also, the Proposed Grant will not incur any cash outlay by the Group and will only have an immaterial financial impact and dilution effect. Further details on the Comparable Grants and financial and dilution effect of the Proposed Connected Grant are further discussed in this letter below.

Having considered that (i) the Proposed Connected Grant can incentivise the Connected Participants to contributing to the Group's long-term development; (ii) adopting a restricted A Shares incentive scheme is a common market practice for companies listed on the Shanghai Stock Exchange; and (iii) the Proposed Connected Grant only results in immaterial financial and dilution effect, we concur with the executive Directors that the Proposed Connected Grant is in line with the Group's development strategy and beneficial to the Group in the long-term.

3. Principal terms of the Proposed Connected Grant

In order to assess the reasonableness and fairness of the Proposed Connected Grant, we have compared it with restricted A shares incentive plans (the “**Comparable Grants**”) which granted restricted A shares to directors and/or senior management of companies listed on the main board of the Shanghai Stock Exchange and were announced within the month before and including 24 December 2021, being the date of the adoption of the Incentive Scheme (i.e. the Announcement Date). Details with respect to each individual grantee and/or the Comparable Grants such as responsibilities and service terms of each individual grantee, date of grant, business nature and scale of each company may vary. However, the Comparable Grants are considered to be general references for common market practice in granting restricted A shares to directors and/or senior management of companies listed on the main board of the Shanghai Stock Exchange. We have identified an exhaustive list of 13 Comparable Grants, which provide a relevant benchmark for the purpose of assessing the reasonableness of the terms of the Proposed Connected Grant. We consider 13 Comparable Grants to be a sufficient sample size which represent the recent market practice of similar grant of award shares of companies listed on the main board of the Shanghai Stock Exchange. As such, we are of the view that the Comparable Grants are fair and representative for the purpose of this analysis. We have compared the Proposed Connected Grant with the Comparable Grants in terms of (i) number of A shares to be granted; (ii) grant price; (iii) unlocking periods; (iv) black-out arrangements; (v) adjustment provisions; and (vi) implementation procedures. The results are explained further below.



The Comparable Grants table:

Announcement date	Company name	Stock code	Percentage of the grant price to the average stock price for the shares being granted under restricted A share incentive plan	Unlocking/ vesting period from the grant date or the date on which the grant has been registered	Proportion of shares to be unlocked/ vested during the unlocking/ vesting period	Conditions for unlocking/ vesting the restricted A shares which are based on, amongst others, the participants' performance and/or financial performance of the companies	Validity period of respective restricted A share incentive plan	Black-out arrangements	Adjustment for the number and price of restricted A shares	Percentage of the restricted A shares to be granted to the total issued share capital of the company under respective incentive plan announced (approximately)
25/11/2021	Shinva Medical Instrument Co., Ltd.	600587	50%	Y	24 months 36 months	33%	Y	72 months	Y	0.020% to 0.030% 1.48%
25/11/2021	ZhuZhou Qianjin Pharmaceutical Co., Ltd	600479	50%	Y	48 months 24 months 36 months 48 months	34% 40% 30% 30%	Y	72 months	Y	0.050% to 0.050% 3.00%
26/11/2021	China Three Gorges Renewables (Group) Co., Ltd.	600905	50%	Y	24 months 36 months 48 months	33% 33% 34%	Y	72 months	Y	0.001% to 0.002% 0.21%
30/11/2021	Orient International Enterprise, Ltd.	600278	50%	Y	24 months 36 months 48 months	33% 33% 34%	Y	72 months	Y	0.000% to 0.023% 2.02%



Announcement date	Company name	Stock code	Percentage of the grant price to the average stock price for the shares being granted under restricted A share incentive plan	Unlocking/ vesting provision over a period of time	Unlocking/ vesting period from the grant date or the date on which the grant has been registered	Proportion of shares to be unlocked/ vested during the unlocking/ vesting period	Conditions for unlocking/ vesting the restricted A shares which are based on, amongst others, the participants' performance and/or financial performance of the companies	Validity period of respective restricted A share incentive plan	Black-out arrangements	Adjustment for the number and price of restricted A shares	Percentage of the restricted A shares to be granted to individual director/senior management to the total issued share capital of the company under respective incentive plan announced (approximately)	Percentage of the restricted A shares to be granted to the total issued share capital of the company under respective incentive plan announced (approximately)
1/12/2021	Nanjing Pharmaceutical Company Limited	600713	50%	Y	24 months 36 months	33% 33%	Y	72 months	Y	Y	0.025% to 0.035% 1.92%	0.025% to 0.035% 1.92%
1/12/2021	Yanzhou Coal Mining Company Limited	600188	50%	Y	24 months 36 months 48 months	33% 33% 34%	Y	60 months	Y	Y	0.003% to 0.004% 1.29%	0.003% to 0.004% 1.29%
6/12/2021	Wuxi NCE Power Co., Ltd.	605111	50%	Y	12 months 24 months	50% 50%	Y	60 months	Y	Y	0.010% to 0.050% 1.00%	0.010% to 0.050% 1.00%
9/12/2021	NARI Technology Co., Ltd.	600406	50%	Y	36 months 48 months 60 months 72 months	25% 25% 25% 25%	Y	96 months	Y	Y	0.001% to 0.001% 0.72%	0.001% to 0.001% 0.72%
14/12/2021	State Grid Information & Telecommunication Co., Ltd	600131	50%	Y	24 months 36 months 48 months 60 months	25% 25% 25% 25%	Y	72 months	Y	Y	0.008% to 0.008% 0.70%	0.008% to 0.008% 0.70%



Announcement date	Company name	Stock code	Percentage of the grant price to the average stock price for the shares being granted under restricted A share incentive plan	Unlocking/ vesting provision over a period of time	Unlocking/ vesting period from the grant date or the date on which the grant has been registered	Proportion of shares to be unlocked/ vested during the unlocking/ vesting period	Conditions for unlocking/ vesting the restricted A shares which are based on, amongst others, the participants' performance and/or financial performance of the companies	Validity period of respective restricted A share incentive plan	Black-out arrangements	Adjustment for the number and price of restricted A shares	Percentage of the restricted A shares to be granted to the total issued share capital of the company under respective incentive plan announced (approximately)	Percentage of the restricted A shares to be granted to individual director/senior management to the total issued share capital of the company under respective incentive plan announced (approximately)
17/12/2021	Jiangsu Hongtong Industrial Co., Ltd	600400	55%	Y	12 months 24 months	20% 30%	Y	48 months	Y	Y	0.004% to 0.087%	0.53%
21/12/2021	Sinoma International Engineering Co., Ltd	600970	50%	Y	36 months 24 months 36 months 48 months	50% 33% 33% 34%	Y	72 months	Y	Y	0.010% to 0.020%	2.68%
21/12/2021	Aluminum Corporation of China Limited	601600	50%	Y	24 months 36 months 48 months	40% 30% 30%	Y	72 months	Y	Y	0.001% to 0.002%	0.83%
23/12/2021	Shandong Hualu-Hengsheng Chemical Co., Ltd	600426	55%	Y	24 months 36 months 48 months	33% 33% 34%	Y	72 months	Y	Y	0.005% to 0.014%	0.63%
24/12/2021	The Company	323	60%	Y	24 months 36 months 48 months	33% 33% 34%	Y	72 months	Y	Y	0.003% to 0.011%	1.00%

Source: The website of the Shanghai Stock Exchange (www.sse.com.cn)



Summary of the Comparable Grants table:

	Percentage of the restricted A shares to be granted to individual director/senior management to the total issued share capital of the company under respective incentive plan announced (approximately)	Percentage of the restricted A shares to be granted to the total issued share capital of the company under respective incentive plan announced (approximately)	Proportion of shares to be unlocked/vested during the first unlocking/ vesting period	Proportion of shares to be unlocked/vested during the second unlocking/ vesting period	Proportion of shares to be unlocked/vested during the third unlocking/ vesting period	Validity period of respective restricted A share incentive plan
	Percentage of the restricted A shares to be granted to individual director/senior management to the average stock price for the shares being granted under restricted A share incentive plan	Percentage of the restricted A shares to be granted to the total issued share capital of the company under respective incentive plan announced (approximately)	Proportion of shares to be unlocked/vested during the first unlocking/ vesting period	Proportion of shares to be unlocked/vested during the second unlocking/ vesting period	Proportion of shares to be unlocked/vested during the third unlocking/ vesting period	Validity period of respective restricted A share incentive plan
Minimum	50%	0.000%	20%	25%	25%	48 months
Maximum	55%	0.087%	50%	50%	50%	96 months
Average		1.31%				
Median		1.00%				
The Company	60%	0.003% to 0.011%	33%	33%	34%	72 months



(i) ***Number of Restricted A Shares under the Proposed Connected Grant***

As advised by the executive Directors, when determining the numbers of Restricted A Shares to be granted to the Connected Participants, the Company has taken into account various factors including, among others, (i) their seniority and position; (ii) their role and responsibilities in the Group; (iii) their contributions; and (iv) the individual performance of the Connected Participants. We further understand from the executive Directors that such allocation basis on the number of Restricted A Shares to be granted to the Connected Participants and the proposed Incentive Scheme have been approved by the Remuneration Committee whose members would not be the Connected Participants under the Incentive Scheme.

As set out in the section headed “Proposed Grant under the Incentive Scheme” in the “Letter from the Board” contained in the Circular, no more than 76,150,000 Shares will be granted under the First Grant, of which no more than 12,710,000 Shares will be granted to the Connected Participants. The number of Restricted A Shares to be granted to the Participants under the Proposed Grant (including the Reserved Grant), on an aggregate basis, represents approximately 1.00% of the total issued share capital of the Company as at the Latest Practicable Date. The average and median size of the restricted A shares to be granted under the Comparable Grants were approximately 1.31% and 1.00% which are higher than and in line with that of the Proposed Grant respectively. The number of Restricted A Shares to be granted to the Connected Participants under the First Grant, on an individual basis, represents (i) approximately 0.26% to 1.10% of the total number of Restricted A Shares to be granted (including the Reserved Grant) under the proposed Incentive Scheme; and (ii) approximately 0.003% to 0.011% of the total issued share capital of the Company as at the Latest Practicable Date. On an aggregate basis, the total number of Restricted A Shares to be granted to the Connected Participants under the First Grant represents (i) approximately 16.5% of the total number of Restricted A Shares to be granted under the Incentive Scheme (including the Reserved Grant); and (ii) approximately 0.165% of the total issued share capital of the Company as at the Latest Practicable Date, which in our view represents an insignificant portion of the total issued share capital of the Company. Under the Comparable Grants, the percentage of the restricted A shares to be granted to individual director/senior management to the total issued share capital of the company ranged from approximately 0.000% to 0.087%. Under the Incentive Scheme, the highest number of Restricted A Shares to be granted to an individual Connected Participant represents approximately 0.011% of the total issued share capital of the Company as at the Latest Practicable Date, which falls within the range of that under the Comparable Grants.



Given that (i) the size of Restricted A Shares to be granted to the Participants under the Proposed Grant (in terms of percentage of the Company's total issued share capital) is below the average size of those granted under the Comparable Grants; (ii) the total number of Restricted A Shares to be granted to the Connected Participants represents insignificant portion of the total issued share capital of the Company; and (iii) the highest number of Restricted A Shares to be granted to an individual Connected Participant (in terms of percentage of the Company's total issued share capital) falls within the range of that under the Comparable Grants, we consider the total number of Restricted A Shares to be granted to the Connected Participants under the Incentive Scheme to be fair and reasonable.

(ii) The grant price

As advised by the executive Directors, the Grant Price (as defined below) was determined with reference to the guidelines for the implementation of equity incentives of listed companies controlled by central enterprises (Guo Zi Kao Fen [2020] No. 178) (《中央企業控股上市公司實施股權激勵工作指引》(國資考分[2020]178號)) (the “**Guidelines**”), which requires the issue price of new shares (i) not to be set at a price lower than its nominal value; and (ii) principally not to be set at a price lower than the highest of the (a) 50% of the average trading price on the last trading day immediately preceding the date of announcement of the A shares incentive plan; and (b) 50% of one of the average trading prices for the last 20, 60 or 120 trading days immediately preceding the date of announcement of the A shares incentive plan.

As set out in the section headed “Proposed Grant under the Incentive Scheme” in the “Letter from the Board” contained in the Circular, the grant price of the Restricted Shares under the First Grant shall be RMB2.29 per Share (the “**Grant Price**”). Upon fulfilment of grant conditions, each Participant (including the Connected Participant) is entitled to acquire the Restricted Shares issued by the Company at the price of RMB2.29 per Share.

It is further set out in the same section that the pricing base date of the Restricted Shares under the First Grant shall be the date of promulgation of the Scheme. The grant price shall not be lower than the nominal value of the A Shares, and not lower than 60% of the higher of the followings:

- (i) the average trading price of the Company's A Shares on the trading day before the announcement of the Scheme;
- (ii) the average trading price of the Company's A Shares for 20 trading days before the announcement of the Scheme.



In determining the grant price, the aforesaid 60% benchmark is adopted in compliance with section 26(1) of the Guidelines which states that if the fair market price of the share is lower than the net asset value per share, the grant price of the restricted share shall not be lower than 60% of the fair market price. The fair market price of the Share is lower than the net asset value attributable to the Shareholder of approximately RMB4.41 per Share as at 30 September 2021 according to the Company's 2021 third quarterly report published on 26 October 2021.

As advised by the management of the Company, the average trading prices for the last 20, 60 and 120 trading days immediately prior to the announcement of the Scheme have been considered and the Company is of the view that the average trading price for the last 20 trading days prior to the announcement of the Incentive Scheme, being the lowest amongst the others, could better serve the purpose of attracting and retaining outstanding talents and motivating the Participants by minimising the acquisition cost which the Participants have to pay for each Restricted A Share while complying with the Guidelines. In addition, the average trading price for the last 20 trading days immediately prior to the announcement of the Incentive Scheme represents the latest market consensus on value of the Share, such that it is considered to be more representative than the average trading price for the longer time span. The Board considered the Grant Price of the Restricted A Shares under the Proposed Grant of RMB2.29 per Share is determined in line with the requirements as stated in the Guidelines.

The Grant Price is applicable to all Participants, including the Connected Participants. Based on the pricing principle set out above, the grant price of the First Grant under the Incentive Scheme was set in accordance with the requirements under the Guidelines mentioned above.

As noted from the Comparable Grants table above, most grant prices under the Comparable Grants were determined based on 50% of the benchmark price (being the higher of (i) the closing price/average trading price of the A share of respective company on the last trading day immediately preceding the date of announcement of the A shares incentive plan; and (ii) the average trading price of the subject A shares for the last 20, 60 or 120 trading days immediately preceding the date of announcement of the A shares incentive plan). The grant price under the First Grant of the Incentive Scheme was determined based on the abovementioned pricing principle (i.e. not lower than 60% of the aforementioned benchmark price, or not more than a discount of 40%). Such discount is smaller than that represented by the grant prices under the Comparable Grants.



In view of the above and considering that (i) the Grant Price is determined in accordance with the requirements of the Guidelines as set out above; (ii) the basis of determining the Grant Price is generally in line with market practice; (iii) the discount to the benchmark price adopted in determining the Grant Price is smaller than those of the Comparable Grants; and (iv) the Grant Price is applicable to all Participants, we are of the view that the Grant Price is fair and reasonable so far as the Independent Shareholders are concerned.

(iii) Lock-up Period and Unlocking Periods

As set out in the section headed “Restricted A Shares Incentive Scheme” in the “Letter from the Board” contained in the Circular, the Lock-up Period shall be 24 months from the date of registration. The Restricted Shares shall be subject to selling restrictions, and shall not be transferred, pledged or used for repayment of debt during the Lock-up Period. After lifting the initial 24-month Lock-up Period, the Company shall proceed with the unlocking for the Participants who satisfy the unlocking conditions, and the Restricted Shares which do not satisfy the unlocking conditions shall be repurchased by the Company.

The Scheme has three Unlocking Periods. The first Unlocking Period shall be within the period commencing from the first trading day after expiry of the 24-month period and ending on the last trading day of the 36-month period from the completion date of the registration of the grant of the Restricted Shares, where 33% of the Restricted Shares shall be unlocked; the second Unlocking Period shall be within the period commencing from the first trading day after expiry of the 36-month period and ending on the last trading day of the 48-month period from the completion date of the registration of the grant of the Restricted Shares, where 33% of the Restricted Shares shall be unlocked; the third Unlocking Period shall be within the period commencing from the first trading day after expiry of the 48-month period and ending on the last trading day of the 60-month period from the completion date of the registration of the grant of the Restricted Shares, where 34% of the Restricted Shares shall be unlocked. All unlocking of the Restricted A Shares are subject to the fulfilment of unlocking conditions. Further details with respect to the lock-up arrangement are set out in the paragraph headed “Lock-up Period of the Incentive Scheme” in the “Letter from the Board” contained in the Circular. The conditions for unlocking the Restricted A Shares under the Incentive Scheme comprised those in relation to the Company and individual Participant level. Further details of the unlocking conditions are set out in the paragraph headed “Conditions for unlocking of the Restricted Shares” in the “Letter from the Board” contained in the Circular.



The adoption of unlocking periods is common among restricted share incentive plans. In particular, all Comparable Grants involve unlocking periods and certain unlocking conditions. As shown in the Comparable Grants table above, the Unlocking Periods are generally in line with those under the Comparable Grants in terms of number of stages, length, and the proportion of shares to be unlocked/vested during each stage of the unlocking periods. We also noted that the general unlocking conditions under the Restricted Shares Incentive Scheme are largely similar to those adopted by the Comparable Grants. In addition, unlocking conditions under the Comparable Grants and the Incentive Scheme all involve performance appraisal at both the company and individual level.

(iv) Black-out arrangements

As set out in the paragraph headed “Black-out arrangement of the Incentive Scheme” in the “Letter from the Board” contained in the Circular, the black-out arrangements under the Incentive Scheme shall be implemented in accordance with the requirements of the Company Law, the Securities Law and the relevant laws, regulations and regulatory documents as well as the Articles of Association. Certain provisions include (i) where an Incentive Participant is a director or a member of the senior management of the Company, the number of shares of the Company which may be transferred by the Incentive Participant each year during his/her term of office shall not exceed 25% of the total number of the shares of the Company held by him/her; (ii) no shares of the Company held by an Incentive Participant shall be transferred within six months after his/her termination of office; (iii) where an Incentive Participant is a director or a member of the senior management of the Company and he/she disposes any shares of the Company within six months after acquisition or buys-back of such shares within six months after disposal, all gains arising therefrom shall be accounted to the Company and the Board will collect all such gains; and (iv) if, during the Validity Period, there is any amendment to the requirements regarding transfer of shares by a director and a member of the senior management of the Company, such amended requirements shall apply to the shares transferred by the Incentive Participants during the relevant times. Further details of the black-out arrangements under the Incentive Scheme are set out in the aforementioned paragraph in the “Letter from the Board” contained in the Circular.



Black-out arrangements are common among restricted share incentive plans. Based on our review of the Comparable Grants, all of them involve black-out arrangements. Further, we noted that the black-out arrangements under the Incentive Scheme are similar to those under the Comparable Grants.

(v) *Adjustment provisions*

As set out in the section headed “Methods and procedures for adjustment of the Incentive Scheme” in the “Letter from the Board” contained in the Circular, in the event of any capitalisation issue, bonus share distribution, share sub-division, rights issue or share consolidation of the Company in the period from the Announcement Date of the Incentive Scheme to the completion of registration of the Restricted Shares by the Participants, the number of the Restricted Shares and the Grant Price shall be adjusted in accordance with the methods as stipulated in the Incentive Scheme. Further details of the adjustment provisions under the Incentive Scheme are set out in the abovementioned section in the Circular. The adjustment provisions with respect to repurchase of the Restricted Shares are set out in the section headed “Principles of repurchase of the Restricted Share” in the “Letter from the Board” contained in the Circular. Based on our review of the Comparable Grants, all of them involve adjustment provisions which are similar to those under the Incentive Scheme.

(vi) *Procedures of implementation for the Incentive Scheme to take effect*

As set out in the section headed “Procedures for the Restricted Share Incentive Scheme to take effect” in Appendix I to the Circular, there are procedures in place for the Incentive Scheme to take effect, including (i) the Board shall make a resolution on the Incentive Scheme, where the Directors who are Participants or the Directors with whom they have a related relationship shall abstain from voting; (ii) the Incentive Scheme shall be submitted to the general meeting for consideration; (iii) the independent Directors and the supervisory committee of the Company shall issue independent opinions on whether the Incentive Scheme facilitates the sustainable development of the Company and whether the Incentive Scheme obviously impairs the interests of the Company and the Shareholders as a whole; (iv) the financial consultant as engaged by the Company shall issue professional opinions on the feasibility of the Incentive Scheme, whether the Incentive Scheme is conducive to the sustainable development of the Company and whether the Incentive Scheme damages the interests of the Company and affects the interests of the Shareholders; and (v) the Incentive Scheme shall be implemented upon consideration and approval at the State-owned Assets Supervision and Administration Commission of the State Council and the general meeting of the Company (including Class Meetings). Further details of the relevant procedures are set out in the aforementioned section in Appendix I to the Circular. We have compared the terms of procedures for implementation of the incentive scheme to take effect under the Comparable Grants and noted that such procedures share largely similar terms, including those set out above.



Taking into account the above, we are of the view that major terms (including unlocking periods, unlocking conditions, black-out arrangements, adjustment provisions, and implementation procedures for the Incentive Scheme to take effect) are generally comparable to those under the Comparable Grants and in line with the common market practice.

4. Financial effects of the Proposed Connected Grant

As advised by the executive Directors, based on 12,710,000 Restricted A Shares to be granted to the Connected Participants, the total cost of the Proposed Connected Grant is estimated to be approximately RMB18.8 million (assuming the cost of the grant of the restricted shares is RMB1.48 per Restricted A Share). Assuming the Proposed Connected Grant becomes effective in March 2022, the annual costs of the Proposed Connected Grant are estimated to be approximately RMB5.1 million, RMB6.8 million, RMB4.4 million, RMB2.1 million and RMB0.4 million for the year ending 31 December 2022, 2023, 2024, 2025 and 2026 respectively. The Group recorded net profit attributable to owners of the parent of approximately RMB1,983 million in 2020. The average annual costs of the Proposed Connected Grant of approximately RMB3.8 million represents less than 0.2% of the Group's net profits in 2020. Accordingly, it is expected that the financial effects of the Proposed Connected Grant on the Group's net profit would be immaterial.

Based on 12,710,000 Restricted A Shares to be granted to the Connected Participants and the Grant Price of RMB2.29 per Restricted A Share, it is estimated that the Company will receive proceeds of approximately RMB29,105,900.

5. Dilution effect of the Proposed Connected Grant to the Shareholders

The number of Restricted A Shares proposed to be granted to the Connected Participants represents approximately 0.165% of the total issued share capital of the Company as at the Latest Practicable Date. This is considered immaterial in percentage terms and, in our view, acceptable so far as the Independent Shareholders are concerned in view of the expected benefits to the Group as set out in this letter above.



OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that (i) the terms of the Proposed Connected Grant are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Proposed Connected Grant is conducted in the ordinary and usual course of business of the Group and is 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 resolutions to be proposed at the EGM and H Shares Class Meeting to approve the Proposed Connected Grant.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED

Stephanie Chow

Director

Ms. Stephanie Chow is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. She has over thirteen years' experience in the corporate finance industry.