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If you are in any doubt as to any aspect of this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Maanshan Iron & Steel Company Limited, you should at once hand this circular and the form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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(A joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 00323)

- (1) DISCLOSEABLE AND CONNECTED TRANSACTION – ABSORPTION AND MERGER OF MASTEEL FINANCE;**
- (2) MAJOR AND CONTINUING CONNECTED TRANSACTIONS – FINANCIAL SERVICES AGREEMENT; AND**
- (3) CONNECTED TRANSACTION - EQUITY TRANSFER AGREEMENT;**
- (4) REPURCHASE AND CANCELLATION OF CERTAIN RESTRICTED SHARES; AND**
- (5) NOTICE OF EGM AND 2022 SECOND CLASS MEETING OF THE HOLDERS OF H SHARES**

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders



A letter from the Board is set out on pages 1 to 29 of this circular. A letter from the Independent Board Committee is set out on page 30 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 31 to 67 of this circular.

Notice for convening the EGM and H Shares Class Meeting to be held at the Magang Office Building, No.8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC, at 1:30 p.m. on 29 December 2022 are set out from pages 155 to 158 of this circular.

Whether or not you intend to attend the EGM and H Shares Class Meeting in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon and return it to the Company's registered office (in the case of proxy for, by holders of domestic shares) at No.8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC or at the Company's H share registrar and transfer office, Hong Kong Registrars Limited (in the case of proxy form of holders of H shares) at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 24 hours before the time appointed for such meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the said meeting or any adjournment thereof, should you so wish.

9 December 2022

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“A Share(s)”	the listed A shares in the share capital of the Company, with a par value of RMB1.00 each, which are listed on the Shanghai Stock Exchange
“Absorption and Merger Agreement”	the absorption and merger agreement entered into between the Company (as one of the existing shareholders of Masteel Finance), together with Masteel Finance and its existing shareholder (namely Magang Group) and Baowu Finance and its existing shareholders (namely China Baowu, Baosteel and Wuhan Iron & Steel) on 15 November 2022 in relation to Baowu Finance and Masteel Finance
“Associate(s)”	has the meaning ascribed to it under the Listing Rules that apply to the Company
“Baosteel”	Baoshan Iron & Steel Co., Ltd., a limited company incorporated in China
“Baowu Finance”	Baowu Group Finance Co., Ltd., a limited company incorporated in China
“Board”	the board of Directors of the Company
“CBIRC”	the China Banking and Insurance Regulatory Commission
“CBRC”	the China Banking Regulatory Commission
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“China Baowu”	China Baowu Steel Group Corporation Limited, a limited company incorporated in the PRC and a pilot enterprise of state-owned capital investment company which are 90% owned by the State-owned Assets Supervision and Administration Commission of the State Council
“Company”	Maanshan Iron & Steel Company Limited, a joint stock limited company incorporated in the PRC, which shares are listed on the Stock Exchange

DEFINITIONS

“Directors”	the directors of the Company
“EGM” or “2022 Third Extraordinary General Meeting”	the extraordinary general meeting of the Company to be held on 29 December 2022 to approve, among other things, the Absorption and Merger Agreement, the Financial Services Agreement (including the proposed annual caps), the Equity Transfer Agreement, the repurchase and cancellation of certain Restricted Shares and the transactions contemplated thereunder
“Equity Transfer Agreement”	the Equity Transfer Agreement on Holly Industrial entered into between the Company and Magang Group on 5 December 2022
“E&Y Hua Ming”	Ernst & Young Hua Ming LLP (Special General Partnership)
“Group”	the Company and its subsidiaries
“Financial Services Agreement”	the financial services agreement entered into between Baowu Finance and the Company on 15 November 2022
“H Shares”	the foreign shares in the share capital of the Company, with a nominal value of RMB1.00 per share, which are listed on the Stock Exchange and subscribed for and traded in Hong Kong dollars
“H Shares Class Meeting”	the 2022 second class meeting of the holders of H Shares of the Company to be held on Thursday, 29 December 2022 (or any adjournment thereof)
“Holly Industrial”	Holly Industrial Co., Ltd., a limited company incorporated in China
“Hong Kong”	Hong Kong Special Administrative Region of the PRC.
“Incentive Scheme” or “Scheme” or “Restricted Share Incentive Scheme” or “Share Incentive Scheme”	2021 Restricted A Share Incentive Scheme of the Company

DEFINITIONS

“Independent Board Committee”	a board committee comprising all the Independent Non-executive Directors, which will, among others, consider and advise the Independent Shareholders in relation to the Absorption and Merger Agreement, the Financial Services Agreement (including the proposed annual caps) and the transactions contemplated thereunder
“Independent Financial Adviser”	Halcyon Capital Limited, a licensed corporation to conduct type 6 (advising on corporate finance) regulated activities under the SFO. As the Independent Financial Adviser, it will advise the Independent Board Committee and the Independent Shareholders in relation to the Absorption and Merger Agreement, the Financial Services Agreement (including the proposed annual caps) and the transactions contemplated thereunder
“Independent Non-executive Directors”	Independent non-executive Directors of the Company
“Independent Shareholders”	the shareholders of the Company (other than China Baowu, Magang Group and their associates)
“Latest Practicable Date”	5 December 2022
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
“Masteel Finance”	Magang Group Finance Company Limited, a limited company incorporated in China
“Magang Group”	Magang (Group) Holding Company Limited, a state-owned holding enterprise with limited liability, formerly known as Maanshan Magang Holding Company, and was approved by the government to restructure into Magang (Group) Holding Company Limited in September 1998

DEFINITIONS

“Participant(s)” or “Incentive Participant(s)”	the person(s) to be granted with the Restricted Share(s) under the Incentive Scheme, including the Directors, senior management officers, members of other leading teams, direct management officers, core technical personnel of the Company
“PRC”	the People’s Republic of China
“Restricted A Shares” or “Restricted Shares” or “Incentive Shares”	the A Shares to be granted to the Participants by the Company under the Incentive Scheme
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Wuhan Iron & Steel”	Wuhan Iron & Steel Company Limited, a limited company incorporated in China
“%”	Percentage

LETTER FROM THE BOARD



(A joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 00323)

Executive Directors:

Ding Yi (*Chairman*)

Mao Zhanhong (*Vice Chairman*)

Ren Tianbao

Registered office:

No. 8 Jiu Hua Xi Road

Maanshan City

Anhui Province

the PRC

Independent Non-executive Directors:

Zhang Chunxia

Zhu Shaofang

Guan Bingchun

He Anrui

Office address:

No.8 Jiu Hua Xi Road

Maanshan City

Anhui Province

the PRC

9 December 2022

Dear Sir or Madam,

- (1) DISCLOSEABLE AND CONNECTED TRANSACTION – ABSORPTION AND MERGER OF MASTEEL FINANCE;
(2) MAJOR AND CONTINUING CONNECTED TRANSACTIONS – FINANCIAL SERVICES AGREEMENT;
(3) CONNECTED TRANSACTION - EQUITY TRANSFER AGREEMENT;
(4) REPURCHASE AND CANCELLATION OF CERTAIN RESTRICTED SHARES; AND
(5) NOTICE OF EGM AND 2022 SECOND CLASS MEETING OF THE HOLDERS OF H SHARES**

1. INTRODUCTION

Reference is made to the announcements of the Company dated 15 November 2022 related to (1) discloseable and connected transaction – Absorption and Merger Agreement; and (2) continuing connected transactions – Financial Services Agreement, as well as the announcements of the Company dated 5 December 2022 related to (1) connected transaction - Equity Transfer Agreement and (2) repurchase and cancellation of certain Restricted Shares.

LETTER FROM THE BOARD

The purpose of this circular is to give you the notice of the EGM and H Shares Class Meeting and to provide you with information regarding certain resolutions to be proposed at the EGM and H Shares Class Meeting to enable you to make an informed decision on whether to vote for or against those resolutions at the EGM and H Shares Class Meeting.

2. DISCLOSEABLE AND CONNECTED TRANSACTION – ABSORPTION AND MERGER AGREEMENT

Date

15 November 2022

Parties

- (i) Baowu Finance;
- (ii) Masteel Finance;
- (iii) the Company;
- (iv) Magang Group;
- (v) China Baowu;
- (vi) Baosteel; and
- (vii) Wuhan Iron & Steel

Absorption and Merger Proposal

Baowu Finance will merge with Masteel Finance by way of absorption and merger. All the original shareholders of Masteel Finance will become shareholders of Baowu Finance. The shareholding structure and proportion of Baowu Finance after the absorption and merger will be determined according to the appraisal value. Baowu Finance, as the surviving company after the merger, shall undertake and inherit all the assets, liabilities, businesses, personnel, contracts and all other rights and obligations of Masteel Finance. The legal person status of Masteel Finance will be cancelled, and Baowu Finance will establish a branch in Maanshan.

LETTER FROM THE BOARD

Asset Valuation and Pricing

The reference date of valuation for the absorption and merger, which was conducted by China Assets Appraisal Co., Ltd., is 30 June 2022. The book net assets of Baowu Finance is RMB4,843.1457 million, the appraised value of the operation of Baowu Finance adopting income approach together with the properties held by Baowu Finance adopting market approach in aggregate is RMB6,065.1007 million, and the appreciation of valuation is RMB1,221.9550 million with the appreciation rate of 25.23%; the book net assets of Masteel Finance before valuation is RMB2,456.4693 million, the appraised value adopting income approach is RMB2,935.0949 million, and the appreciation of valuation is RMB478.6256 million with the appreciation rate of 19.48%.

Way of Share Exchange

The original equity structure of Masteel Finance and Baowu Finance before the absorption and merger is as follows:

Masteel Finance

No.	Name of shareholders	Capital contribution (RMB00,000,000)	Percentage of shareholdings
1	The Company	18.20	91%
2	Magang Group	1.80	9%
	Total	<u>20.00</u>	<u>100%</u>

Baowu Finance

No.	Name of shareholders	Capital contribution (RMB00,000,000)	Percentage of shareholdings
1	China Baowu	13.60	47.90%
2	Baosteel	9.49	33.43%
3	Wuhan Iron & Steel	5.30	18.67%
	Total	<u>28.40</u>	<u>100%</u>

LETTER FROM THE BOARD

After the absorption and merger, the registered capital of the surviving company will be the sum of Baowu Finance and Masteel Finance, the corresponding share ratio and capital contribution of the original shareholders of both parties in the new Baowu Finance will be determined in accordance with the corresponding equity value determined by the net assets appraisal value of both parties filed and confirmed by China Baowu. The corresponding calculation formula is as follows:

- (1) The shareholding ratio of original shareholders of Baowu Finance in the surviving company = the shareholding ratio of original shareholders in Baowu Finance \times the appraisal value of net assets of Baowu Finance \div (the appraisal value of net assets of Baowu Finance + the appraisal value of net assets of Masteel Finance)

The capital contribution of original shareholders of Baowu Finance in the surviving company = the shareholding ratio of the shareholders of Baowu Finance in the surviving company \times (the registered capital of Baowu Finance before the absorption and merger + the registered capital of Masteel Finance before the absorption and merger)

- (2) The shareholding ratio of original shareholders of Masteel Finance in the surviving company = the shareholding ratio of original shareholders in Masteel Finance \times the appraisal value of net assets of Masteel Finance \div (the appraisal value of net assets of Baowu Finance + the appraisal value of net assets of Masteel Finance)

The capital contribution of original shareholders of Masteel Finance in the surviving company = the shareholding ratio of shareholders of Masteel Finance in the surviving company \times (the registered capital of Baowu Finance before the absorption and merger + the registered capital of Masteel Finance before the absorption and merger)

As calculated based on the appraisal value of net assets of both parties as at 30 June 2022, the shareholding structure of Baowu Finance after the completion of absorption and merger is as follows (the final shareholding structure after the absorption and merger shall be determined based on the filed appraisal value):

No.	Name of shareholders	Capital contribution (RMB00,000,000)	Percentage of shareholdings
1	China Baowu	15.62	32.28%
2	Baosteel	10.90	22.53%
3	Wuhan Iron & Steel	6.09	12.58%
4	The Company	14.37	29.68%
5	Magang Group	1.42	2.93%
	Total	<u>48.40</u>	<u>100%</u>

LETTER FROM THE BOARD

Governance Structure of Baowu Finance After the Completion of the Absorption and Merger

Upon completion of the absorption and merger, the board of directors of Baowu Finance will consist of nine directors (including one employee director), and two of them will be appointed by the Company, and the directors appointed by the Company will serve on the special committee of the board of directors of Baowu Finance.

Baowu Finance stipulates in the Articles of Association that shareholders shall receive dividends in proportion to their paid-in capital, and the annual distribution shall not be less than 50% of the audited net profit for the year.

Baowu Finance shall have the technical conditions for the establishment of the Company's capital platform before the absorption and merger date to ensure the activation of the platform to take over the Company's capital when the assets are delivered and business is transferred in the process of deregistration.

For the purpose of orderly commencement of the capital business of the members of Masteel Finance including the Company, it is stipulated in the Absorption and Merger Agreement that the Absorption and Merger Agreement shall be executed subject to the approval of the Financial Services Agreement by the Board and the general meeting of the Company.

Effectiveness of Agreement

The agreement shall be established from the date of signing by legal representatives or authorized representatives of each party, and stamped with official seals or seals for contract, and shall be effective upon all the following conditions are satisfied:

- (1) Each party has performed the necessary internal decision procedures to obtain all approvals or authorizations in respect of the absorption and merger;
- (2) The absorption and merger has obtained the CBIRC's approval;
- (3) The Financial Services Agreement between the Company and Baowu Finance, which is required to be signed after the absorption and merger of Masteel Finance, has been approved by the Board and the shareholders' meeting of the Company and became effective.
- (4) The Company has performed all the necessary approval procedures under the applicable Listing Rules in respect of the Absorption and Merger Agreement, including obtaining the approval of the Board and the shareholders' meeting of the Company to take effect.

LETTER FROM THE BOARD

Assumptions Regarding the Adoption of Income Approach for the Valuation Report of Masteel Finance

Given that the valuation report of Masteel Finance involves the use of income approach, such valuation is regarded as a profit forecast under Rule 14.61 of the Listing Rules. The Company has fully complied with the requirements of Rule 14.62 of the Listing Rules.

The valuation of the entire shareholders' equity of Masteel Finance has been prepared on the following principal bases and assumptions:

(I) General assumptions

1. Transaction assumption

It is assumed that all assets to be appraised are in the process of transaction and the assets appraiser will make estimations in an analogical market according to the transaction conditions of the assets to be appraised.

2. Public market assumption

A public market is a competitive market with fully developed and sound market conditions and willing buyers and sellers, in which the buyers and the sellers have equal standing and are provided with the opportunity and time to obtain sufficient market information and conduct transaction behaviours in a willing and rational state without compulsion or restrictions.

3. Continuous use assumption

The assumption assumes that the appraised assets are in use, including the assets in use and reserve assets, and that the assets in use will continue to be in use according to relevant data and information. Under the conditions of continuous use assumption, the change of use or the best utilisation conditions of the assets are not taken into consideration.

4. Going concern assumption

It is assumed that the entity evaluated, whose operators assume responsibilities and are capable of fulfilling their responsibilities, will not cease operation for whatever reason in the foreseeable future but instead will be operated legally and continuously based on the current assets and resource conditions.

LETTER FROM THE BOARD

(II) Special assumptions for valuation

1. It is assumed that the business operation of Masteel Finance is currently and shall continue to be on an ongoing basis; the existing business scope shall have no material changes, and the existing business development and operation shall have no material changes due to changes, such as changes in future industrial policies.
2. Masteel Finance invests a certain amount of capital expenditure and maintenance fee each year in order to guarantee the proper use of assets; this valuation is conducted on the basic assumption that the company shall be able to operate on an ongoing basis and ensure its profitability through continuous self-replenishment and update.
3. The accounting policies adopted during the period under forecast are expected to be consistent with those adopted currently by Masteel Finance and in the preparation of this report in all material aspects.
4. It is assumed that there shall be no material changes in the current industrial policies of financial industry and the existing legal environment.
5. It is assumed that Masteel Finance shall maintain its current level of financial capital and the corresponding scale of operations.
6. The scope of valuation is only based on the declaration form for valuation provided by Masteel Finance, without taking into account the possible contingent assets and contingent liabilities out of the list provided by the appraised entity.
7. The income generated from the business of the appraised company mainly comes from its current operating business income and investment income, but does not consider new business that may occur.
8. There shall be no material changes in reserve requirement ratio, deposit and loan rates, exchange rates, tax bases, tax rates and policy charges.
9. The business scale of the appraised entity is limited to the existing capital scale without taking into account the impact of future possible restructuring on its business scale development.
10. The future business income and loans and advances to customers shall be basically recovered as planned without any substantial bad debts.

LETTER FROM THE BOARD

11. There shall be no serious unexpected incidents in respect of the major assets of Masteel Finance during their lifecycles.
12. Masteel Finance shall be able to obtain sufficient funds in a timely manner when financial assistance is needed during its future operation.
13. Masteel Finance shall not encounter a large-scale staffing change that would affect the company's normal production and operating activities during its future operation.
14. Each of the regulatory indicators of Masteel Finance is in compliance with the requirements of the regulatory authorities in the future.
15. The valuation conclusions of this valuation report are established based on the above assumptions as at the valuation benchmark date. When there is any significant change in the above assumptions, the signatory asset appraisers and the appraisal agency shall not assume the responsibility for different valuation conclusions resulting from the change of assumptions.

The Company has appointed E&Y Hua Ming to review the arithmetical calculation and compilation of the discounted future estimated cash flows upon which the valuation report of the Masteel Finance was based.

The Directors confirm that the valuation of the Masteel Finance, which constitutes a profit forecast under the Rule 14.61 of the Listing Rules, has been made after due and careful enquiry.

Letters from E&Y Hua Ming and the Board are set out respectively in Appendix VI and Appendix VII to this circular.

Information on Masteel Finance

Masteel Finance is a non-banking financial institution established under the PRC laws in October 2011 with the approval of the CBRC and is subject to the supervision of the CBRC. It is mainly engaged in providing financial services including but not limited to deposit services, loan and entrusted credit services, discounting services and settlement services to Magang Group and its subsidiaries. Its ultimate beneficial owner is China Baowu.

LETTER FROM THE BOARD

The following table sets out the main financial data of Masteel Finance for the two financial years ended 31 December 2020 and 2021:

RMB0'000

	For the year ended 31 December 2020	For the year ended 31 December 2021
Total revenue	39,371.50	40,225.48
Net profit before tax	36,814.06	39,098.40
Net profit after tax	27,710.56	29,145.60

Information on Baowu Finance

Baowu Finance is a non-banking financial institution established under the PRC laws in October 1992 with the approval of the CBRC and is subject to the supervision of the CBRC. It is mainly engaged in providing financial services to its member units. The ultimate beneficial owner is China Baowu.

The following table sets out the main financial data of Baowu Finance for the two financial years ended 31 December 2020 and 2021:

RMB0'000

	For the year ended 31 December 2020	For the year ended 31 December 2021
Total revenue	36,354.18	63,147.97
Net profit before tax	32,067.74	42,924.48
Net profit after tax	24,153.06	32,685.92

LETTER FROM THE BOARD

Reasons for and Benefits of the Agreement

Article 6 under the Administrative Measures Governing Finance Companies of Conglomerates (《企業集團財務公司管理辦法》) (published by CBIRC Order No.6 2022 on 13 October 2022 and will come into force on 13 November 2022) stipulates that “One conglomerate can only have one finance company within it”. China Baowu is the controlling shareholder of Magang Group. In accordance with the above regulatory policy of the CBIRC, Baowu Finance and Masteel Finance, both being subordinate companies under China Baowu, shall be integrated into one finance company. Founded in 1992, Baowu Finance was one of the earliest financial companies established in the PRC. As a financial company subordinate to China Baowu, the business network of Baowu Finance covers enterprises at all or different levels within China Baowu and its upstream and downstream industrial chains, with numerous customer bases, large market space and plenty of development potential. After absorbing and merging Masteel Finance, Baowu Finance will have larger assets scale, stronger capital strength and more stable risk prevention ability. As a shareholder of Baowu Finance after the absorption and merger, the Company will benefit from the sound operation and sustainable development of Baowu Finance and obtain stable shareholder returns.

The Directors (including the independent non-executive Directors) believe that the terms of the Absorption and Merger Agreement are on normal commercial terms, fair and reasonable, and in the interest of the Company and its shareholders as a whole.

Potential Financial Impact of the Absorption and Merger Agreement

Upon completion, Masteel Finance will cease to be a subsidiary of the Company. The assets, liabilities and financial results of Baowu Finance will not be consolidated into the financial statements of the Group. Upon completion of the transaction, approximately 29.68% equity interest in Baowu Finance held by the Company will be recognized as investment in an associated company and at the fair value of Baowu Finance’s identifiable net assets and liabilities attributable to the Company.

With respect to the disposal of 91% equity interests of Masteel Finance, the Company preliminarily expects to record a gain of approximately RMB400 million, being the difference between the appraised value of the 91% equity interests in Masteel Finance and its book value as at 30 June 2022, but the exact amount is subject to audit and consideration of, among others, consolidation elimination adjustments, taxation and profit and loss during the transitional period, etc.. The Company intends to use such gain to replenish general working capital.

Information on the Company and Other Parties of the Absorption and Merger Agreement

The Company is one of the largest iron and steel producers and merchandisers in the PRC and is principally engaged in the manufacture and sale of iron and steel products.

LETTER FROM THE BOARD

Magang Group is a state-owned holding enterprise with limited liability and the controlling shareholder of the Company. It is mainly engaged in mining and sorting of mineral products, construction, manufacturing of construction materials, trading, storage and property management, as well as agriculture and forestry. The ultimate beneficial owner is China Baowu.

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

Baosteel specializes in the production of high-tech, high-value-added steel products. In the fields of steel usage in automobile, shipbuilding, oil, gas mining and transportation, home appliances, electrical equipment, boiler and pressure vessel, food, beverage and other packaging, metal products and high-grade construction and others, Baosteel has become the main steel supplier in Chinese market and at the same time exports products to more than 40 countries and regions in Japan, South Korea, Europe and the United States. The ultimate beneficial owner is China Baowu.

Wuhan Iron & Steel is principally engaged in manufacturing of metallurgical products and by-products and steel extension products, and technological development of metallurgical products; the import and export of goods and technology, and the import and export of agency services (excluding goods or technologies that are prohibited or restricted by the state); wholesale of steel and by-products and coal; sales of metal ores and non-metal ores, alloys, steel scrap, metal materials, electrical engineering and materials, wires and cables, building materials, refractory materials, electromechanical equipment, instrumentation and chemical products (excluding inflammable, explosive and hazardous goods); supply of electricity, heat and gas; warehousing, railway cargo transportation and road cargo transportation (Where licensed business items are involved, operation is subject to permission by relevant authorities); repair of general equipment (excluding special equipment); professional repair of equipment specifically for use in metallurgy; electrical equipment repair; instrumentation repair; measurement service and verification and calibration service; the enterprise's own carbon emission quota trading (limited for designated trading institutions or platforms); environmental protection monitoring service (only limited for operation of licensed branches); environmental technology consulting service (For items subject to approval in accordance with the laws, operating activities can only be conducted upon approval by the relevant authorities). The ultimate beneficial owner is China Baowu.

For information about Masteel Finance and Baowu Finance, please refer to the previous disclosures in the circular.

LETTER FROM THE BOARD

Listing Rules Implication

The Absorption and Merger Agreement involves both the disposal of 91% equity interest in Masteel Finance by the Company and the acquisition of 29.68% equity interest in Baowu Finance by the Company. Pursuant to Rule 14.24 of the Listing Rules, if a transaction involves both an acquisition and a disposal, the Stock Exchange will apply the percentage ratios to both the acquisition and the disposal. The relevant transaction will be classified by reference to the larger of the amount of the acquisition and the disposal, and subject to the reporting, disclosure and/or Shareholders' approval requirements applicable to that classification. As the percentage ratios applicable to the disposal of 91% equity interest in Masteel Finance are larger than that of the acquisition, this transaction is classified as an disposal. As one or more applicable percentage ratios of the disposal are more than 5% but all less than 25%, pursuant to Chapter 14 of the Listing Rules, the Absorption and Merger Agreement and the transactions contemplated thereunder constitute discloseable transactions of the Company and are subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As of the Latest Practicable Date, Magang Group holds approximately 47.131% of the Company's issued share capital and is the controlling shareholder of the Company. China Baowu is the controlling shareholder of Magang Group, and indirectly holds a total of approximately 51.75% of the Company, while Masteel Finance, Baowu Finance, Baosteel and Wuhan Iron & Steel are direct or indirect subsidiaries of China Baowu. As such, all the other parties above of the Absorption and Merger Agreement are all connected persons of the Company under Chapter 14A of the Listing Rules, and the transactions under the Absorption and Merger Agreement would constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios of the Absorption and Merger Agreement exceed 5%, such connected transaction is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

3. MAJOR AND CONTINUING CONNECTED TRANSACTIONS – FINANCIAL SERVICES AGREEMENT

Date

15 November 2022

Parties

- (i) Baowu Finance; and
- (ii) the Company

In the agreement, Baowu Finance refers to Baowu Finance and/or its branches, and the Company refers to the Company and/or its subsidiaries.

Duration

The Financial Services Agreement shall be for a term commencing from the agreement effective date to 31 December 2024.

Deposit Services

The Group opens settlement accounts with Baowu Finance, and deposits funds into the saving accounts opened at Baowu Finance under the principles of independent choice and free access to these accounts.

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

During the term of the agreement, the maximum daily deposit balance of the Group with Baowu Finance shall in principle not exceed RMB10 billion, the total interest fee paid by Baowu Finance to the Group for deposit services shall not exceed the maximum of RMB190 million per year. The above estimation of the maximum deposit balance has been determined with reference to the maximum deposit balance of the Group in Masteel Finance amounting to RMB9.687 billion for the period from 2020 to August 2022, taking into account the sales revenue set in the Group's strategic sales plan for the period from 2023 to 2024.

LETTER FROM THE BOARD

Credit Services

Baowu Finance will, within the scope permitted by national laws, regulations and policies, in accordance with the requirements of the CBIRC and in combination with its own operating principles and credit policies, support the Group's capital needs in business development, and provide comprehensive credit services for the Group. The Group may use the comprehensive credit extension provided by Baowu Finance to handle loans, bill acceptance, bill discounting and other types of financial services.

Baowu Finance provides preferential credit interest rates and rates for credit businesses such as loans, bill acceptance, bill discounting, etc. to the Group, which shall be in principle not higher than the credit interest rates and rates of the same type, under the same terms and at the same level obtained by the Group from independent major commercial banks in the PRC.

During the term of the agreement, the maximum comprehensive credit line provided by Baowu Finance to the Group shall not exceed RMB10 billion. The above estimation of the maximum comprehensive credit line has been determined with reference to the maximum total credit line obtained by the Group from Masteel Finance amounting to RMB9.05 billion and the maximum credit business balance amounting to RMB5.494 billion for the period from 2020 to August 2022, taking into account the Group's strategic planning for the period from 2023 to 2024.

Under the current terms of the Finance Services Agreement, the Group is not required to pledge its assets to secure the credit services to be obtained.

Settlement Services and Other Financial Services

The Group opens settlement accounts with Baowu Finance. Baowu Finance provides collection services and payment services, as well as other ancillary services related to settlement business, according to the Group's instructions.

The fees charged by Baowu Finance for providing various settlement services to the Group shall be, in principle, not higher than those of the same type and under the same terms charged by independent major commercial banks in the PRC.

LETTER FROM THE BOARD

Baowu Finance may provide other financial services to the Group within the scope of its business, and the parties shall negotiate and sign a separate agreement before the provision of other financial services by Baowu Finance to the Group. Baowu Finance shall follow the principles of fairness and reasonableness to provide other financial services to the Group, and charge the relevant fees not higher than the fair market prices obtained by the Group from independent major commercial banks in the PRC or the standards stipulated by the State.

During the term of the agreement, the maximum service fee paid by the Group to Baowu Finance for financial services shall not exceed RMB210 million. The above estimation of the maximum service fee has been determined with reference to the maximum credit business balance of the Group in Masteel Finance amounting to RMB5.494 billion for the period from 2020 to August 2022 and an estimated upward fluctuation of 40% to 50% during the period from 2023 to 2024, half of which will be internal loans (the estimated composite interest rate being 3.55% by reference to the loan prime rate for 1-year loans published by the People's Bank of China) and the other half will be internal discounts (the estimated composite interest rate being 2.30% by reference to the discounted price of bills available from Masteel Finance), approximately RMB206 million in aggregate.

Effectiveness of Agreement

The agreement shall become effective after each party performs their own necessary internal decision-making procedures, and the approval of the Company's general meeting is obtained in accordance with the "Shanghai Stock Exchange Shares Listing Rules" and the Listing Rules.

Reasons for and Benefits of Financial Services Agreement

After the signing of the Financial Services Agreement, Baowu Finance and the Company will carry out financial cooperation in compliance with the principles of legal compliance, equity and free will, controllable risks and mutual benefit. Baowu Finance will provide settlement, deposit, credit and other financial services to the Group within the business scope approved by the CBIRC in accordance with law, with charging standard and interest rate level not unfavorable than those provided by major independent commercial banks or financial institutions within the PRC, which will facilitate the optimisation of the financial management of the Group, the improvement of capital utilisation efficiency of the Group, the reduction of its financing costs and financing risks.

The Directors (including the independent non-executive Directors) believe that the terms of the Financial Services Agreement are on normal commercial terms, fair and reasonable, and in the interest of the Company and its shareholders as a whole.

Information on the Company and Baowu Finance

For information about the Company and Baowu Finance, please refer to the previous disclosures in the circular.

LETTER FROM THE BOARD

Internal Control of the Financial Services Agreement

To ensure effective execution and implementation of the pricing of the transactions under the agreements, the Company has established “Internal Control Management Measures of Related Transactions” to regulate the pricing management of relevant related transactions.

The connected transaction management committee of the Company, which directly reports to the Board, is responsible for the on-going monitoring of all the continuing connected transactions of the Company, which include the continuing connected transactions contemplated under the Financial Services Agreement. The responsibilities of the connected transaction management committee include, among other things, approving and monitoring of continuing connected transactions, gathering information for disclosure of continuing connected transactions pursuant to the Listing Rules, and monitoring of pricing procedures for continuing connected transactions to ensure that prices are determined on normal commercial terms. For each relevant functional department of the continuing connected transaction agreements or relevant companies entering transactions shall provide actual trading situation quarterly to the operation and accounting department of the Company. The operation and accounting department of the Company will report on quarterly basis to the connected transaction management committee regarding the actual amount of the continuing connected transactions conducted during the quarter and the estimated amount in the following quarter so as to facilitate the connected transaction management committee to (i) monitor the actual amount of continuing connected transactions carried out; and (ii) assess whether the annual cap of any continuing connected transactions will be exceeded. The continuing connected transaction management committee will then report to the Board on quarterly basis.

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

LETTER FROM THE BOARD

Undertaking provided by and measures taken by China Baowu

China Baowu has unconditionally provided an irrevocable undertaking that, during the term of the Financial Services Agreement:

- (i) it shall maintain its actual control over Baowu Finance, and ensure the standardised operation of Baowu Finance;
- (ii) it shall use its best endeavours and take all reasonable measures to ensure that Baowu Finance will fulfil its obligations for deposit services under the Financial Services Agreement in 2023 to 2024; and
- (iii) when necessary, supplement capital or provide support to the liquidity of Baowu Finance in accordance with the relevant laws and regulatory requirements.

China Baowu confirms that it has obtained all necessary approval and authorisation for executing the above written undertaking, and that the execution of the above written undertaking will neither be in breach of the laws and regulations in the PRC nor conflicts with any other agreements signed by China Baowu.

In terms of deposit business of member units, Baowu Finance has formulated relevant systems such as the "Deposit Management Measures", "Operating Procedures for Renminbi Deposit Business" and "Operating Procedures for Foreign Exchange Deposits" to standardize the commencement and specific practice of application acceptance, withdrawal, account processing, and interests calculation under the company's deposit business. The relevant policies are implemented in strict accordance with the relevant regulations of the People's Bank of China, CBIRC and the China Securities Regulatory Commission, strictly follow the principles of equality, voluntariness, fairness and honesty, fully guarantee the safety of funds of member units, and safeguard the legal rights and interests of all parties. The company's deposit business adheres to the principles of voluntary deposits, free use of funds, confidentiality for depositors, and no application by other parties. It has the right to refuse inquiries from any unit or individual other than those stipulated by laws and administrative regulations; it has the right to refuse freezes or deductions by any unit other than those stipulated by laws.

Baowu Finance follows the allocation principles of safety, liquidity, and efficiency, and arranges operating expenses in a reasonable and orderly manner. The deposits in Baowu Finance are safe and have good liquidity, and there has been no delay in payment due to insufficient cash positions of Baowu Finance.

LETTER FROM THE BOARD

In terms of the management of related parties' transactions, Baowu Finance has developed an online "related parties' transaction management and control system", which can track the fund situation in a timely manner, provide weekly analysis reports to the Company, and effectively manage and control the funds of the Company in Baowu Finance such that they will not be applied by other related companies in the group. This ensures the compliance in terms of the use of funds by listed companies and complies with the requirements of the regulatory guidelines for listed companies.

Listing Rules Implications

As of the Latest Practicable Date, China Baowu directly or indirectly holds a total of approximately 51.75% of the Company, and Baowu Finance is the subsidiary of China Baowu. As such, Baowu Finance is connected person of the Company under Chapter 14A of the Listing Rules, and the transactions under the Financial Services Agreement would constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios under the Listing Rules in respect of the proposed annual caps for the deposit services and credit services contemplated under the Financial Services Agreement on an annual basis are expected to be more than 5%, such continuing connected transactions and proposed annual caps are subject to requirements including reporting, announcement, annual review and Independent Shareholders' approval under Chapter 14A of the Listing Rules. Furthermore, as the applicable percentage ratios under the Listing Rules in respect of the proposed annual caps for the deposit services and credit services contemplated under the Financial Services Agreement on an annual basis exceed 25%, such transactions also constitute major transactions of the Company under Rule 14.06(3) of the Listing Rules and are subject to the notification, announcement and Shareholders' approval requirements for major transactions under Chapter 14 of the Listing Rules. In addition, as the applicable percentage ratios in respect of the service charge of the settlement services and other financial services contemplated under the Financial Services Agreement are more than 0.1% but less than 5%, such transactions constitute exempt continuing connected transactions of the Company under Rules 14A of the Listing Rules in which approval from Independent Shareholders is exempted and are only subject to the reporting and announcement requirements set out in Rule 14A of the Listing Rules.

LETTER FROM THE BOARD

APPROVAL BY THE BOARD

In the 67th meeting of the nine session of the Board on 15 November 2022, the Board approved the Absorption and Merger Agreement and the Financial Services Agreement. The Directors attending the Board meeting regarding the Absorption and Merger Agreement and the Financial Services Agreement consider that the Absorption and Merger Agreement, the Financial Services Agreement and the proposed annual caps in respect thereof have been negotiated on an arm's length basis and on normal commercial terms and the terms thereof and the proposed annual caps under the Financial Services Agreement are fair and reasonable and in the interests of the Company and the shareholders as a whole and the agreements are entered into during the ordinary and usual course of business of the Group.

Among the Directors attending the Board meeting, Mr. Ding Yi was considered to have material interests on the Absorption and Merger Agreement and the Financial Services Agreement by virtue of being employed by the Parent Company or other reasons, and thus abstained from voting on the Board resolutions in respect of the relevant agreements and the proposed annual caps. Save as disclosed above, none of the Directors attended the Board meeting has a material interest in the agreements.

GENERAL INFORMATION

The EGM will be convened to consider and, if thought fit, to approve the Absorption and Merger Agreement and the Financial Services Agreement (including the proposed annual caps) and the transactions contemplated thereunder. In accordance with the Listing Rules, the vote of the Independent Shareholders taken at the EGM to approve the Absorption and Merger Agreement and the Financial Services Agreement (including the proposed annual caps) and the transactions contemplated thereunder, will be taken by poll.

The Independent Board Committee, will among others, consider and advise the Independent Shareholders in relation to the terms of the Absorption and Merger Agreement and the Financial Services Agreement (including the proposed annual caps) and the transactions contemplated thereunder. Halcyon Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

LETTER FROM THE BOARD

4. CONNECTED TRANSACTION - EQUITY TRANSFER AGREEMENT

On 5 December 2022, the Company entered into the Equity Transfer Agreement with Magang Group, pursuant to which the Company shall transfer 71% equity interests in Holly Industrial to Magang Group at a total consideration of RMB239,484,500. Solely based on the rules and regulations of the Shanghai Stock Exchange, the transaction under this Equity Transfer Agreement will be submitted to the general meeting of the Company for approval of the Shareholders.

Date

5 December 2022

Parties

- (i) The Company;
- (ii) Magang Group

TRANSACTION TARGET

The Company agreed to sell and Magang Group agreed to acquire 71% equity interests in Holly Industrial.

CONSIDERATION

With 30 June 2022 as the valuation reference date and the asset-based approach adopted, the book value of the net assets of Holly Industrial was RMB283,883,000, and the appraised value was RMB337,302,100 (subject to the appraised value upon filing with the competent authority), representing an appreciation of RMB53,419,100 over the book value of net assets with an appreciation rate of 18.82%. The transfer is based on the appraised value as the transfer price, and the appraised value of the 71% equity interests in Holly Industrial held by the Company is RMB239,484,500.

Magang Group shall pay to the Company the amount payable for the equity transfer within 10 business days from the effective date of the agreement.

LETTER FROM THE BOARD

COMPLETION

Both parties confirmed that the completion date is the last day of the month on which the final payment is made by Magang Group. The transition period is the period from the valuation reference date to the completion date. During the transition period, the Company will, as a shareholder, continue to enjoy the shareholders' right and assume the corresponding obligations at Holly Industrial. The operating profit and loss of Holly Industrial will be enjoyed and assumed by the Company onwards in proportion to its shareholding before the equity transfer. From the completion date, Magang Group will obtain the target equity interests, and the proportion of equity interests held by it in Holly Industrial will be 71% in total. Magang Group will enjoy all the shareholders' right and assume all the corresponding obligations under such equity interests. The Company will cease to hold equity interests in Holly Industrial.

EFFECTIVENESS OF THE AGREEMENT

The agreement shall come into effect upon being approved by the shareholders at the Company's general meeting.

REASONS FOR AND BENEFITS OF THE AGREEMENT

The disposal of the Company's equity interests in Holly Industrial is beneficial to the optimisation and integration of the inventory assets of the Company, so as to focus on steel business, which is its main business.

The Directors (including independent non-executive Directors) are of the view that the terms of the Equity Transfer Agreement are entered into on normal commercial terms, are fair and reasonable, and are in the interests of the Company and its shareholders as a whole.

POTENTIAL FINANCIAL IMPACT OF THE EQUITY TRANSFER AGREEMENT

Based on the book value of net assets of Holly Industrial amounting to RMB283,883,000 as at 30 June 2022, it is expected that the Company will record a book profit of approximately RMB37,927,570 (without deducting taxes and expenses) from the disposal of 71% equity interests in Holly Industrial (subject to the audit results), which is the difference between the consideration of disposal of 71% equity interests in Holly Industrial and its corresponding book value of net assets.

The Company intends to use the proceeds from the disposal of 71% equity interests in Holly Industrial (after deducting the attributable expenses) to replenish the general working capital.

LETTER FROM THE BOARD

INFORMATION ABOUT HOLLY INDUSTRIAL

Holly Industrial is mainly engaged in provision of packaging materials for steel and other products, metals, plastics, chemical raw materials (except for dangerous chemicals and easy-to-manufacture drugs), the production, sales and agency of paper and wood products; provision of design consultation, equipment manufacturing, transportation and on-site packaging services; the R&D, manufacturing and sales of auto parts; the R&D, manufacturing and sales of photoelectric-electromechanical integration products; the R&D, production and sales of polymer composites; metal recycling, processing, sales, warehousing services and loading and unloading services; general equipment repair; electrical equipment repair; installation, upgrading and repair of special equipment; information system operation and maintenance services; labor services (excluding labor dispatch).

For the year ended 31 December 2021, the total assets of Holly Industrial were RMB316,025,700; the owners' equity attributable to the parent Company was RMB279,028,700; the operating revenue was RMB530,135,900; and the net profits attributable to the parent Company were RMB35,148,900. The audited profits before tax and profits after tax were RMB47,064,888.71 and RMB35,148,933.76, respectively.

For the year ended 31 December 2020, the audited profits before tax and profits after tax of Holly Industrial were RMB50,620,793.11 and RMB37,375,502.38, respectively.

INFORMATION ABOUT THE COMPANY

The Company is one of the largest iron and steel producers and merchandisers in the PRC and is principally engaged in the production and sales of iron and steel products.

INFORMATION ABOUT MAGANG GROUP

Magang Group is a state-owned enterprise with limited liability and the controlling shareholder of the Company. It is mainly engaged in mining and sorting of mineral products, construction, manufacturing of construction materials, trading, storage and property management, as well as agriculture and forestry.

IMPLICATIONS UNDER THE LISTING RULES

As at the Latest Practicable Date, Magang Group is directly or indirectly interested in approximately 47.131% of the issued share capital of the Company, being the controlling shareholder of the Company. Therefore, Magang Group is a connected person of the Company under Chapter 14A of the Listing Rules, and the transaction under the Equity Transfer Agreement would constitute connected transaction of the Company under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

As the applicable percentage ratios of the Equity Transfer Agreement exceed 0.1% but fall below 5%, such connected transaction is only subject to the reporting and announcement requirements under the Listing Rules, but is exempt from the approval of independent shareholders under the Listing Rules. Nevertheless, pursuant to the rules and regulations of the Shanghai Stock Exchange, the transaction under the Equity Transfer Agreement will be submitted to the general meeting of the Company for approval of the shareholders.

APPROVAL BY THE BOARD

At the second meeting of the tenth session of the Board of the Company held on 5 December 2022, Mr. Ding Yi and Mr. Mao Zhanhong, both being connected Directors, abstained from voting as required, and five non-connected Directors (including 4 independent Directors) voted in favor of the Equity Transfer Agreement.

5. REPURCHASE AND CANCELLATION OF CERTAIN RESTRICTED SHARES

References are made to the announcement dated 24 December 2021 and the circular dated 9 February 2022 of the Company in relation to (1) proposed adoption of the 2021 Restricted A Share Incentive Scheme and (2) connected transaction – proposed grant under Incentive Scheme, and the announcements dated 30 March 2022 and 10 May 2022 of the Company in relation to the First Grant of Restricted Shares to Participants of the 2021 Restricted A Share Incentive Scheme of the Company.

At the 2nd meeting of the tenth session of the Board and the 2nd meeting of the tenth session of the supervisory committee of the Company convened on 5 December 2022, the Resolution in Relation to Repurchase and Cancellation of Certain Restricted Shares was considered and approved, pursuant to which, the Company intended to repurchase and cancel certain Restricted Shares which have not been unlocked. The relevant matters are hereby announced as follows:

LETTER FROM THE BOARD

I. RELEVANT CONSIDERATION PROCEDURES WHICH HAVE BEEN PERFORMED IN RELATION TO THE INCENTIVE SCHEME

1. On 24 December 2021, the Resolution on the 2021 Restricted A Share Incentive Scheme (Draft) and its Summary and other relevant resolutions were considered and approved at the 55th meeting of the ninth session of the Board and the 45th meeting of the ninth session of the supervisory committee of the Company.
2. On 9 March 2022, the Company received the Approval for the Restricted Share Incentive Scheme of Maanshan Iron & Steel Company Limited from the State-owned Assets Supervision and Administration Commission of the State Council (the “SASAC”), forwarded by China Baowu Steel Group Corporation Limited (an indirect controlling Shareholder of the Company), which approved in principle the implementation of the Share Incentive Scheme by the Company.
3. On 10 March 2022, the Resolution on the 2021 Restricted A Share Incentive Scheme (Draft) and its Summary and other relevant resolutions were considered and approved at the 2022 first extraordinary general meeting, first class meeting of the holders of A Shares and first class meeting of the holders of H Shares of the Company.
4. On 30 March 2022, the Resolution on the First Grant of Restricted Shares to Participants of the 2021 Restricted A Share Incentive Scheme was considered and approved at the 59th meeting of the ninth session of the Board and the 49th meeting of the ninth session of the supervisory committee of the Company.
5. On 10 May 2022, the Company completed the registration of the first grant under the 2021 Restricted A Share Incentive Scheme, and a total of 75.05 million Restricted Shares had been granted to 260 persons in total.
6. On 5 December 2022, the Resolution in Relation to Repurchase and Cancellation of Certain Restricted Shares was considered and approved at the 2nd meeting of the tenth session of the Board and the 2nd meeting of the tenth session of the supervisory committee of the Company. Such resolution is subject to the approval at the general meeting.

LETTER FROM THE BOARD

II. REASONS FOR, NUMBER OF SHARES INVOLVED IN AND PRICE FOR THE REPURCHASE AND CANCELLATION

According to the provision of “Clause 2 of Article IV under Chapter XIII of the 2021 Restricted A Share Incentive Scheme of Maanshan Iron & Steel Company Limited: The Incentive Participants who have terminated or cancelled labour relationship with the Company due to death, retirement, arrangement of post beyond their control, the original time and conditions of unlocking remain unchanged, and the unlocking ratio shall be determined in accordance with the term of the Incentive Participants in the corresponding performance years. The remaining Restricted Shares which have yet to arrive time limit of unlocking and the performance evaluation conditions are no longer unlocked, and shall be repurchased by the Company based on the sum of grant price plus the interests on fixed deposit in bank for the same period”, in consultation with their own or their heirs’ intentions, 1,864,000 Restricted Shares held by six persons who had retired, experienced job transfer or died will no longer be unlocked and will be repurchased by the Company at the sum of the grant price of RMB2.29 per share plus the interests on fixed deposit in bank for the same period. Details are as follows:

No.	Name	Exit type	Number of shares to be repurchased <i>(shares)</i>
1	Shi Honglin (史紅林)	Retired	200,000
2	Liu Guowang (劉國旺)	Job transfer	850,000
3	Song Chuanwen (宋傳文)	Retired	200,000
4	Hong Wei (洪偉)	Died	280,000
5	Hang Guisheng (杭桂生)	Retired	134,000
6	Li Qiang (李強)	Retired	200,000
	Total		<u>1,864,000</u>

In conclusion, the Company intends to repurchase the 1,864,000 Restricted Shares which have not satisfied the conditions for unlocking held by those six participants who had retired, experienced job transfer or died at the sum of the grant price of RMB2.29 per share plus the interests on fixed deposit in bank for the same period. After the repurchase of the above-mentioned shares, the Company will proceed with the cancellation thereof.

LETTER FROM THE BOARD

III. TABLE OF CHANGES IN SHAREHOLDING STRUCTURE OF THE COMPANY AFTER REPURCHASE AND CANCELLATION

The changes in the share capital structure of the Company after the repurchase and cancellation are as follows:

Unit: shares

Category	Before the changes	Changes	After the changes
Shares subject to locking-up	75,050,000	-1,864,000	73,186,000
Shares not subject to locking-up	<u>7,700,681,186</u>	<u>0</u>	<u>7,700,681,186</u>
Total	<u><u>7,775,731,186</u></u>	<u><u>-1,864,000</u></u>	<u><u>7,773,867,186</u></u>

Note: The above changes in share capital structure are subject to the share capital structure table issued by the Shanghai Branch of China Securities Depository and Clearing Corporation Limited upon completion of the repurchase and cancellation.

IV. IMPACT ON THE RESULTS OF THE COMPANY

The repurchase and cancellation of certain Restricted Shares will not have any material impact on the financial position and results of operations of the Company, nor will it affect the diligence of the management team of the Company, which will continue to perform its work duties conscientiously and strive to create value for Shareholders.

V. SUBSEQUENT WORK ARRANGEMENTS FOR THE REPURCHASE AND CANCELLATION PLAN

Subject to the consideration and approval of repurchase and cancellation of certain Restricted Shares of the Shareholders at the general meeting, the Company will, in accordance with the Company Law and the regulations of the Shanghai Stock Exchange and the Shanghai Branch of China Securities Depository and Clearing Corporation Limited, complete the relevant procedures for the repurchase and cancellation and the corresponding registration of the change of registered capital and amendments to the Articles of Association of the Company, and the Company will perform its information disclosure obligations in a timely manner.

LETTER FROM THE BOARD

VI. VIEWS OF INDEPENDENT DIRECTORS

The repurchase and cancellation of the Restricted Shares of the Company which have not yet been unlocked has been made in accordance with the relevant provisions of the 2021 Restricted A Share Incentive Scheme (Draft) of Maanshan Iron & Steel Company Limited, which is in the interests of all Shareholders and participants of the Company and in compliance with the relevant provisions of relevant laws, regulations and normative documents such as the Administrative Measures for Share Incentive of Listed Companies, the number of repurchased shares and the repurchase price are lawful and compliant, will not prejudice the interests of the Company and all Shareholders and will not have any material impact on the daily operation of the Company. Independent directors unanimously agree to the above-mentioned repurchase and cancellation of Restricted Shares.

VII. VIEWS OF SUPERVISORY COMMITTEE

The repurchase and cancellation of the remaining Restricted Shares of the Company which have been granted but not yet been unlocked have been made in accordance with the relevant provisions of the Administrative Measures for Share Incentive of Listed Companies and other relevant laws, regulations and normative documents and the 2021 Restricted A Share Incentive Scheme (Draft) of Maanshan Iron & Steel Company Limited, and the procedures for the adjustments to the number of Restricted Shares repurchased and the repurchase price were in compliance with the relevant regulations, which will not prejudice the interests of the Shareholders of the Company and will not have any material impact on the financial position and the results of the operation of the Company. The supervisory committee agrees to the repurchase and cancellation of Restricted Shares.

VIII. CONCLUSIONS OF LEGAL OPINIONS

Zhong Lun (Shanghai) Law Firm, Beijing issued a legal opinion that: the reasons for the repurchase and cancellation of the Company are in compliance with the relevant requirements of the Company Law, the Securities Law, the Administrative Measures and the Incentive Scheme; the repurchase and cancellation have been approved and authorised as necessary, and the relevant procedures have been performed in compliance with the requirements of the Company Law, the Securities Law, the Administrative Measures and the Incentive Scheme; the adjustment bases of the repurchase quantity and price, as well as the repurchase quantity and price for the repurchase and cancellation are in compliance with the requirements of the Incentive Scheme. The Company shall perform information disclosure obligation in a timely manner and handle the procedures for reduction in registered capital and shares cancellation registration in accordance with the Company Law and other laws and regulations in respect of the repurchase and cancellation of the Incentive Shares.

LETTER FROM THE BOARD

6. EGM , H SHARES CLASS MEETING AND PROXY ARRANGEMENT

The notice of the EGM and H Shares Class Meeting are set out on pages 155 to 158 of this circular. At the EGM, resolutions will be proposed to approve, inter alia, the Absorption and Merger Agreement, the Financial Services Agreement, the Equity Transfer Agreement and the repurchase and cancellation of the Restricted Shares. At the H Shares Class Meeting, resolution will be proposed to approve, inter alia, the repurchase and cancellation of certain Restricted Shares.

Forms of proxy for use at the EGM and H Shares Class Meeting are enclosed with this circular and such forms of proxy are also published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.magang.com.hk). Whether or not you intend to attend the EGM and the H Shares Class Meeting, you are requested to complete and return the enclosed forms of proxy in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the EGM and the H Shares Class Meeting or any adjournment thereof (as the case may be). Completion and return of the forms of proxy will not preclude you from attending the EGM and the H Shares Class Meeting and voting in person if you so wish.

Any Shareholder with a material interest in the transactions contemplated under the Absorption and Merger Agreement, the Financial Services Agreement, the Equity Transfer Agreement and the repurchase and cancellation of certain Restricted Shares and his/her Associates will abstain from voting at the EGM and the H Shares Class Meeting. Accordingly, Magang Group, Magang Group Investment Ltd. (馬鋼集團投資有限公司) and Baosteel Hong Kong Investment Company Limited (寶鋼香港投資有限公司) will abstain from voting at the EGM in respect of the Absorption and Merger Agreement, the Financial Services Agreement and the Equity Transfer Agreement. The result of the vote will be announced after the EGM and the H Shares Class Meeting.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, other than the aforesaid parties who shall abstain from voting at the EGM in respect of the Absorption and Merger Agreement, the Financial Services Agreement and the Equity Transfer Agreement, none of the Directors or Shareholders has a material interest in the resolutions to be proposed at the EGM and the H Shares Class Meeting and no Shareholder is required to abstain from voting on any of the resolutions at the EGM and the H Shares Class Meeting.

LETTER FROM THE BOARD

7. RECOMMENDATION

The Directors consider that all resolutions to be proposed for consideration and approval by the Shareholders at the EGM and H Shares Class Meeting are in the best interests of the Company and the Shareholders as a whole.

Accordingly, the Directors recommend that all the Shareholders should vote in favour of all the resolutions to be proposed at the EGM and H Shares Class Meeting as set out in the notice of the EGM and H Shares Class Meeting.

By Order of the Board
Maanshan Iron & Steel Company Limited
Ding Yi
Chairman



(A joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 00323)

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

9 December 2022

To the Independent Shareholders

Dear Sir or Madam,

Reference is made to the circular issued by the Company to the Shareholders dated 9 December 2022 (the “**Circular**”) of which this letter forms a part. Unless otherwise specified, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed by the Board to advise you on the Absorption and Merger Agreement and the Financial Services Agreement (including the proposed annual caps) and the transactions contemplated thereunder (the “**Subject Transactions**”). Halcyon Capital Limited has been appointed as the Independent Financial Adviser to advise you and us in this regard. Details of its advice, together with the principal factors and reasons it has taken into consideration in giving such advice, are set out on pages 2 to 19 of the Circular and the additional information is set out in the appendices thereto.

Having considered the Absorption and Merger Agreement and the Financial Services Agreement, and taking into account the independent advice of Halcyon Capital Limited, in particular the principal factors, reasons and recommendations set out in its letter on pages 2 to 19 of the Circular, we consider that (i) the Financial Services Agreement is entered into in the ordinary course of business of the Group; (ii) the terms of the Subject Transactions are normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole; and (iii) the proposed annual caps under the Financial Services Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend you to vote in favor of the ordinary resolutions to be proposed at the EGM.

Yours faithfully,

The Independent Board Committee
**Zhang Chunxia, Zhu Shaofang,
Guan Bingchun and He Anrui**

The following is the full text of the letter of advice from Halcyon Capital Limited to the Independent Board Committee and the Independent Shareholders which has been prepared for the purpose of the inclusion in this circular.



11/F, 8 Wyndham Street
Central
Hong Kong

9 December 2022

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

Dear Sirs,

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION –
ABSORPTION AND MERGER OF MASTEEL FINANCE;
AND
(2) MAJOR AND CONTINUING CONNECTED TRANSACTIONS –
FINANCIAL SERVICES AGREEMENT**

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Absorption and Merger Agreement, the Financial Services Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in a circular of the Company (the “**Circular**”) to the Shareholders dated 9 December 2022, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

Pursuant to the Absorption and Merger Agreement entered into on 15 November 2022, Baowu Finance will merge with Masteel Finance by way of absorption and merger (the “**Merger**”). Upon completion of the Merger, the Company will become a shareholder of Baowu Finance, the Company will no longer hold Masteel Finance as its’ subsidiary (as the legal person status of Masteel Finance will be cancelled) and therefore Financial Services transactions previously entered into between Masteel Finance and the Group will also be accounted for as transactions entered with Baowu Finance (as businesses of Masteel Finance will become part of Baowu Finance’s operations).

As at the Latest Practicable Date, Magang Group holds approximately 47.131% of the Company's issued share capital and is the controlling shareholder of the Company. China Baowu is the controlling shareholder of Magang Group, and indirectly holds a total of approximately 51.75% of the Company's issued share capital, while Masteel Finance, Baowu Finance, Baosteel and Wuhan Iron & Steel are direct or indirect subsidiaries of China Baowu. As such, all the above other parties of the Absorption and Merger Agreement are all connected persons of the Company under Chapter 14A of the Listing Rules, and the transactions under the Absorption and Merger Agreement would constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

The Absorption and Merger Agreement involves both this disposal of 91% equity interest in Masteel Finance by the Company and the acquisition of 29.68% of equity interest in Baowu Finance by the Company. Pursuant to Rule 14.24 of the Listing Rules, if a transaction involves both an acquisition and a disposal, the Stock Exchange will apply the percentage ratios to both the acquisition and the disposal. The relevant transaction will be classified by reference to the larger of the amount of the acquisition and the disposal, and subject to the reporting, disclosure and/or Shareholders' approval requirements applicable to that classification. As the percentage ratios applicable to the disposal of 91% equity interest in Masteel Finance are larger than that of the acquisition, this transaction is classified as a disposal and as one or more applicable percentage ratios of the disposal are more than 5% but all less than 25%, pursuant to Chapter 14 of the Listing Rules, the Absorption and Merger Agreement and the transactions contemplated thereunder constitute discloseable transactions of the Company and are subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Furthermore, the on-going Financial Services provided by Masteel Finance to the Group will continue to be provided by Baowu Finance after completion of the Merger, to govern the future Financial Services transactions between the Group and Baowu Finance after completion of the Merger, the Company also entered into the Financial Services Agreement with Baowu Finance.

As the applicable percentage ratios under the Listing Rules in respect of the proposed annual caps for the deposit services and credit services contemplated under the Financial Services Agreement on an annual basis are expected to be more than 5% (the "CCT"), such continuing connected transactions and proposed annual caps (the "**Proposed Annual Caps**") are subject to requirements including reporting, announcement, annual review and Independent Shareholders' approval under Chapter 14A of the Listing Rules. Furthermore, as the applicable percentage ratios under the Listing Rules in respect of the proposed annual caps for the deposit services and credit services contemplated under the Financial Services Agreement on an annual basis exceed 25%, such transactions also constitute major transactions of the Company under Rule 14.06(3) of the Listing Rules and are subject to the notification, announcement and Shareholders' approval requirements for major transactions under Chapter 14 of the Listing Rules.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Ms. Zhang Chunxia, Ms. Zhu Shaofang, Mr. Guan Bingchun and Mr. He Anrui has been established to consider and make a recommendation to the Independent Shareholders on whether the terms of the Absorption and Merger Agreement are fair and reasonable so far as the Independent Shareholders are concerned, whether the Merger is in the interests of the Company and the Shareholders as a whole and how the Independent Shareholders should vote at the relevant general meeting. Moreover, Independent Board Committee will also consider, whether (i) the CCT contemplated under the Financial Services Agreement are entered into in the ordinary course of business of the Group; (ii) the terms of the Financial Services Agreement are normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole; (iii) the Proposed Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (iv) as to voting at the relevant general meeting in respect of the CCT. We, Halcyon Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

In the last two years from the date of our appointment, except for (i) being appointed as the independent financial adviser to the then independent board committee and independent Shareholders of the Company (details of which have been set out in the letter from the independent financial adviser contained in the circular of the Company dated 12 November 2021); and (ii) our current engagement as the Independent Financial Adviser in respect of the Merger and the CCT, we have no other relationships with or interests in the Company and any other parties that could reasonably be regarded as relevant to our independence. Apart from the normal professional fees paid/payable to us in connection with our current and previous appointment, no arrangements exist whereby we had received any fees or benefits from the Company or any other party to the transactions. We are therefore independent 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 connection with the Merger and the CCT.

BASIS OF OUR OPINION

In formulating our advice and recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the information, financial information and the facts supplied to us and representations expressed by the Directors and/or management of the Group (the “**Management**”) and have assumed that all such information, financial information and facts and any representations made to us, or referred to in the Circular, in all material aspects, are true, accurate and complete as at the time they were made and continue to be so as at the date of the Circular, has been properly extracted from the relevant underlying accounting records (in the case of financial information) and made after due and careful inquiry by the Directors and/or the Management. The Directors and/or the Management have confirmed that, after having made all reasonable enquiries and to the best of their knowledge and belief, all relevant information has been supplied to us and that no material facts have been omitted from the information supplied and representations expressed to us. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable. We have no reason

to doubt the completeness, truth or accuracy of the information and facts provided and we are not aware of any facts or circumstances which would render such information provided and representations made to us untrue, inaccurate or misleading.

Our review and analysis were based upon, among others, the information provided by the Group including the Absorption and Merger Agreement, the Financial Services Agreement, the annual report of the Company for the year ended 31 December 2021 (the “**2021 Annual Report**”), the interim report of the Company for the six months ended 30 June 2022 (the “**2022 Interim Report**”), the financial statements Baowu Finance and Masteel Finance for the year ended 31 December 2021, the independent valuation reports in relation to Masteel Finance (the “**Masteel Valuation Report**”) and Baowu Finance (the “**Baowu Valuation Report**”), together with the Masteel Valuation Report, the “**Valuation Reports**”), the Circular, and certain published information from the public domain.

We have also discussed with the Directors and/or the Management with respect to the terms of and reasons for the entering into of the Absorption and Merger Agreement and the Financial Services Agreement and considered that we have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted an independent verification or appraisal of the information nor have we conducted any form of in-depth investigation into the businesses, affairs, financial position, profitability or the prospects of the Group, Baosteel, China Baowu, Magang Group, Wuhan Iron & Steel, Baowu Finance and Masteel Finance or any of their respective subsidiaries or associates. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any shares or any other securities of the Company.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinions for the Absorption and Merger Agreement and the Financial Services Agreement and the transactions contemplated thereunder, we have considered the following principal factors and reasons:

I. Background of the Group

The principal activities of the Company involve manufacturing and sale of iron and steel products with its main business operation in the PRC. The Company is one of the largest iron and steel manufacturers in the PRC in terms of steel production capacity.

During the year ended 31 December 2021 (“**FY2021**”), the Group produced 18.23 million tons of pig iron, representing a year-on-year decrease of 1.70%, mainly due to the overhaul of a 4,000 m³ blast furnace of the Company from 15 September to 9 December 2021; 20.97 million tons of crude steel, flat year-on-year, including 1.33 million tons of electric furnace steel, accounting for 6.3% of crude steel output; 20.45 million tons of steel, representing an increase of 3.04% year-on-year, a record high for the Group, mainly due to the Company’s adjustment of billet and rolling stock and improvement of the utilization rate of rolling line capacity.

Affected by macro factors such as the complex and severe international situation, the spread of domestic epidemics, and the sluggish operation of the industrial chain and supply chain, the domestic economic development was faced with the triple pressure of demand contraction, supply shock, and weakening expectations, during the six months ended 30 June 2022 (“6M2022”). The Group produced 9.62 million tonnes of pig iron, representing only a year-on-year slight increase of 2.23%, and produced 10.98 million tonnes of crude steel and 10.70 million tonnes of steel, representing a year-on-year decrease of 2.05% and 0.47%, respectively.

i. Financial performance of the Group

The following table sets out the summary of the consolidated financial performance of the Group for the two financial years ended 31 December 2020 and 2021 and for the six months ended 30 June 2021 and 2022:

<i>RMB 'million</i>	For the year ended 31 December 2020 (Audited)	For the year ended 31 December 2021 (Audited)	For the six months ended 30 June 2021 (Unaudited)	For the six months ended 30 June 2022 (Unaudited)
Revenue	81,614.2	113,851.2	56,863.6	56,366.9
Operating profit	2,867.0	7,367.9	6,253.0	1,947.0
Net profit before tax	3,081.0	7,016.3	6,283.6	1,873.3
Net profit after tax	2,578.0	5,994.0	5,037.8	1,615.8

For the financial year ended 31 December 2021

Revenue increased by 39.50% compared with the previous year, mainly due to the year-on-year increase in steel prices, higher gross profit and higher sales volume of steel products.

Operating profit, net profit before tax and net profit after tax for FY2021 increased by 156.99%, 127.74% and 132.51%, respectively, as compared with the financial year ended 31 December 2020 (“FY2020”), mainly due to the increase in gross profit of steel products of the Company during FY2021 as compared with FY2020.

For the six months ended 30 June 2022

Revenue decreased by 0.87% for 6M2022 as compared with the corresponding period of last year, mainly due to the decrease in average steel prices during the period as steel market prices gradually cooled after a brief rebound in the first quarter of 2022. Cost of sales increased by 7.90% as compared with the corresponding period of last year, mainly due to the increase in fuel costs for steel production.

Considering the effects of the decrease in revenue and increase in cost of sales, the Group recorded a decrease in gross profit together with (i) asset impairment losses of approximately RMB818 million for 6M2022 as compared with approximately RMB26 million in the corresponding period of last year, mainly due to the sharp decrease in steel prices in June and the lack of significant recovery in July, which resulted in an increase in the provision for decline in value of inventories; and (ii) the decrease in operating income by 97.15% as compared with the corresponding period of last year, mainly due to the gains from disposal of certain scrapped old equipment for the new production line in the corresponding period of the previous year. Thus, profit before tax and net profit decreased by 70.19% and 67.93% respectively, as compared with the previous year.

ii. Financial position of the Group

The following table sets out the summary of the consolidated financial position of the Group as at 31 December 2021 and 30 June 2022:

	As at 31 December 2021 (Audited)	As at 30 June 2022 (Unaudited)
<i>RMB `million</i>		
Total assets	91,207.7	94,890.1
Total liabilities	53,796.6	59,032.2
Equity attributable to owners of the parent	32,752.9	31,483.6

Total assets of the Group as at 30 June 2022 mainly comprised of inventories amounting to RMB13,499.1 million, property, plant and equipment amounting to RMB30,397.6 million, construction in progress amounting to RMB12,661.1 million and cash and bank balances amounting to RMB7,225.3 million which in aggregate accounted for over 65% of the total assets of the Group.

Total liabilities of the Group as at 30 June 2022 mainly comprised of trade payables amounting to RMB12,150.6 million, customer deposits amounting to RMB9,453.1 million, short-term loans amounting to RMB8,387.2 million and long-term loans amounting to RMB6,563.2 million which in aggregate accounted for over 60% of the total liabilities of the Group.

II. Information of Masteel Finance, China Baowu and Baowu Finance

i. Masteel Finance

Masteel Finance is a non-banking financial institution established under the PRC laws in October 2011 with the approval of the CBIRC and is subject to the supervision of the CBIRC. It is mainly engaged in providing financial services including but not limited to deposit services, loan and entrusted credit services, discounting services and settlement services to Magang Group and its subsidiaries. Its ultimate beneficial owner is China Baowu.

(a) Financial information of Masteel Finance

The following table sets out the financial information of Masteel Finance for FY2020 and FY2021:

<i>RMB 'million</i> <i>(Audited)</i>	For the year ended 31 December 2020	For the year ended 31 December 2021
Total revenue	393.7	402.2
Net profit before tax	368.2	391.0
Net profit after tax	277.1	291.4
Total assets	17,285.3	21,831.1
Total liabilities	13,937.2	18,425.3
Net assets value	3,348.1	3,405.8

Amidst the lingering effects of COVID-19 in the PRC since 2020, Masteel Finance managed to record a slight growth in operations with revenue and net profit after tax increased slightly by approximately 2.2% and 5.2% respectively.

Total assets of Masteel Finance amounting to RMB21,831.1 million as at 31 December 2021 represented an increase of 26.3% as compared to 31 December 2020, which mainly comprised of cash and deposit placed at central bank amounted to RMB938.9 million, deposit placed in financial institutions amounted to RMB2,859.0 million, loan receivables amounting to RMB8,388.9 million and other financial and debt investment amounted to RMB5,732.5 million and RMB3,071.6 million respectively.

Total liabilities of Masteel Finance also recorded an increase of 32.2% as at 31 December 2021 compared to 31 December 2020. Total liabilities as at 31 December 2021 mainly comprised of deposit received amounted to RMB17,433.2 million and sales of financial instrument subject to repurchase amounted to RMB925.5 million which in aggregate accounted for over 99% of the total liabilities of Masteel Finance.

(b) Update as of 30 June 2022 of Masteel Finance

Pursuant to the unaudited management account of Masteel Finance, as at 30 June 2022, net assets value of Masteel Finance decreased to RMB2,456.5 million. Such decrease was mainly attributable to the dividend payable amounted to RMB214.1 million declared during the period while offset by net profit for the 6 months period ended 30 June 2022 amounted to RMB148.9 million.

ii. China Baowu

China Baowu is a state-owned capital investment company controlled and held by the State-owned Assets Supervision and Administration Commission of the State Council. It is mainly engaged in operating state-owned assets within the scope authorized by the State Council, as well as carrying out relevant state-owned capital investment and operation. China Baowu is the ultimate beneficial owner of Baowu Finance as well as Magang Group, Baosteel and Wuhan Iron & Steel, being other parties of the Absorption and Merger Agreement.

iii. Baowu Finance

Baowu Finance is a non-banking financial institution established under the PRC laws in October 1992 with the approval of the CBIRC and is subject to the supervision of the CBIRC. It is mainly engaged in providing financial services to its member units. The ultimate beneficial owner is China Baowu. As a financial company subordinate to China Baowu, the business network of Baowu Finance covers enterprises at all or different levels within China Baowu and its upstream and downstream industrial chains.

(a) *Financial information of Baowu Finance*

The following table sets out the financial information of Baowu Finance for FY2020 and FY2021:

<i>RMB 'million</i> <i>(Unaudited)</i>	For the year ended 31 December 2020	For the year ended 31 December 2021
Total revenue	363.5	631.5
Net profit before tax	320.7	429.2
Net profit after tax	241.5	326.9
Total assets	36,414.4	40,240.7
Total liabilities	32,223.7	35,844.2
Net assets value	4,190.7	4,396.5

Despite the impacts brought on by COVID-19 in the PRC since 2020, Baowu Finance managed to record a growth in operation with revenue and net profit after tax increased by approximately 73.7% and 35.4% respectively. Such increase was contributed by the merger of Baowu Finance with another finance company held by members of Baowu Group during the year.

Total assets of Baowu Finance amounted to RMB40,240.7 million as at 31 December 2021 represented an increase of 10.5% as compared to 31 December 2020, which mainly comprised of cash and deposit placed at central bank amounted to RMB4,434.1 million, loan receivables amounting to RMB19,510.8 million, procured financial instrument subject to repurchase amounted to RMB1,145.1 million and other debt investment and transactional financial instrument in aggregate amounted to RMB11,307.2 million.

Total liabilities of Baowu Finance also recorded an increase of 11.2% as at 31 December 2021 compared to 31 December 2020. Total liabilities as at 31 December 2021 mainly comprised of deposit received amounted to RMB34,184.0 million and sales of financial instrument subject to repurchase amounted to RMB933.5 million which in aggregate accounted for over 97% of the total liabilities of Baowu Finance.

(b) *Update as of 30 June 2022 of Baowu Finance*

Pursuant to the unaudited management account of Baowu Finance as at 30 June 2022, the net assets value of Baowu Finance increased to RMB4,843.1 million as compared to 31 December 2021. Such increase was mainly attributable to the net profit for the 6 months period ended 30 June 2022 amounted to RMB192.0 million.

III. Reasons for the Merger and CCT

The PRC has been pushing for the mergers and acquisitions of iron and steel enterprises to promote consolidation of the steel industry in China. Such consolidation aims to eliminate the overcapacity of PRC's steel mills and at the same time create globally competitive conglomerates. The above-mentioned policies have also promoted the merger and absorption of financial operations held by iron and steel enterprises.

In October 2020, Ma Steel (Shanghai) Financial Leasing Co., Ltd. ("**Ma Steel Leasing**"), an investee company of the Group entered into the merger by absorption agreement with Huabao Duding (Shanghai) Finance Leasing Co., Ltd. ("**Huabao Leasing**"), pursuant to which Huabao Leasing exchanged shares for merger by absorption of Ma Steel Leasing. After completion of the merger, instead of holding 25% interest in Ma Steel Leasing, the Group held 4.319% in Huabao Leasing.

In April 2021, an associate of the Group, Ma Steel (Shanghai) Commercial Factoring Company Limited ("**Masteel Factoring**") merged with Ouye Commercial Factoring Company Limited ("**Ouye Factoring**"). After the completion of such merger, instead of holding 25% interest in Masteel Factoring, the Group held 16.14% of Ouye Factoring.

According to the Directors, as the Group has also been aiming at focusing on their core business of manufacturing and sale of iron and steel products and had been planning to streamline its financial operations with other industry participants and deem disposing the controlling stake in such financial operations in return of a minority interest as investment as well as to comply with relevant administrative measures of relevant government authorities, on 15 November 2022 the Group entered into the Absorption and Merger Agreement with Baowu Finance and its existing shareholders to merge Masteel Finance with Baowu Finance.

Pursuant to Article 6 under the Administrative Measures Governing Finance Companies of Conglomerates (《企業集團財務公司管理辦法》) (published by CBIRC Order No.6 2022 on 13 October 2022 and has come into force on 13 November 2022) stipulates that "One conglomerate can only have one finance company within it". Given China Baowu is the controlling shareholder of Magang Group, in accordance with the above regulatory policy of the CBIRC, Baowu Finance and Masteel Finance, both being subordinate companies under China Baowu, shall be integrated into one finance company.

Found in 1992, Baowu Finance was one of the earliest financial companies established in the PRC. As a financial company subordinate to China Baowu, the business network of Baowu Finance covers enterprises at all or different levels within China Baowu and its upstream and downstream industrial chains, with numerous customer bases, large market space and plenty of development potential. After absorbing and merging with Masteel Finance, Baowu Finance will have larger assets scale, stronger capital strength and more stable risk prevention ability. As a shareholder of Baowu Finance after the absorption and merger, the Company will also benefit from the sound operation and sustainable development of Baowu Finance and obtain stable shareholder returns.

Upon the absorption and merger, Masteel Finance will be cancelled and the Company will become a shareholder of Baowu Finance, with a shareholding ratio of 29.68%. Considering that the merger of the two finance companies will be more favorable for them to obtain professional management and operation on a higher platform, it will be considered beneficial to the Company.

After completion of the Merger, the legal person status of Masteel Finance will be cancelled, Baowu Finance will establish a branch in Maanshan and any previous transactions between the Group and Masteel Finance will be transferred to Baowu Finance (as Masteel Finance will be absorbed and become part of Baowu Finance) and hence the Company entered into the Financial Services Agreement with Baowu Finance to govern the Financial Services to be carried out after completion of the Merger.

After the signing of the Financial Services Agreement, Baowu Finance and the Company will carry out financial cooperation in compliance with the principles of legal compliance, equity and free will, controllable risks and mutual benefit. Baowu Finance will provide settlement, deposit, credit and other financial services to the Group within the business scope approved by the CBIRC in accordance with law, with charging standard and interest rate level not unfavorable than those provided by major independent commercial banks or financial institutions within the PRC, which will facilitate the optimisation of the financial management of the Group, the improvement of capital utilisation efficiency of the Group, the reduction of its financing costs and financing risks.

In view that the CCT will be carried out in their respective ordinary and usual course of business, we consider that the entering into of the Financial Services Agreement is in the ordinary and usual course of business of the Group and is in the interests of the Company and Shareholders as a whole.

IV. The Merger

Baowu Finance will merge with Masteel Finance by way of absorption and merger. All the original shareholders of Masteel Finance will become shareholders of Baowu Finance. The shareholding structure and proportion of Baowu Finance after the absorption and merger will be determined according to the appraisal value. Baowu Finance, as the surviving company after the merger, shall undertake and inherit all the assets, liabilities, businesses, personnel, contracts and all other rights and obligations of Masteel Finance. The legal person status of Masteel Finance will be cancelled, and Baowu Finance will establish a branch in Maanshan.

i. Major terms of the Absorption and Merger Agreement

Set out below are the major terms of the Absorption and Merger Agreement:

Parties

Parties to the Absorption and Merger Agreement included Baowu Finance; Masteel Finance; the Company; Magang Group; China Baowu; Baosteel; and Wuhan Iron & Steel.

Asset Valuation and Pricing

The reference date of valuation for the absorption and merger which was conducted by China Assets Appraisal Co. Ltd is 30 June 2022. The book net assets of Baowu Finance is RMB4,843.1457 million, the appraised value of the operation of Baowu Finance adopting income approach together with the properties held by Baowu Finance adopting market approach is RMB6,065.1007 million, and the appreciation of valuation is RMB1,221.9550 million with the appreciation rate of 25.23%; the book net assets of Masteel Finance before valuation is RMB2,456.4693 million, the appraised value adopting income approach is RMB2,935.0949 million, and the appreciation of valuation is RMB478.6256 million with the appreciation rate of 19.48%.

Way of Share Exchange

The original equity structure of Masteel Finance and Baowu Finance before the absorption and merger is as follows:

Masteel Finance

No.	Name of shareholders	Capital contribution (RMB0'000)	Percentage of shareholdings
1	The Company	182,000	91%
2	Magang Group	18,000	9%
	Total	<u>200,000</u>	<u>100%</u>

Baowu Finance

No.	Name of shareholders	Capital contribution (RMB0'000)	Percentage of shareholdings
1	China Baowu	136,035	47.90%
2	Baosteel	94,948	33.43%
3	Wuhan Iron & Steel	53,017	18.67%
	Total	<u>284,000</u>	<u>100%</u>

After the absorption and merger, the registered capital of the surviving company will be the sum of Baowu Finance and Masteel Finance, the corresponding share ratio and capital contribution of the original shareholders of both parties in new Baowu Finance will be determined in accordance with the corresponding equity value determined by the net assets appraisal value of both parties filed and confirmed by China Baowu. The corresponding calculation formula is as follows:

- (1) The shareholding ratio of original shareholders of Baowu Finance in the surviving company = the shareholding ratio of original shareholders in Baowu Finance × the appraisal value of net assets of Baowu Finance ÷ (the appraisal value of net assets of Baowu Finance + the appraisal value of net assets of Masteel Finance)

The capital contribution of original shareholders of Baowu Finance in the surviving company = the shareholding ratio of the shareholders of Baowu Finance in the surviving company × (the registered capital of Baowu Finance before the absorption and merger + the registered capital of Masteel Finance before the absorption and merger)

- (2) The shareholding ratio of original shareholders of Masteel Finance in the surviving company = the shareholding ratio of original shareholders in Masteel Finance × the appraisal value of net assets of Masteel Finance ÷ (the appraisal value of net assets of Baowu Finance + the appraisal value of net assets of Masteel Finance)

The capital contribution of original shareholders of Masteel Finance in the surviving company = the shareholding ratio of shareholders of Masteel Finance in the surviving company × (the registered capital of Baowu Finance before the absorption and merger + the registered capital of Masteel Finance before the absorption and merger)

As calculated based on the appraisal value of net assets of both parties as at 30 June 2022, the shareholding structure of Baowu Finance after the completion of absorption and merger is as follows (the final shareholding structure after the absorption and merger shall be determined based on the filed appraisal value):

No.	Name of shareholders	Capital contribution (RMB0'000)	Percentage of shareholdings
1	China Baowu	156,229.76	32.28%
2	Baosteel	109,043.28	22.53%
3	Wuhan Iron & Steel	60,887.51	12.58%
4	The Company	143,633.90	29.68%
5	Magang Group	14,205.55	2.93%
	Total	<u>484,000</u>	<u>100%</u>

Governance Structure of Baowu Finance After the Completion of the Absorption and Merger

Upon completion of the absorption and merger, the board of directors of Baowu Finance will consist of nine directors (including one employee director), and two of them will be appointed by the Company, and the directors appointed by the Company will serve on the special committee of the board of directors of Baowu Finance.

Baowu Finance stipulates in the Articles of Association that shareholders shall receive dividends in proportion to their paid-in capital, and the annual distribution shall not be less than 50% of the audited net profit for the year.

Baowu Finance shall have the technical conditions for the establishment of the Company's capital platform before the absorption and merger date to ensure the activation of the platform to take over the Company's capital when the assets are delivered and business is transferred in the process of deregistration.

For the purpose of orderly commencement of the capital business of the members of Masteel Finance including the Company, it is stipulated in the Absorption and Merger Agreement that the Absorption and Merger Agreement shall be executed subject to the approval of the Financial Services Agreement by the Board and the general meeting of the Company.

Effectiveness of the Absorption and Merger Agreement

The agreement shall be established from the date of signing by legal representatives or authorized representatives of each party, and stamped with official seals or seals for contract, and shall be effective upon all the following conditions are satisfied:

- (1) Each party has performed the necessary internal decision procedures to obtain all approvals or authorizations in respect of the absorption and merger;
- (2) The absorption and merger has obtained the CBIRC's approval;
- (3) The Financial Services Agreement between the Company and Baowu Finance, which is required to be signed after the absorption and merger of Masteel Finance, has been approved by the Board and the shareholders' meeting of the Company and became effective; and
- (4) The Company has performed all the necessary approval procedures under the applicable Listing Rules in respect of the Absorption and Merger Agreement, including obtaining the approval of the Board and the shareholders' meeting of the Company to take effect.

ii. Our analysis on asset valuation and pricing

The reference date of valuation for the absorption and merger, which was conducted by China Assets Appraisal Co., Ltd., (the "**Independent Valuer**") is 30 June 2022. According to the valuation results the appraised value of Baowu Finance was RMB6,065.1007 million and the appraised value of Masteel Finance was RMB2,935.0949 million.

In return of merging Masteel Finance with Baowu Finance, the Group will hold approximately 29.68% of Baowu Finance. Taking into consideration the aggregate appraised value of Baowu Finance's appraisal value of RMB6,065.1007 million and Masteel Finance's appraised value of RMB2,935.0949 million, the appraisal value of Baowu Finance as enlarged by Masteel Finance would worth approximately RMB9,000 million, as such the 29.68% equity interest in Baowu Finance (as enlarged by Masteel Finance) would equal to the appraised value of 91% equity interest in Masteel Finance of approximately RMB2,670.9 million.

In assessing the Considerations, we have considered the Valuation Reports prepared by the Independent Valuer, of which summary of the Valuation Reports is set out in Appendix IV and Appendix V to the Circular, and discussed with the Independent Valuer regarding the methodology and the principal bases and assumptions adopted for the valuations of Masteel Finance (the "**Masteel Valuation**") and Baowu Finance (the "**Baowu Valuation**", together with the Masteel Valuation, the "**Valuations**").

We have reviewed and enquired into (i) the terms of engagement of the Independent Valuer with the Company; (ii) the Independent Valuer's qualification and experience in relation to the preparation of the Valuation Reports; and (iii) the steps and due diligence measures taken by the Independent Valuer for conducting the Valuations. From the engagement letter and relevant information provided by the Independent Valuer and based on our interview with them, we are satisfied with the terms of engagement of the Independent Valuer as well as its experience for preparation of the Valuation Reports. We noted that the Valuations were conducted by an execution team of professionals led by Mr. Li Xianggang, Ms. Dong Xiaoning and Ms. Li Qiyao, which has extensive deal experiences in valuing companies in the PRC. Mr. Li Xianggang is a project responsible officer of the Valuations and has over 20 years of professional experience in valuation and participated in the valuation, Ms. Dong Xiaoning and Ms. Li Qiyao were project team execution members (the "**Project Team**"). Ms. Dong Xiaoning has more than 10 years of professional experience in provision of professional valuation services. The Project Team had experience in valuation of companies engaged in various industries, including but not limited to financial industry (including fintech industry), mining, petroleum, chemical industry, electronics, automobile, shipbuilding, military industry, nuclear industry, aviation, aerospace, light industry, textile, coal, machinery manufacturing, construction, agriculture, food, tourism, transportation, public utilities, securities and other industries.

The Independent Valuer has also confirmed that they are independent to the Group, Baosteel, China Baowu, Magang Group, Wuhan Iron & Steel, Baowu Finance and Masteel Finance or any of their respective subsidiaries or associates and their respective associates.

We have reviewed the Valuation Reports and discussed with the Independent Valuer regarding the methodologies adopted for and the basis and assumptions used in arriving at the Valuations. Based on the Valuation Reports, we noted that the Independent Valuer, after considering various valuation methods (including income approach, market approach and asset-based approach), has adopted income approach and market approach as the primary valuation method, of which income approach was adopted for valuing the operations of Masteel Finance and Baowu Finance and market approach for the properties held by Baowu Finance.

As discussed with the Independent Valuer, we concur with the Independent Valuer that considering asset-based approach, which involves the assessment of assets and liabilities to appraise the value of Masteel Finance and Baowu Finance, is not ideal for these Valuations as it only takes into account the Masteel Finance and Baowu Finance's worth as at the valuation date and forgoes the positive growth prospect of Masteel Finance and Baowu Finance. Taking into consideration the valuation purpose of the Valuations were for determining the pricing of the Merger and as income approach could take into consideration the historical financial results as well as growth prospect of Masteel Finance and Baowu Finance, we concur with the Independent Valuer that income approach is an appropriate method in arriving at the Valuations of Masteel Finance and Baowu Finance. Furthermore, given both Masteel Finance and Baowu Finance engage in the same industry of provision of financial services we consider applying the same methodology in valuing the operations of Masteel Finance and Baowu Finance would be reasonable. Nevertheless, we noted that apart from provision of financial services, Baowu Finance also held certain properties, of which we consider market approach would better reflect the value of the properties and as advised by the Independent Valuer, market approach would be a more common approach to value properties, we therefore also concur with the Independent Valuer's application of market approach for the valuation of the properties held by Baowu Finance.

a) *Valuation by applying income approach in valuing the operations of Masteel Finance and Baowu Finance*

Under the income approach, the discounted cash flow method is adopted to derive the market value of Masteel Finance and Baowu Finance, whereby the future cash flows to be generated by Masteel Finance and Baowu Finance respectively are discounted at a discount rate (the cost of capital) that reflects the time value of money and the risks associated with the cash flow to arrive at its present value.

We noted from the Valuation Reports that, when applying income approach in valuing the operation of Masteel Finance and Baowu Finance, after applying comparable underlying assumptions given both companies were engaged in the same industry in the CAPM model, both companies resulted in the same discount rates. In view of the

above and as we considered both companies engage in the same industry with similar operating environment and market peer, we concur with the Independent Valuer that, the same discount rates and underlying assumptions should be applied towards the Valuations of both Masteel Finance and Baowu Finance.

Financial projections of Masteel Finance and Baowu Finance

Estimates on the future operation and revenue of Masteel Finance and Baowu Finance are conducted through analysis over revenue, costs and growth movements. We noted that the Independent Valuer has considered and relied to a considerable extent on the financial projections of Masteel Finance and Baowu Finance from 1 July 2022 to 31 December 2027 (the “**Forecast Period**”) as prepared by the management of Masteel Finance and Baowu Finance when preparing the Valuation Reports. Accordingly, we have discussed with the management of Masteel Finance and Baowu Finance and the Independent Valuer in relation to the basis and assumptions used when preparing the Valuations and noted that the management of Masteel Finance and Baowu Finance has considered the historical and estimated performance of Masteel Finance and Baowu Finance.

We have also confirmed with the management of Masteel Finance and Baowu Finance, the financial projections during the Forecast Period, have been prepared under the assumption that the Merger would not take place and were prepared on the assumption that Masteel Finance and Baowu Finance’s operation will be carried out independently.

Revenue

In connection to the basis for projecting the revenue of Masteel Finance and Baowu Finance, we noted that it is expected that the deposit balances will continue to grow as well as the operation scale. In particular, we noted that the management of Masteel Finance and Baowu Finance expects that Masteel Finance and Baowu Finance’s revenue will achieve a compound annual growth rate (“**CAGR**”) of approximately 6.5% and 5.87% respectively from 2023 to 2027, primarily with reference to (i) the historical performance of Masteel Finance and Baowu Finance in the first half of 2022; (ii) the current and expected market conditions; (iii) the business development plan of each of Masteel Finance and Baowu Finance; and (iv) the corporate action of Masteel Finance and Baowu Finance that took place in 2022.

Masteel Finance

For the year ending 31 December 2022

When estimating the revenue growth of Masteel Finance for the year ending 31 December 2022, as hindered by the decrease in equity base of Masteel Finance in the first half of 2022 as a result of dividend distribution, the available funds for carrying out Masteel Finance's financing operation and investment decreased and hence revenue in the second half of 2022 is expected to decrease as compared to the first half of 2022.

For the years ending 31 December 2023 to 2027

We noted that revenue is estimated to grow during the period from 2023 to 2027, such estimated growth was based on (i) the growth in operating scale with reference to the Group's 14th 5-year plan approved by the Board in 2022 which sets out among others, the development blueprint, growth targets and investment plans of the Group for 2022 to 2027, the estimations in the 14th 5-year plan of which had taken into consideration latest macro factors in the PRC as well relevant government policies impacting Masteel Finance's operation; (ii) the interest rates charged in respect of the relevant financing activities will be comparable to the average historical rate in the first half of 2022; and (iii) the investment scale will continue to be around the regulatory limit.

We noted that between 2018 to 2021, Masteel Finance's revenue fluctuated and recorded a range from a decline of 8.1% (recorded in 2020) to a growth of 20.3% (recorded in 2019). Given the Group is disposing Masteel Finance, we consider applying a CAGR growth rate of 6.5% which is within the historical revenue fluctuation range to be acceptable.

Baowu Finance

For the year ending 31 December 2022

When estimating the revenue growth of Baowu Finance for the year ending 31 December 2022, capital injection to Baowu Finance during 2022 was taken into consideration and with such increase in capital base, it is estimated that revenue of Baowu Finance will slightly increase and remained comparable to 2021.

For the years ending 31 December 2023 to 2027

Factoring in (i) certain corporate actions including the capital injection mentioned above and mergers of other finance companies (following the merger of other steel companies), with additional member companies after the completion of two mergers of other steel companies which will provide Baowu Finance additional business opportunities; (ii) the estimated increase in carrying out investment activities up to a level comparable to the statutory limit; and (iii) the interest rate charged in respect of the relevant financing activities which were mainly referenced to the average historical rate in the first half of 2022, it is estimated that Baowu Finance's revenue will achieve a CAGR of 5.87%.

In estimating a growth in revenue of a CAGR of 5.87% from 2023 to 2027 for Baowu Finance by the Management, we noted that revenue of Baowu Finance recorded a growth of a CAGR of 29.6% between 2019 to 2021, of which by considering such historical growth we concur with the Management that apply a CAGR growth of 5.87% from 2023 to 2027 in revenue to be appropriate.

Cost

Masteel Finance

We noted that key projection on cost components include among others, operating and administrative expenses, provision of impairment loss and local tax and charges.

We noted that operating and administrative expenses mainly comprised of wages and salary, office rental as well as depreciation expenses. We noted from the Management that wages and salary were estimated based on the historical salary level with an annual increment catering for possible increase in operating scale pursuant to the 14th 5-year plan as well as annual salary increment. Provision of impairment loss was based on the estimated loan balances as at each forecast period times a provision ratio. Pursuant to the Management, such provision ratio has been consistently applied for the entire forecast period was referenced to the current provision ratio in place. Local tax and charges mainly comprised of value added tax, urban maintenance and construction tax, education surcharge, stamp duty and others. We noted that such tax and charges were estimated during the Forecast Period pursuant to the relevant rates according to the relevant rules and regulations of the PRC.

Given the above-mentioned major operating and administrative expenses were estimated by taking into consideration (i) the historical amount; (ii) latest business plan; (iii) the present rules and regulatory requirements; and (iv) the Group's accounting policies (as the case maybe) we considered the cost estimation of Masteel Finance to be reasonable.

Baowu Finance

We noted that key projection on cost components include among others, operating and administrative expenses, provision of impairment loss and local tax and charges.

We noted that operating and administrative expenses mainly comprised of wages and salary, system maintenance fee as well as depreciation expenses. We understood from the management of Baowu Finance that estimates of wages and salary were based on the historical salary level with relevant increment catering for possible increase in operating scale taking into consideration estimated increase in business scale after the completion of the two mergers and capital injection carried out in 2022, while social securities and overheads included in the estimates wages and salary would be based on relevant rules and regulatory requirements. System maintenance fee and professional fee mainly represent utilization of a Baowu Group internal system of which a fee would be charged annually by a group company. Such estimated fee will be based on the actual arrangement with group companies with reference to the operation scale. Depreciation expenses were estimated based on the relevant depreciation policy adopted by Baowu Finance. Provision of impairment loss was based on the estimated loan balances as at each forecast period times a provision ratio. Pursuant to the management of Baowu Group, such provision ratio has been consistently applied for the entire forecast period and was referenced to the current provision ratio in place. Local tax and charges mainly comprised of urban maintenance and construction tax, education surcharge and stamp duty. We noted that such tax and charges were estimated during the Forecast Period pursuant to the relevant rates according to the relevant rules and regulations of the PRC.

Tax

Taxation rate of 25% was applied during the Forecast Period for both Masteel Finance and Baowu Finance taking into consideration the current corporate income tax rate of 25% pursuant to relevant tax rules and regulations of the PRC.

Discount rate of Masteel Finance and Baowu Finance

When applying the discounted cash flow method to estimate the net present value of the above financial projections, it is necessary to determine an appropriate discount rate for Masteel Finance and Baowu Finance. We noted that the Independent Valuer has used capital asset pricing model (“CAPM”) in calculating the discount rate of 10.66%, which we understand from our discussion with the Independent Valuer, is widely adopted for the purpose of valuing companies in the financial industry in the PRC. In deriving the discounted rate of 10.66%, the Independent Valuer has considered various factors including, among others (i) risk free rate; (ii) market risk premium; (iii) beta, a measure of non-diversifiable risk of the comparable companies; and (iv) corporate specific risk premium.

We have discussed with the Independent Valuer regarding the major factors taken into consideration in deriving the discount rate and noted that these factors are commonly used parameters in the industry when preparing valuation reports. In this regard, we have (i) reviewed the relevant source of information and calculations of key estimates; (ii) discussed with the Independent Valuer the basis and assumptions of the major factors considered in deriving the discount rate, which is in line with common industry practice; (iii) understood the selection criteria of the four comparable companies which were adopted for beta references; and (iv) conducted our independent research on parameters including the risk free rate, risk premium and noted that the risk free rate and risk premium adopted in calculating the discount rate for Masteel Finance and Baowu Finance are in line with market. Having considered the above adopted by the Independent Valuer when determining the discount rate, we consider that the discount rate of 10.66% is appropriate.

General and specific assumptions of Masteel Finance and Baowu Finance

A number of general and specific assumptions have been applied in determining the Valuations pursuant to the Valuation Reports, for details of the basis and assumptions please refer to appendix IV and V of the Circular. We have discussed with the Independent Valuer and the Independent Valuer has confirmed that the relevant underlying assumptions adopted in the Valuations are normally adopted in valuation of business of such nature. Based on the review and discussion with the Independent Valuer, we consider that the adoption of general and specific used in the Valuations are appropriate under these circumstances.

b) *Valuation by applying market approach in valuing the properties held by Baowu Finance*

Two properties held by Baowu Finance located in Shanghai and Wuhan were subject to valuation by applying market approach.

According to the Valuation Report when applying market approach, the Independent Valuer applied the adjusted per meter square price to the size of the property subject to valuation, taking into consideration comparable transactions selected based on the selection criteria including (i) properties located at similar location; (ii) transaction should be within 1 month before or after the valuation date; and (iii) the property is of a similar usage. We considered that the above selection criteria to be comparable to the nature of the properties held by Baowu Finance.

We have carried out desktop research and noted from the available public information that the estimated adjusted per meter square price adopted in the valuations was within the range of the listing price of properties listed as available for sales on real estate website in the relevant regions of the PRC.

Having considered that (i) the Independent Valuer is independent from the Group and other parties to the Absorption and Merger Agreement, and has relevant experiences in conducting valuation for business operating in similar industry to Masteel Finance and Baowu Finance; (ii) the methodologies and the key assumptions adopted by the Independent Valuer for the Valuation Reports are commonly adopted in the market for adopting income approach for valuation; (iii) the underlying comparable transactions data of the valuation of the properties held by Baowu Finance were mainly made reference to the available transaction information; (iv) the selection criteria of comparable transactions, reflect the characteristics of the properties held by Baowu Finance; and (v) the percentage of shareholding after completion of the Merger was determined by both parties based on the appraised value of the entire equity interest of Masteel Finance and Baowu Finance pursuant to the respective Valuation Reports, we consider that the Valuation Reports are appropriate for the Directors in determining the consideration of the Merger.

iii. Financial effect of the Merger

Upon completion, the legal person status of Masteel Finance will be cancelled and therefore Masteel Finance will cease to be a subsidiary of the Company. The assets, liabilities and financial results of Masteel Finance will no longer be consolidated into the financial statements of the Group. Approximately 29.68% equity interest in Baowu Finance to be held by the Group will be recognized as investment in an associated company and at the fair value of Baowu Finance's identifiable net assets and liabilities attributable to the Company by using the equity method.

It should be noted that the following analyses are for illustrative purpose only and do not purport to represent how the financial performance and position of the Group will actually be upon Completion.

Earnings

Upon completion of the Merger, the results of Masteel Finance will no longer be consolidated into the income statement of the Group. While the 29.68% equity interest in Baowu Finance to be held by the Group upon completion of the Merger will be accounted for as investment in an associated company, any earnings of Baowu Finance would be accounted for as share of profit or loss of an associate to the Group.

In terms of gain or loss resulting on the Merger, depending on the book value of Masteel Finance and the value of the 29.68% equity interest in Baowu Finance upon Completion, the actual gain or loss in connection with the Merger (if any) will be the difference between the value of the consideration (i.e. the 29.68% equity interest in Baowu Finance) and the book value of Masteel Finance upon Completion as well as the amount of professional fees and the relevant applicable tax chargeable in the PRC (if any).

Net asset value

Upon completion of the Merger, the Masteel Finance's assets and liabilities will no longer be consolidated into consolidated statement of financial position of the Group.

Referring to the analysis above depending if the Merger will result in a gain or loss on disposal, such gain or loss on disposal will increase or decrease the net asset value of the Group (as the case maybe).

Effect on cash flow

Given that the consideration for the Merger will be 29.68% equity interest in Baowu Finance it is expected that apart from payment of professional fee and/or relevant applicable tax chargeable in the PRC (if any), the Merger will not have any impact on the cash flow of the Group.

VI. The CCT

On 15 November 2022, the Company and Baowu Finance entered into the Financial Services Agreement, pursuant to which, Baowu Finance agreed to provide the Group with settlement services, deposit services, credit services and other financial services subject to the terms and conditions provided therein.

i. Principal terms of the Financial Services Agreement in respect of the Proposed Annual Caps

The principal terms of the Financial Services Agreement in respect of the Proposed Annual Caps are summarised as follows:

Date: 15 November 2022

Parties: (i) Baowu Finance; and
(ii) The Company

In the agreement, Baowu Finance refers to Baowu Finance and/or its branches, and the Company refers to the Company and/or its subsidiaries.

Duration: The Financial Services Agreement shall be for a term commencing from the agreement effective date to 31 December 2024.

Major Terms: *Deposit Services*

The Group opens settlement accounts with Baowu Finance, and deposits funds into the saving accounts opened at Baowu Finance under the principles of independent choice and free access to these accounts.

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

During the term of the agreement, the maximum daily deposit balance of the Group with Baowu Finance shall in principle not exceed RMB10 billion, and the total interest fee paid by Baowu Finance to the Group for deposit services shall not exceed the maximum of RMB190 million per year.

Credit Services

Baowu Finance will, within the scope permitted by national laws, regulations and policies, in accordance with the requirements of the CBIRC and in combination with its own operating principles and credit policies, support the Group's capital needs in business development, and provide comprehensive credit services for the Group. The Group may use the comprehensive credit extension provided by Baowu Finance to handle loans, bill acceptance, bill discounting and other types of financial services.

Baowu Finance provides preferential credit interest rates and rates for credit businesses such as loans, bill acceptance, bill discounting, etc. to the Group, which shall be in principle not higher than the credit interest rates and rates of the same type, under the same terms and at the same level obtained by the Group from independent major commercial banks in the PRC.

During the term of the agreement, the maximum comprehensive credit line provided by Baowu Finance to the Group shall not exceed RMB10 billion.

Under the current terms of the Finance Services Agreement, the Group is not required to pledge its assets to secure the credit services to be obtained.

ii. Comparison of terms with independent third parties

As confirmed by the Directors, after completion of the Merger, financial services transactions to be conducted with Baowu Finance (as Baowu Finance will be the surviving entity after the Merger) will be conducted in a similar manner as the financial services transactions conducted with Masteel Finance prior to the Merger.

Deposit Services and relevant interest income

We understand from the Management that during FY2020 and FY2021 and the seven months ended 31 July 2022 (“7M2022”) (the “**Review Period**”), the Group has placed deposits with Masteel Finance. According to the Management, the deposit interest rates offered by Masteel Finance to the Company are in accordance with their internal pricing guidelines which were determined with reference to deposit rates promulgated by PBOC.

We have obtained sample documents covering each quarter of the Review Period indicating that the interest rates offered by Masteel Finance to the Company for deposit services are in accordance with the internal pricing guidelines. We further compared the interest rates stipulated in Masteel Finance’s internal pricing guidelines and note that they are no less favourable or higher than the deposit rates offered by other independent third-party financial institutions.

Credit Services

During the Review Period, the Group has obtained credit services from Masteel Finance comprising mainly loan services and bill discounting services and other types of financial services such as bill acceptance services.

We noted that the Company will obtain quotations from independent banks and Masteel Finance in terms of credit services to be obtained. The Company will compare the terms of the credit services, including but not limited to the interest rates and facility amount and choose the financial service provider with the most favourable terms. We noted that where the Company has obtained credit services from Masteel Finance, the interest rates and terms of the credit services offered by Masteel Finance were no less favourable than those obtained from independent third-party financial institutions.

iii. Basis of the Proposed Annual Caps

The transactions contemplated under the Financial Services Agreement are subject to the Listing Rules’ requirements and conditions as further discussed under the section headed “Reporting requirements and conditions of the CCT” below. In particular, the CCT are also subject to the annual caps as discussed below.

a. Review of the historical figures

Masteel Finance has been providing, among other things, deposit services and credit services to the Group. Set out below are the historical transaction information for FY2020, FY2021 and 7M2022.

Deposit Services

Set out below is the highest month end balance of deposits placed in Masteel Finance and the interest receivable of deposits for the deposit services during the Review Period:

	For the year ending 31 December 2020 RMB’ billion	For the year ending 31 December 2021 RMB’ billion	For the seven months ended 31 July 2022 RMB’ billion
Highest month end deposit balance	8.4	9.7	9.0
Interest receivables of the deposits	0.084	0.081	0.089

As illustrated above, the highest month end balance of deposits placed by the Company with Masteel Finance for each of FY2020, FY2021 and 7M2022 amounted to approximately RMB8.4 billion, RMB9.7 billion and RMB9.0 billion, respectively. Furthermore, the Management advised that during the Review Period the maximum day end balance of deposits placed with Masteel Finance reached approximately RMB10.4 billion.

As set out above, the interest receivables in respect of the deposits were RMB84.2 million and RMB81.4 million respectively during FY2020 and FY2021. The interest receivable during 7M2022 has reached RMB89.0 million, which has exceeded the receivables during the whole of FY2020 and FY2021.

Credit Services

Set out below is the highest month end credit facilities granted by Masteel Finance to the Company (excluding interest) as well as the relevant utilization rate during the relevant month end:

	As at 31 December 2020 <i>RMB' billion</i>	As at 31 December 2021 <i>RMB' billion</i>	As at 31 July 2022 <i>RMB' billion</i>
Credit facility granted	7.5	8.0	9.0
Utilization	3.4	4.9	3.5
Percentage of utilization	45.3%	61.2%	38.9%

As illustrated above, Masteel Finance granted a maximum month end credit line to the Company of approximately RMB7.5 billion, RMB8.0 billion and RMB9.0 billion, respectively, for each of FY2020, FY2021 and 7M2022.

We noted that utilization of credit facilities varies from time-to-time and will depend on the terms offered by Masteel Finance. Nevertheless, the credit facility offered by Masteel Finance which is subject to Masteel Finance's internal assessment of the financial condition of the Group, increased from RMB7.5 billion as at 31 December 2020 to RMB9.0 billion as at 31 July 2022.

Assessment of the Proposed Annual Caps

When assessing the reasonableness of the Proposed Annual Caps, we have discussed with the Management the basis and assumptions underlying the projection of the Proposed Annual Caps. Set out below are the Proposed Annual Caps in respect of the deposit services, interest income and credit services:

Proposed Annual Caps	For the year ending 31 December 2023 <i>RMB' billion</i>	For the year ending 31 December 2024 <i>RMB' billion</i>
Annual caps for deposit services (the “ Deposit Cap ”)	10	10
Annual caps for interest income derived from the Deposit Cap (the “ Interest Cap ”)	0.19	0.19
Annual caps for credit services (the “ Credit Cap ”)	10	10

Deposit Cap

Pursuant to the Financial Services Agreement, (i) the annual cap for the maximum daily deposit of balance of the Group with Baowu Finance (i.e Deposit Cap) shall not exceed RMB10 billion; (ii) and the annual cap for the total interest fee paid by Baowu Finance shall not exceed RMB190 million (i.e. the Interest Cap).

According to the Management, the Deposit Cap of RMB10 billion is determined mainly with reference to the historical maximum month end deposit balance placed by the Group in Masteel Finance during the Review Period as well as the maximum amount of borrowing to be obtained from Masteel Finance. As set out in the paragraph “Review of the historical figures” above, (i) the maximum month end deposit balance placed by the Group was recorded at RMB9.7 billion during the Review Period, which would represent over 95% of the proposed Deposit Cap; and (ii) the maximum day end deposit balance placed by the Company in Masteel Finance during the Review Period was RMB10.4 billion, which would reach an amount higher than the proposed Deposit Cap.

Taking into account the Group’s historical deposit balance in Masteel Finance, we are of the view that the basis in determining the Deposit Cap to be appropriate.

Interest Cap

We also understand that the Management considers the interest rate of the deposit a crucial factor when considering whether to place deposits with Baowu Finance. We have discussed with the Management and further understand that the deposit interest rate to be granted by Baowu Finance to the Group shall in principle not be lower than the PBOC Deposit Rate and under the same terms of the independent major commercial banks in the PRC during the same period.

As advised by the Management, the Interest Cap of RMB190 million is determined based on a weighted average anticipated interest rate of approximately 1.9% to be offered by Baowu Finance for the deposits placed by the Company. The anticipated interest rate of 1.9% is a weighted average interest rate calculated based on (i) the estimated composition of deposit portfolio of the Group placed in Masteel Finance pursuant to the Management latest tentative treasury plan, comprising demand deposits and fixed deposits with a term ranging from one year to seven days' notice; and (ii) the deposit rate offered by Baowu Finance according to its internal pricing guideline for the corresponding type of deposit continuing to be effective as of the date of the Announcement.

We understand that Baowu Finance determines the deposit interest rate set out in its internal pricing guideline with reference to the latest PBOC Deposit Rate as at the date of the Agreement with certain upward adjustment depending on the fixed term of the deposit.

In terms of the interest rate applied towards the calculation of the weighted average interest rate of 1.9%, we have compared the deposit interest rate estimated by Baowu Finance with other independent commercial banks and note that the interest rate to be offered by Baowu Finance is no less favourable than those offered by the independent commercial banks and are not lower than PBOC Deposit Rates. Having taking into account the above, we consider applying the 1.9% weighted average interest rate in estimating the Interest Cap to be acceptable.

Credit Cap

During the term of the Financial Services Agreement, the annual cap for the maximum credit facility provided by Baowu Finance to the Group shall not exceed RMB10 billion.

According to the Management, the Credit Cap is determined mainly with reference to (i) the historical maximum credit facility obtained by the Group through Magang Finance; and (ii) the historical financing needs of the Group.

As set out above in the paragraph “Review of the historical figures”, the latest credit limit granted by Masteel Finance to the Company for as of 31 July 2022 and up to the date of the Announcement was RMB9.0 billion, which is comparable to the Credit Cap of RMB10 billion.

In addition, referring to the 2022 Interim Report, we noted that the Group possessed strong funding needs with short-term and long-term loan of the Company as at 30 June 2022 amounting to RMB8.4 billion and RMB6.5 billion, respectively. The sum of which in aggregate amounted to approximately RMB14.5 billion, exceeding the Credit Cap of RMB10 billion.

Taking into consideration (i) the historical credit limit granted to the Group by Masteel Finance; and (ii) the financing requirements as indicated by the level of short term and long term borrowings of the Group as of 30 June 2022, we are of the view that a Credit Cap of RMB10 billion to be appropriate.

iv. Pricing policies and relevant internal control of the Proposed Annual Caps

To ensure effective execution and implementation of the pricing of the transactions of the CCT, the Company has established “Internal Control Management Measures of Connected Transactions” to regulate the pricing management of continuing connected transactions.

The connected transaction management committee of the Company, which directly reports to the Board, is responsible for the on-going monitoring of all the continuing connected transactions of the Company, which include the continuing connected transactions contemplated under the Financial Services Agreement. The responsibilities of the connected transaction management committee include, among other things, approving and monitoring of continuing connected transactions, gathering information for disclosure of continuing connected transactions pursuant to the Listing Rules, and monitoring of pricing procedures for continuing connected transactions to ensure that prices are determined on normal commercial terms. For each relevant functional department of the continuing connected transaction agreements or relevant companies entering transactions shall provide actual trading situation quarterly to the operation and accounting department of the Company. The operation and accounting department of the Company will report on a quarterly basis to the connected transaction management committee regarding the actual amount of the continuing connected transactions conducted during the quarter and the estimated amount in the following quarter so as to facilitate the connected transaction management committee

to (i) monitor the actual amount of continuing connected transactions carried out; and (ii) assess whether the annual cap of any continuing connected transactions will be exceeded. The continuing connected transaction management committee will then report to the Board on quarterly basis.

In terms of deposit business of member units, Baowu Finance has formulated relevant systems such as the "Deposit Management Measures", "Operating Procedures for Renminbi Deposit Business" and "Operating Procedures for Foreign Exchange Deposits" to standardize the commencement and specific practice of application acceptance, withdrawal, account processing, and interests calculation under the company's deposit business. The relevant policies are implemented in strict accordance with the relevant regulations of the People's Bank of China, CBIRC and the China Securities Regulatory Commission, strictly follow the principles of equality, voluntariness, fairness and honesty, fully guarantee the safety of funds of member units, and safeguard the legal rights and interests of all parties. The company's deposit business adheres to the principles of voluntary deposits, free use of funds, confidentiality for depositors, and no application by other parties. It has the right to refuse inquiries from any unit or individual other than those stipulated by laws and administrative regulations; it has the right to refuse freezes or deductions by any unit other than those stipulated by laws.

Baowu Finance follows the allocation principles of safety, liquidity, and efficiency, and arranges operating expenses in a reasonable and orderly manner. The deposits in Baowu Finance are safe and have good liquidity, and there has been no delay in payment due to insufficient cash positions of Baowu Finance.

In terms of the management of related parties' transactions, Baowu Finance has developed an online "related parties' transaction management and control system", which can track the fund situation in a timely manner, provide weekly analysis reports to the Company, and effectively manage and control the funds of the Company in Baowu Finance such that they will not be applied by other related companies in the group. This ensures the compliance in terms of the use of funds by listed companies and complies with the requirements of the regulatory guidelines for listed companies.

Furthermore, pursuant to the Management, a real time system has been in place by Baowu Finance which could real time update the deposit balances of their customers. On a daily basis, Baowu Finance will notify the Group the aggregate deposit balances amount should the aggregate deposit balances approaching the Deposit Cap, the Group will deposit such relevant amount of deposit to independent third-party financial institutions. In addition, automatic direct debit instruction will also be implemented to the deposit accounts of the Group held in Baowu Finance, should any deposit of funds to accounts held by the Group in Baowu Finance exceeds the Deposit Cap, such exceeded amount will be automatically direct debited to other deposit accounts of the Group held in independent third-party financial institutions.

In respect of utilizing the credit facilities provided by Baowu Finance to the Group, the Group will centralize the credit draw down of each of the members of the Group, for each new draw down, the Management will confirm the new draw down balance in aggregate with the aggregate outstanding balances of the Group will not exceed the Credit Cap.

Pricing

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

Undertaking provided by and measures taken by China Baowu

China Baowu has unconditionally provided an irrevocable undertaking that, during the term of the Financial Services Agreement:

- (i) it shall maintain its actual control over Baowu Finance, and ensure the standardised operation of Baowu Finance;
- (ii) it shall use its best endeavours and take all reasonable measures to ensure that Baowu Finance will fulfil its obligations for deposit services under the Financial Services Agreement in 2023 to 2024;
- (iii) when necessary, supplement capital or provide support to the liquidity of Baowu Finance in accordance with the relevant laws and regulatory requirements.

China Baowu confirms that it has obtained all necessary approval and authorisation for executing the above written undertaking, and that the execution of the above written undertaking will neither be in breach of the laws and regulations in the PRC nor conflicts with any other agreements signed by China Baowu.

As confirmed by the Directors, the scope of the “Internal Control Management Measures of Connected Transactions” covers all the transactions contemplated under the Financial Services Agreements.

Review by auditor

The auditors of the Company will be engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

We understood from the Directors that the auditors will make analysis on (a) if anything will come to their attention that caused them to believe that the continuing connected transactions had not been approved by the Board; (b) for the continuing connected transactions involving the provision of goods or services by the Group, nothing has come to their attention that caused them to believe that the transactions are not, in all material respects, in accordance with the pricing policies of the Company; (c) nothing has come to their attention that caused them to believe that the continuing connected transactions are not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and (d) with respect to the aggregate amount of each of the continuing connected transactions, nothing has come to their attention that caused them to believe that the continuing connected transactions has exceeded the annual cap as set by the Company.

Based on the obligations of the Directors to comply with the Listing Rules to conduct the continuing connected transactions on normal commercial terms, we consider that the continuing connected transactions will be conducted on normal commercial terms.

v. *Reporting requirements and conditions of the CCT*

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

- (a) each year the independent non-executive Directors must review the CCT and confirm in the annual report and accounts that the CCT have been entered into:
 - (i) in the ordinary and usual course of business of the Group;
 - (ii) on normal commercial terms or better; and
 - (iii) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;

- (b) each year the auditors of the Company (currently, Ernst & Young) must provide a letter to the Board (with a copy provided to the Stock Exchange at least ten business days prior to the bulk printing of the Company's annual report) confirming whether anything has come to the Board's attention that causes them to believe that the CCT:
 - (i) have not received the approval of the Board;
 - (ii) are 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;
 - (iii) have not been entered into in accordance with the relevant agreements governing the CCT; and
 - (iv) have exceeded the relevant annual caps;
- (c) the Company must allow, and ensure that counterparties to the CCT to allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the CCT as set out in paragraph (b); and
- (d) the Company shall promptly notify the Stock Exchange and publish an announcement in accordance with the Listing Rules if it knows or has reason to believe that the independent non-executive Directors and/or auditors of the Company will not be able to confirm the matters set out in paragraphs (a) and/or (b) respectively.

In light of the reporting requirements attached to the CCT, in particular, (i) the limit of the value of the CCT by way of the Proposed Annual Caps; and (ii) the on-going review by the independent non-executive Directors and auditors of the Company regarding the terms of the CCT; and (iii) the on-going review by the auditors of the Company confirming the relevant Proposed Annual Caps not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the CCT and safeguard the interests of the Independent Shareholders.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that:

As to the Merger

(i) although the Merger is not in the ordinary and usual course of the business of the Group, the terms of the Absorption and Merger Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the entering into the Absorption and Merger Agreement is in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise (i) the Independent Board Committee to recommend the Independent Shareholders; and (ii) the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the relevant general meeting to approve the Absorption and Merger Agreement and the transactions contemplated thereunder.

As to the CCT

(i) the terms of the Financial Services Agreement and the transactions contemplated there under are in the ordinary and usual course of business of the Group, on normal commercial terms, and in the interests of the Company and the Shareholders as a whole and is fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Proposed Annual Caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise (i) the Independent Board Committee to recommend the Independent Shareholders; and (ii) the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the relevant general meeting to approve the Financial Services Agreement (including the Proposed Annual Caps) and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Halcyon Capital Limited
Terry Chu
Managing Director

Mr. Terry Chu is a person licensed under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and regarded as a responsible officer of Halcyon Capital Limited and has over 22 years of experience in corporate finance industry.

1. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements of the Group for the three financial years ended 31 March 2019, 2020 and 2021, including the independent auditors' report thereon and the notes thereto, have been disclosed in the respective annual reports of the Company. The auditor of the Company has not issued any qualified opinion on the Group's consolidated financial statements for the three financial years ended 31 March 2019, 2020 and 2021. The annual reports of the Company for the three financial years ended 31 March 2019, 2020 and 2021 are published on the websites of HKEXnews (<http://www.hkexnews.hk>) and the Company (<http://www.magang.com.hk>) respectively.

The 2019 financial statements are set out from pages 102 to 347 in the 2019 Annual Report which was published on 28 April 2020. The 2019 Annual Report is available on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.magang.com.hk>) and is accessible via the following hyperlink:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0428/2020042803510.pdf>

The 2020 financial statements are set out from pages 122 to 379 in the 2020 Annual Report which was published on 23 April 2021. The 2020 Annual Report is available on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.magang.com.hk>) and is accessible via the following hyperlink:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0423/2021042300905.pdf>

The 2021 Financial Statements are set out from pages 121 to 388 in the 2021 Annual Report which was published on 25 April 2022. The 2021 Annual Report is available on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.magang.com.hk>) and is accessible via the following hyperlink:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0425/2022042502368.pdf>

2 STATEMENT OF INDEBTEDNESS

Borrowings

As at the close of business on 31 October 2022, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding borrowings of approximately RMB16,056 million, are all bank loans (the aforesaid figures are unaudited).

Among the borrowings mentioned above, RMB22 million of bank loans are guaranteed. Save as disclosed herein, none of the above outstanding borrowings are guaranteed or secured.

Disclaimer

Save as aforesaid, and apart from intra-group liabilities and normal trade payables, as at the close of business on 31 October 2022, the Group did not have any outstanding issued or agreed-to-be-issued loan capital, bank overdrafts, loans, or other similar borrowings, liabilities or liabilities under acceptance credit, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

3. WORKING CAPITAL

Having taken into account the financial resources available to the Group, including internally generated funds and the available banking facilities, the Directors of the Company are of the opinion that the Group has sufficient working capital for its requirement for at least 12 months from the date of this circular.

4. FINANCIAL AND TRADING PROSPECTS

Looking ahead to 2022, the international political environment is complex and the COVID-19 pandemic is still ongoing. The world economic recovery lacks drive, and commodity prices remain high and are prone to fluctuation. All of these are making our external environment increasingly volatile, grave and uncertain. In pursuing economic development, China is under the triple pressures of demand contraction, supply shocks and weakening expectations. In the face of the new downward pressure, China will pursue supply-side structural reform as the main task, coordinate epidemic prevention and control with economic and social development, ensure both development and security, continue to ensure security in six key areas and stability on six key fronts, continue to improve people's lives, intensify efforts to maintain stable macroeconomic performance, and keep major economic indicators within an appropriate range.

At the policy level, the Central Economic Work Conference stressed that “we must make economic stability our top priority and pursue progress while ensuring stability”, “proactively introduce pro-stability policies in all aspects, and these policies should produce effects early on”, “cross- and counter-cyclical adjustments with macro policies should be organically integrated”, “make proactive investments in infrastructure as appropriate”, and “boost the core competitiveness of manufacturing”. The CPC Central Committee issued the Working Guidance for Carbon Dioxide Peaking and Carbon Neutrality in Full and Faithful Implementation of the New Development Philosophy. The National Development and Reform Commission and the Ministry of Industry and Information Technology issued the Implementation Plan for Boosting Industrial Economy and Promoting High-Quality Industrial Development. In accordance with the requirements of high-quality development, the steel industry has diligently acted on the requirements of dual-controls over energy intensity and total energy consumption, steadily promoted the carbon peaking and carbon neutrality, deepened reform, strengthened management, continuously improved the quality of operation, further enhanced its ability and resilience to cope with challenges, and maintained a stronger foundation for the healthy development of the industry. As a result, the business environment of the steel industry will continue to be optimized this year.

From the perspective of market demand, the real estate industry is under downward pressure due to policy factors such as “no speculation in housing” and “three red lines”, and the demand for steel in the housing construction sector has temporarily dropped significantly, resulting in a decline in the overall consumption of steel in China. At the same time, China will continue to pursue a proactive fiscal policy and a prudent monetary policy, and the trend of sustained economic recovery and development will not change. Proactive investments will be made in infrastructure as appropriate. As a result, investment in infrastructure facilities will rebound markedly. Guided by the policy of accelerating the construction of a manufacturing powerhouse, the manufacturing industry will maintain a prosperous trend and provide effective support for the overall stability of steel demand. Overall, the demand for steel in the industries such as energy, machinery, automobiles, shipbuilding, home appliances, railways, bicycles and motorbikes is expected to maintain growth, while the demand for steel in the industries such as construction, container, hardware products and steel-wood furniture will decline.

5. EFFECT OF THE FINANCIAL SERVICES AGREEMENT ON THE EARNINGS, ASSETS AND LIABILITIES OF GROUP

In respect of the Financial Services Agreement, (1) the interests of deposits provided by the Baowu Finance will not be lower than the deposit interest rate of the same type and under the same terms of the independent major commercial banks in the PRC. Such arrangement will enable the Group to increase its interest income more effectively; and (2) the Group is able to obtain credit services from the Baowu Finance at an interest rate not higher than the credit interest rates and rates of the same type, under the same terms and at the same level obtained by the Group from independent major commercial banks in the PRC, which could effectively lower its financing costs.

In respect of the Financial Services Agreement, there has been no, and the Group does not expect there will be any, significant effect on the earnings, assets and liabilities of the Group.

The following is the valuation report received from China Assets Appraisal Co., Ltd. in relation to Masteel Finance as at 30 June 2022, which is prepared in Chinese. Should there be any inconsistency between the Chinese and the English version, the Chinese version shall prevail.

**Text of the Assets Appraisal Report
of the Shareholders' Total Equity Value of Magang Group Finance Co., Ltd.
Involved in the Proposed Absorption and Merger of Magang Group Finance Co., Ltd.
by Baowu Group Finance Co., Ltd.**

Zhong Zi Ping Bao Zi (2022) No. 367

Maanshan Iron & Steel Company Limited and Magang (Group) Holding Company Limited:

China Assets Appraisal Co., Ltd. accepted the entrustment of the Company, adhered to the principles of independence, objectivity and impartiality in accordance with the laws, administrative regulations and asset appraisal criteria, adopted the market approach and the income approach, and assessed the market value of the shareholders' total equity value of Magang Group Finance Co., Ltd. involved in the proposed absorption and merger of Magang Group Finance Co., Ltd. by Baowu Group Finance Co., Ltd. as at 30 June 2022. The assets appraisal results are presented as follows:

I. OVERVIEW OF THE CLIENT, THE APPRAISED ENTITY AND OTHER USERS OF THE APPRAISAL REPORT AS AGREED IN THE APPRAISAL ENTRUSTMENT CONTRACT

The clients of this appraisal are Maanshan Iron & Steel Company Limited and Magang (Group) Holding Company Limited, the appraised entity is Magang Group Finance Co., Ltd., and other users of the assets appraisal report as agreed in the assets appraisal entrustment contract include the users of assets appraisal report stipulated by national laws and regulations.

(1) Client Profile

Profile of Client 1

Name:	Maanshan Iron & Steel Company Limited
Type:	Company limited by shares (joint venture and listing between Taiwan, Hong Kong and Macao and Mainland China)
Address:	No. 8, Jiuhua West Road, Maanshan City, Anhui Province
Legal Representative:	Di Yi
Registered Capital:	RMB7.700681186 billion

Date of Establishment:	1 September 1993
Term of Operation:	From 1 September 1993 to indefinite term
Scope of Activities:	Ferrous metal smelting and its rolling processing, coke and coal coking products, refractories, power, gas production and marketing; Steel and iron related businesses such as wharf, storage, transportation and trade; Extended processing of steel products, production and sales of metal products; Steel structure, equipment manufacturing and installation, auto repair and scrap car recycling and dismantling (limited to the company waste car recycling); Housing and civil engineering construction, building installation, building decoration (with qualification certificate to carry out business activities); Technology, consultation and service.

Profile of Client 2

Name:	Magang (Group) Holding Company Limited
Type:	Limited liability company (state owned and controlled)
Address:	No. 8, Jiuhua West Road, Yushan District, Maanshan City
Legal Representative:	Di Yi
Registered Capital:	RMB6.66628039476 billion
Date of Establishment:	18 September 1998
Term of Operation:	From 18 September 1998 to indefinite term
Scope of Activities:	Capital management; Mining and selection of mineral products; Construction of construction projects; Building materials, machinery manufacturing, maintenance and design; Foreign trade; Domestic trade (except for projects restricted by the state); Supply, marketing and storage of materials; Property management; Advisory services; Leasing; Agroforestry. (limited to subordinate branches) (For projects subject to the administrative approval, approvals from the relevant authorities must be obtained prior to the commencement of operation)

(2) Profile of the Appraised Entity

Name:	Magang Group Finance Co., Ltd. (hereinafter referred to as “ Magang Finance ” or the “ Appraised Entity ”)
Type:	Other limited liability company
Address:	Level 8, Main Building of Magang Control Center, No. 8, Jiuhua West Road, Maanshan City, Anhui Province
Legal Representative:	Wu Shenglin
Registered Capital:	RMB2 billion
Date of Establishment:	9 October 2011
Term of Operation:	From 9 October 2011 to indefinite term
Scope of Activities:	Operation covers the following local and foreign currency businesses: financial and financing consultancy, credit verification and relevant consultancy, agency business to members of the group; assisting members of the group in the collection and payment of transaction amount; approved insurance agency business; guarantee provided to members of the group; entrusted loans and investment among members of the group; bill acceptance and discounting provided to members of the group; settlement of internal transfer among members of the group and relevant settlement, design of liquidation plans; accepting deposits from members of the group; loans and finance leasing provided to members of the group; engagement in inter-bank borrowing; underwriting of corporate bonds of members of the group; investment in marketable securities (limited to various products issued in the inter-bank market, money market funds, securities investment funds, local government bonds, corporate bonds, and bank financial products, trusts and wealth management products issued by other financial institutions); buyer’s credit of products of member of the group; spot settlement and sale of foreign exchange for members of the group; carrying out the centralized operation of cross-border foreign exchange funds of Magang Group as the host enterprise; carrying out cross-border two-way RMB capital pool business of Magang Group as the host enterprise; other businesses approved by the CBRC. (For projects subject to the administrative approval, approvals from the relevant authorities must be obtained prior to the commencement of operation)

1. History

Magang Group Finance Co., Ltd., a limited company funded and established by Magang (Group) Holding Company Limited and Maanshan Iron & Steel Company Limited, obtained the approval of China Banking Regulatory Commission (“Yin Jian Fu (2011) No. 57”), namely the Approval of China Banking Regulatory Commission on the Establishment of Enterprise Group Finance Company by Magang (Group) Holding Company Limited (《中國銀監會關於馬鋼(集團)控股有限公司籌建企業集團財務公司的批覆》) on 28 February 2011, which agreed to the establishment of Magang Group Finance Co., Ltd.. On 30 September 2011, the Anhui Supervision Bureau of China Banking Regulatory Commission issued the PRC Financial License (《中華人民共和國金融許可證》) No. L0133H234050001.

The original registered capital of the Appraised Entity was RMB1 billion (including USD5 million), of which RMB510 million was subscribed for by Magang (Group) Holding Company Limited in cash, accounting for 51% of the registered capital, and RMB490 million (including USD5 million) was subscribed for by Maanshan Iron & Steel Company Limited in cash, accounting for 49% of the registered capital. Such business has been verified by Anhui Yonghan Certified Public Accountants and a Capital Verification Report (Yong Yan Zi [2011] No. 06080) was issued on 30 June 2011.

On 9 February 2012, pursuant to the resolution of the shareholders’ meeting of the Appraised Entity (Ma Cai Gu [2012] No.1), the mutual transfer of equity interests among the shareholders of the finance company was considered and approved, and Magang (Group) Holding Company Limited transferred its 42% equity interest in the finance company to Maanshan Iron & Steel Company Limited at a price of RMB429.290736 million. The equity transfer agreement was signed on 10 February 2012. The agreement was approved by the State-owned Assets Supervision and Administration Commission of Anhui Provincial People’s Government on 14 February 2012 (Wan Guo Zi Chan Quan Han [2012] No. 52). After the equity transfer, the finance company was 91% funded by Maanshan Iron & Steel Company Limited and 9% funded by Magang (Group) Holding Company Limited.

Pursuant to the resolution of shareholders’ meeting of the Appraised Entity (MA Cai Gu [2016] No. 3) on 8 November 2016 and the amendments to the Articles of Association, the registered capital of the Appraised Entity was increased by RMB1 billion, which was made by Maanshan Iron & Steel Company Limited and Magang (Group) Holding Company Limited simultaneously in monetary fund in one lump sum proportionate to the original contribution, namely Maanshan Iron & Steel Company Limited contributed RMB910 million and Magang (Group) Holding Company Limited contributed RMB90 million.

As of 10 January 2017, the cumulative registered capital after the changes was RMB2 billion and the paid-in capital was RMB2 billion. Among them, Maanshan Iron & Steel Company Limited contributed RMB1.82 billion (including USD5 million), accounting for 91%, while Magang (Group) Holding Company Limited contributed RMB180 million, accounting for 9%.

2. Previous valuations and transactions of the Appraisal Entity

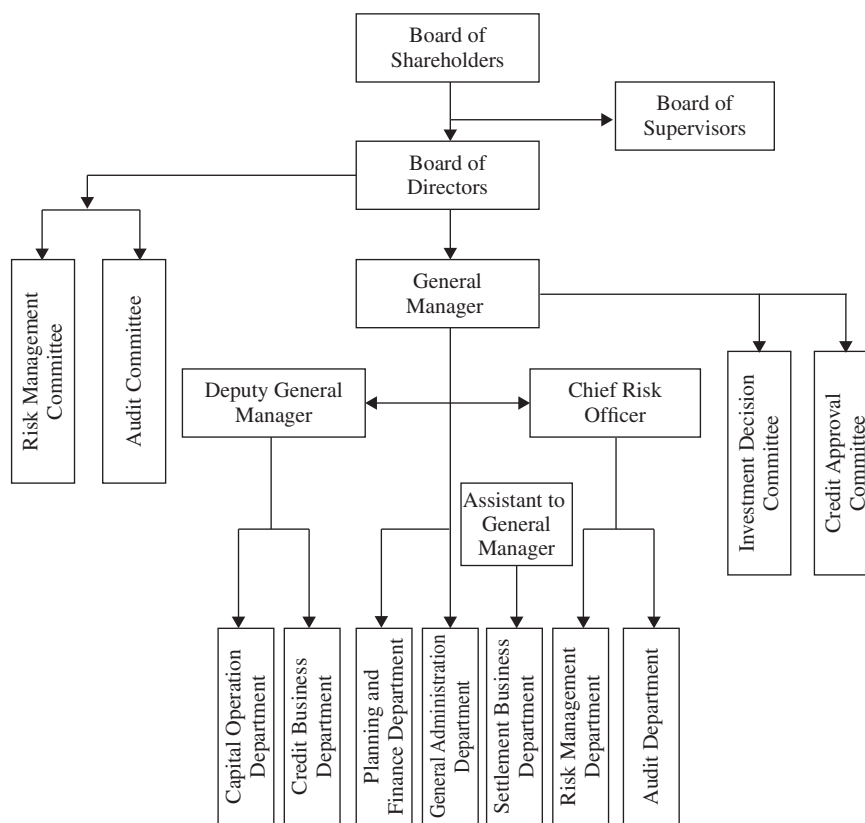
Nil

3. Shareholding structure as at the benchmark date

Amount Unit: RMB'0,000

Name of Shareholder	Registered Capital	Proportion of Subscribed Capital Contribution	Paid-up Capital	Proportion of Paid-in Capital
Maanshan Iron & Steel Company Limited	182,000.00	91%	182,000.00	91%
Magang (Group) Holding Company Limited	18,000.00	9%	18,000.00	9%
Total	<u>200,000.00</u>	<u>100%</u>	<u>200,000.00</u>	<u>100%</u>

4. Necessary corporate property rights and management structure



5. Financial and operating conditions in recent years

Statement of financial position in recent years

Amount Unit: RMB

Items	31 December 2019	31 December 2020	31 December 2021	30 June 2022
Cash and balances with central bank	713,286,620.02	939,712,540.81	938,883,609.64	900,648,186.07
Deposits with banks	4,542,237,275.51	1,616,145,109.42	2,859,023,045.73	2,880,442,144.98
Financial assets purchased under resale agreements	2,369,966,753.62	1,346,725,439.95	784,602,396.63	3,438,089,887.46
Loans and advances to customers	8,931,284,689.33	8,038,485,267.88	8,388,883,074.65	7,173,417,377.23
Financial investment:				
Financial assets held for trading	2,104,908,682.92	2,017,317,046.99	5,732,467,255.06	3,681,489,880.00
Equity investments	3,182,221,638.82	3,263,926,754.84	596,797,600.98	
Other equity investments			2,474,819,099.00	3,015,664,200.00
Fixed assets	1,474,058.26	439,667.62	270,927.73	239,955.00

Items	31 December 2019	31 December 2020	31 December 2021	30 June 2022
Construction in progress				265,486.72
Right-of-use assets		21,224,540.79	7,668,688.74	7,436,304.24
Intangible assets	1,299,101.93	956,786.69	2,891,335.50	2,526,140.99
Deferred tax assets	39,646,456.10	39,485,908.14	33,663,705.31	29,169,833.04
Long-term receivables			11,142,620.55	7,681,457.44
Other receivables	700.00	849,810.86	1,920.00	1,520,044.70
Total assets	<u>21,908,763,348.20</u>	<u>17,285,268,873.99</u>	<u>21,831,115,279.52</u>	<u>21,138,590,897.87</u>
Loans from other banks	400,031,888.89			
Repurchase agreements	1,386,580,448.05	198,480,944.44	925,465,952.23	108,679,592.72
Customer deposits	16,919,768,612.40	13,694,493,417.31	17,433,195,254.87	18,327,185,299.26
Payroll and employee benefits payable	113,508.64	382,799.22	2,473,662.61	435,800.60
Taxes payable	29,469,204.93	18,929,421.22	55,208,754.13	22,526,162.13
Dividends payable				214,117,611.07
Lease liabilities	22,907,041.50	22,126,638.70	8,650,477.71	8,454,923.66
Other payable	2,027,127.53	2,046,851.68	174,819.09	524,285.87
Provision	779,762.00	701,946.83	182,212.27	197,941.11
Deferred revenue	133,521.43			
Total liabilities	<u>18,761,811,115.37</u>	<u>13,937,162,019.40</u>	<u>18,425,351,132.91</u>	<u>18,682,121,616.42</u>
Total owners' equity	<u>3,146,952,232.83</u>	<u>3,348,106,854.59</u>	<u>3,405,764,146.61</u>	<u>2,456,469,281.45</u>

*Statement of operating conditions in recent years**Amount Unit: RMB*

Items	2019	2020	January – June	
			2021	2022
I. Revenue	428,193,804.93	393,714,951.79	402,254,757.91	173,321,723.59
Net interest income	288,186,821.49	293,239,371.75	250,955,467.37	64,088,625.12
Interest income	480,771,872.25	524,462,460.87	517,166,597.01	195,665,922.89
Interest expense	-192,585,050.76	-231,223,089.12	-266,211,129.64	-131,577,297.77
Net fees and commissions income	3,717,062.56	3,853,750.39	2,410,543.77	1,364,685.25
Fees and commissions income	5,369,992.11	5,118,783.55	3,763,707.29	2,168,634.65
Fees and commissions expense	-1,652,929.55	-1,265,033.16	-1,353,163.52	-803,949.40
Income from investment	132,913,680.30	77,007,947.53	129,514,832.71	116,306,852.19
Of which: income from derecognition of financial assets measured in amortized cost			3,604,880.31	
Gain from changes in fair value	2,652,825.22	22,408,364.07	20,267,719.53	-10,472,430.38
Foreign exchange gain/loss	723,415.36	-2,795,264.45	-893,805.47	2,033,991.41
Other operating income		782.50		
II. Operating expenses	-67,600,808.97	-25,517,464.66	-11,274,493.44	20,885,946.19
Taxes and surcharges	-2,544,573.80	-2,500,782.53	-2,298,962.21	-1,018,432.76
Business and administrative expenses	-15,414,395.31	-13,873,567.94	-16,407,323.01	-5,467,075.03
Credit impairment losses	-49,641,839.86	-9,143,114.19	7,431,791.78	27,371,453.98
III. Operating profit	360,592,995.96	368,197,487.13	390,980,264.47	194,207,669.78
Add: Non-operating income	1,800.00		3,745.46	4,855.35
Less: Non-operating expenditure	-200,000.00	-56,892.99		
IV. Total profit	360,394,795.96	368,140,594.14	390,984,009.93	194,212,525.13
Less: Income tax	-79,453,774.06	-91,034,971.68	-99,528,004.02	-45,346,660.82
V. Net profit	280,941,021.90	277,105,622.46	291,456,005.91	148,865,864.31
VI. Other comprehensive income, net of tax			470,700.58	1,942,766.23
VII. Total comprehensive income	280,941,021.90	277,105,622.46	291,926,706.49	150,808,630.54

The accounting statements of the Appraised Entity for 2019, 2020 and 2021 were provided by Magang Group Finance Co., Ltd. and audited by Ernst & Young Hua Ming LLP (Special General Partnership), which issued the standard audit reports with unqualified opinion of Ernst & Young Hua Ming (2020) Shen Zi No. 60999239-A01, Ernst & Young Hua Ming (2021) Shen Zi No. 60999239-A01 and Ernst & Young Hua Ming (2022) Shen Zi No. 60999239-A02. The accounting statements as at the valuation benchmark date were provided by Magang Group Finance Co., Ltd. and audited by Zhongqinwanxin Certified Public Accountants LLP (Special General Partnership), which issued the standard audit report with unqualified opinion of Qin Xin Shen Zi [2022] No. 0276.

6. Business

Magang Group Finance Co., Ltd. mainly provides financial services to the members of Magang (Group) Holding Company Limited and its main financial services are as follows:

- (1) financial and financing consultancy, credit verification and relevant consultancy, agency business to members of the group;
- (2) assisting members of the group in the collection and payment of transaction amount;
- (3) approved insurance agency business;
- (4) guarantee provided to members of the group;
- (5) entrusted loans and investment among members of the group;
- (6) bill acceptance and discounting provided to members of the group;
- (7) settlement of internal transfer among members of the group and relevant settlement, design of liquidation plans;
- (8) accepting deposits from members of the group;
- (9) loans and finance leasing provided to members of the group;
- (10) engagement in inter-bank borrowing;
- (11) underwriting of corporate bonds of members of the group;

- (12) investment in marketable securities limited to various products issued in the inter-bank market, money market funds, securities investment funds, local government bonds, corporate bonds, and bank financial products, trusts and wealth management products issued by other financial institutions;
- (13) buyer's credit of products of members of the group;
- (14) spot settlement and sale of foreign exchange for members of the group;
- (15) other businesses approved by CBRC.

7. Significant accounting policies adopted

The Accounting Standards for Business Enterprises issued by the Ministry of Finance on 15 February 2006 is adopted and the details are set out in the notes to the accounting statements of the audit report.

(III) Relationship between the clients and the Appraised Entity

Client 1 and Client 2 are the shareholders of the Appraised Entity.

(IV) Other users of the appraisal report agreed in the assets appraisal engagement contract

The users of this assets appraisal report include the clients, other users of the assets appraisal report as stipulated in the asset appraisal engagement contract and the users of the asset appraisal report as stipulated by laws and administrative regulations. Any other organization or individual can not be the user of this assets appraisal report.

II. PURPOSE OF APPRAISAL

According to the minutes of the general manager executive meeting of China Baowu (2021.032), China Baowu Party and Government Joint Committee, Baowu Group Finance Co., Ltd. intended to absorb and consolidate Magang Group Finance Co., Ltd.. Therefore, it is necessary to evaluate the total equity value of Magang Group Finance Co., Ltd. to provide a value reference for the above economic behavior.

III. OBJECT AND SCOPE OF APPRAISAL

(I) Appraised object and scope of appraisal

The appraised object is entire rights and interests of shareholders of Magang Group Finance Co., Ltd. as of the valuation benchmark date. The scope of appraisal involves the entire assets and liabilities of Magang Group Finance Co., Ltd..

Items	Book value <i>(RMB)</i>
Cash and balances with central bank	900,648,186.07
Deposits with banks	2,880,442,144.98
Financial assets purchased under resale agreements	3,438,089,887.46
Loans and advances to customers	7,173,417,377.23
Financial investment:	
Financial assets held for trading	3,681,489,880.00
Equity investments	
Other equity investments	3,015,664,200.00
Fixed assets	239,955.00
Construction in progress	265,486.72
Right-of-use assets	7,436,304.24
Intangible assets	2,526,140.99
Deferred tax assets	29,169,833.04
Long-term receivables	7,681,457.44
Other receivables	1,520,044.70
Total assets	<u>21,138,590,897.87</u>

Items	Book value <i>(RMB)</i>
Loans from other banks	
Repurchase agreements	108,679,592.72
Customer deposits	18,327,185,299.26
Payroll and employee benefits payable	435,800.60
Taxes payable	22,526,162.13
Dividends payable	214,117,611.07
Lease liabilities	8,454,923.66
Other payable	524,285.87
Provision	197,941.11
Deferred revenue	

Total liabilities	<u><u>18,682,121,616.42</u></u>
Total owners' equity	<u><u>2,456,469,281.45</u></u>

The appraised object and appraisal scope entrusted are consistent with those involved in the economic behavior, and have been audited by Zhongqinwanxin Certified Public Accountants LLP (Special General Partnership).

(II) The type and quantity of off-balance sheet assets declared by the enterprise

As at the valuation benchmark date, the off-balance sheet assets of Magang Group Finance Co., Ltd. include: letter of guarantee of RMB200,000,000 and electronic commercial acceptance bill of RMB684,791,200.

(III) Citing the types, quantities, book amounts (or appraisal values) of assets involved in the conclusions of the report issued by other institutions

The book value of the appraised object involved in this appraisal is quoted in the audit report of Qin Xin Shen Zi [2022] No. 0276 issued by Zhongqinwanxin Certified Public Accountants LLP (Special General Partnership).

IV. VALUE TYPES AND THEIR DEFINITIONS

According to the purpose of this appraisal, the type of value adopted in this appraisal is the market value.

The market value refers to the appraised value of a voluntary buyer and a voluntary seller conducting normal and fair transactions on the valuation benchmark date under the condition that they act rationally and are not coerced by any force.

It should be noted that the same asset may have different values in different markets. This appraisal is generally based on the observable or analytical market conditions and market environment in China. The selection of this value type in this appraisal is mainly based on factors such as the purpose of this appraisal, market conditions, assumptions of appraisal and the conditions of the appraised objects themselves. The term “appraised value” mentioned in this report refers to the appraised opinion regarding the appraised scope and object as agreed under the value type, assumptions of appraisal and preconditions as agreed in this report and in accordance with the procedures and methods described in this report, which is put forward to serve the purpose of appraisal agreed in this report only.

V. VALUATION BENCHMARK DATE

The valuation benchmark date of this project is 30 June 2022.

The benchmark date is determined by the clients on the basis of comprehensive consideration of the assets scale, workload, expected time required, compliance and other factors of the Appraised Entity. The impact of the determination of the benchmark date on the appraisal results is in line with the general situation, without special influencing factors.

VI. BASIS OF APPRAISAL

The main basis of the appraisal are:

(I) Behaviour basis

Minutes of the general manager executive meeting of China Baowu (2021 • 032).

(II) Regulations basis

1. The Asset Appraisal Law of the PRC (released on 2 July 2016);
2. The Company Law of the People's Republic of China (revised in 2018);
3. The Law of State-owned Assets of the PRC (No. 5 Decree issued by Chairman of the PRC);
4. Administrative Measures for Appraisal of State-owned Assets (No. 732 Decree issued by the State Council in 2020);
5. Detailed Rules for the Implementation of Measures for the Appraisal and Management of State-owned Assets (Guo Zi Ban Fa [1992] No. 36);
6. Provisional Regulations on Supervision and Administration of State-owned Assets of Enterprises (revised in 2019);
7. Administration Measures for Supervision over Trading of State-owned Assets by Enterprises (SASAC and MOF Decree No. 32 issued by the State Council);
8. Interim Measures for Appraisal and Management of State-owned Assets by Enterprises (SASAC Decree No. 12 issued by the State Council);
9. The Circular on Strengthening Appraisal and Management of State-owned Assets by Enterprises (SASAC [2006] No. 274);
10. Notice on Printing and Distributing Guidelines for Filing State-owned Assets Appraisal Projects of Enterprises (Guo Zi Fa Chan Quan [2013] No. 64);
11. Interim Measures for Supervision and Management of State-owned Asset Evaluation of Financial Enterprises (Decree No. 47 of the Ministry of Finance of the PRC, 12 October 2007);
12. Interim Provisions for Supervision and Management of State-owned Assets of Enterprises (No. 378 of the State Council Decree of the PRC);
13. Notice of Issues concerning the Supervision and Administration of Assessment of State-owned Assets of Financial Enterprises (Cai Jin [2011] No. 59);

14. Notice of the Ministry of Finance on Printing and Distributing Rules for the Trading of State-Owned Property Rights in Unlisted Financial Enterprises (Cai Jin [2011] No. 118);
15. Decree of China Banking Regulatory Commission of the Administrative Measures on Financial Companies of Group Enterprises (revised on 28 December 2006);
16. The Interim Measures for the Assessment of Risk Supervision Indicators of Finance Company of Enterprise Group (Yin Jian Fa [2006] No. 96);
17. Notice in Relation to the Overall Implementation of Accounting Standard for Business Enterprises of Banking Financial Institutions (Yin Jian Tong [2007] No. 22);
18. Notice of the CBRC on Printing and Distributing the Guidelines for Classification of Loan Risks (Yin Jian Fa [2007] No. 54);
19. Notice for Corporate Group Finance Company Risk Assessment and Categorisation Monitoring Guidelines (Yin Jian Fa [2007] No. 81);
20. Policies and regulations concerning corporate finance, accounting, taxation and assets management promulgated by the Ministry of Finance, the People's Bank of China, State Administration of Taxation, and the former State Administration of State-owned Assets;
21. Other relevant laws, regulations and notice documents.

(III) Standards basis

1. Asset Appraisal Basic Standards (Cai Zi [2017] No. 43);
2. Asset Appraisal Code of Professional Ethics (CAS [2017] No. 30);
3. Asset Appraisal Practicing Standards – Asset Appraisal Procedures (CAS [2018] No. 36);
4. Asset Appraisal Practicing Standards – Asset Appraisal Report (CAS [2018] No. 35);
5. Asset Appraisal Practicing Standards – Asset Appraisal Engagement Contract (CAS [2017] No. 33);

6. Asset Appraisal Practicing Standards – Use of Experts’ Services and Relevant Reports (CAS [2017] No. 35);
7. Asset Appraisal Practicing Standards – Asset Appraisal Files (CAS [2018] No. 37);
8. Asset Appraisal Practicing Standards – Business Value (CAS [2018] No. 38);
9. Asset Appraisal Practicing Standards – Asset Appraisal Approach (CAS [2019] No. 35);
10. A Guide for State-owned Assets Appraisal Report by Enterprises (CAS [2017] No. 42);
11. Guidelines of the Appraisal Report on State-owned Assets of Financial Enterprises;
12. A Guide for Quality Control by Asset Appraisal Agencies (CAS [2017] No. 46);
13. Guidelines for Value Types in Asset Appraisal (CAS [2017] No. 47);
14. Guiding Opinions on Legal Ownership of Assets Appraised objects (CAS [2017] No. 48);
15. Asset Appraisal Expert Guidance No. 1 – Financial Regulatory Indicators that Should Be Paid Attention to in the Appraisal of Financial Enterprises;
16. Assets Valuation Expert Guidance No. 3 – Income Approach Valuation Model and Parameter Determination for Financial Enterprises;
17. Asset Appraisal Expert Guidance No. 4 – Market Approach Appraisal Model and Parameter Determination for Financial Enterprises;
18. Notice on the Revision and Issuance of the Format of the Financial Statements of the Financial Enterprise for 2018;
19. Accounting Standard for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments (revised in 2017) (Cai Kuai [2017] No. 7);
20. Accounting Standard for Business Enterprises No. 23 – Transfer of Financial Assets (revised in 2017) (Cai Kuai [2017] No. 8);

21. Accounting Standard for Business Enterprises No. 24 – Hedge Accounting (revised in 2017) (Cai Kuai [2017] No. 9);
22. Accounting Standard for Business Enterprises No. 37 – Presentation and Reporting of Financial Instrument (revised in 2017);
23. Accounting Standards for Business Enterprises – Basic Standards (Ministry of Finance Decree No. 33);

(IV) Property rights basis

1. Business licenses of the clients and the Appraisal Entity;
2. The declaration form for valuation provided by the Appraisal Entity;
3. Other property rights evidence documents.

(V) Pricing basis

1. Notice on Implementing the Pilot Program of Replacing Business Tax with Value-Added Tax in an All-round Manner (Cai Shui [2016] No. 36)
2. Notice of the Ministry of Finance and the SAT on Adjustment to the Value-added Tax Rate (Cai Shui [2018] No. 32);
3. Announcement of the Ministry of Finance, the SAT and the General Administration of Customs on deepening VAT reform ([2019] No. 39);
4. WIND Financial Terminal;
5. Revenue forecast data, development plan and other information provided by the enterprise;
6. Property right transaction information collected by the appraisal institution;
7. National macroeconomic, industry, regional market and enterprise statistical analysis data;
8. Other information collected and held by the appraisal institution.

(VI) Other basis

1. The assets appraisal engagement contract;
2. The special audit report and accounting statements of the economic behaviour provided by the Appraisal Entity;
3. Financial information such as general ledgers and subsidiary ledgers provided by the Appraisal Entity;
4. Historical operating information and annual work summary of the enterprise provided by the Appraisal Entity;
5. Other relevant information provided by the Appraisal Entity;

VII. APPRAISAL APPROACHES**(I) Selection and determination of approaches**

The basic approaches for the valuation of an enterprise mainly include the income approach, the market approach and the asset-based approach.

The income approach in enterprise value evaluation refers to the valuation approach that capitalizes or discounts the expected income to determine the value of the valuation target. The discounted dividend income method and the discounted cash flow method are two methods commonly used in the income approach.

The market approach in the appraisal of enterprise value refers to the valuation method that compares the valuation subject with comparable listed companies or comparable transaction cases to determine the value of the valuation subject. Two methods commonly used under the market approach are the listed company comparison method and the transaction case comparison method.

The asset-based approach in the appraisal of enterprise value refers to the valuation method that uses the balance sheet as at the benchmark date of the appraised entity as the basis for determining the value of the valuation subject by appraising the value of the on-balance sheet and identifiable off-balance sheet assets and liabilities.

According to the requirements of Asset Appraisal Practicing Standards – Business Value, if different valuation methods are **suitable** for any appraisal of enterprise value, asset valuation professionals should adopt two or more valuation methods in their valuation.

The purpose of this appraisal is merger and absorption. Based on the investigation and understanding on the entity evaluated, it is in stable production and operation and its expected income in the future is predictable and measurable in currency. The risks to be borne by the asset owner for obtaining the expected income can also be predicted and quantified, and the expected profit period of the appraised assets can be predicted. Therefore, the income approach is adopted for the valuation.

As the active transaction cases of equity transfer of finance company in the mergers and acquisitions (M&A) market in recent two years, and given that relevant relationship of M&A cases, specific conditions affecting the transaction price and related data are available through the announcements of the companies conducting the relevant transactions, an analysis could be made on the transaction price. Therefore, the case comparison of market approach is adopted in this appraisal.

In conclusion, the income approach and market approach are adopted in this appraisal.

(II) Income approach

The income approach is to value an enterprise's assets as a whole on the basis of income capitalization, i.e., the income expected to generate in the future is capitalized to derive the capital or investment amount as at the benchmark date. Under the income approach, the income from implication and utilization of target assets is consistent with the capitalization rate.

1. General guidelines of appraisal and calculation formula

Finance company belongs to a financial enterprise, having a relatively large discrepancy as compared with normal enterprises in terms of operating features, capital structure and other aspects. The gearing ratio of which is generally higher. As liabilities constitute its operating costs, the decision-making of financing is an important factor necessary to be considered in the course of the operation of the Company. The prerequisite of applying comprehensive investment cash flow is all investment of enterprises within the period of future operating forecast and equity investment and creditor's right investment shall remain unchanged. In general, as financial enterprises necessary for constantly adopting financing methods to increase creditor's right fail to satisfy the aforementioned assumption, the comprehensive investment cash flow is not applicable, and only equity free cash flow approach is applicable to finance company.

The expected free cash flow of equity of the appraised target in the future was estimated according to its operation history, the future profit forecasts made by the appraised entity, market development conditions in the future and etc., and then the free cash flow of equity in the future operation term was discounted and added up to work out the shareholders’ total equity value. The model of the free cash flow of equity is as follows:

$$P = \sum_{i=1}^n \frac{FCFE_i}{(1+ke)^i} + \frac{FCFE_{(n+1)}}{(1+ke)^n}$$

In this formula:

P: shareholders’ total equity value of an enterprise

FCFE_i: Free cash flow of equity for tranche *i* in the specific forecast period

FCFE_(n+1): Free cash flow of equity in the year following the specific forecast period

Ke – Cost of equity capital

2. Free cash flow of equity

According to the model selected for the appraisal, free cash flow of equity shall be the after-tax cash flow generated in business activities. The calculation formula is:

Free cash flow of equity = net profit after tax + depreciation and amortization – capital expenditure – increase in equity + other comprehensive income

Where: Other comprehensive income refers to the other comprehensive income of the enterprise as shown in the income statement.

3. Income period

This appraisal is based on the going concern assumption. In other words, the income period is the infinite operating period based on the assumption on continuing operation.

4. *Forecast period*

The sectioning method is applied to the valuation to predict the equity cash flows of the Company, i.e. dividing future equity cash flows of the enterprise into equity cash flows during and after the specific forecast period. Based on the development plan of the enterprise and the characteristic of the industry, the specific forecast period is expected to 2027.

5. *Discount rate*

Discount rate is a function of cash flow risks: the greater the risks, the higher the discount rate. In accordance with the matching principle of income amount and discount rate, we took the free cash flow of equity as the income amount, and the discount rate is arrived at based on the internationally accepted CAPM model.

$$\begin{aligned}\text{Formula: } K_e &= R_f + [E(R_m) - R_f] \times \beta + a \\ &= R_f + R_{pm} \times \beta + a\end{aligned}$$

Where,

R _f :	Risk-free return rate as at the benchmark date
E(R _m):	Market expected earning rate
R _{pm} :	Market risk premium
B :	Systemic risk coefficient of equity
A:	Enterprise-specific risk adjustment coefficient

6. *Non-operating assets, surplus assets and liabilities*

We note that the valuation derived through income approach represents the value generated from operating assets, and does not include non-operating assets, surplus assets and liabilities without contributing to income of the enterprise. Therefore, such amounts should be added back when determining the value of shareholders' equity.

The value of shareholders' equity is the value of operating assets plus the value of non-operating assets, surplus assets and liabilities.

(III) Market approach

The market approach is to appraise the current fair market value of the appraised object with reference to the real market. Its characteristics is adopting a direct perspective of valuation, intuitive evaluation process, direct evaluation data drawn from the market and strong persuasive appraisal results. The market approach in the appraisal of enterprise value includes the listed company comparison and case comparison.

Finance companies in China are not subsidiaries of commercial banks, but are non-banking financial institutions under a large group, function for financing and accommodation of funds for members of the Group and heavily rely on Group companies. Currently, there is no finance company that is listed independently in domestic capital market. In view of the above, it is not applicable to directly apply listed company comparison in the appraisal.

As the active transaction cases of equity transfer of finance company in the M&A market in recent two years, and given that specific conditions relating to M&A cases and affecting the transaction price and related data are available through the announcements of the companies conducting the relevant transactions, an analysis could be made on the market value. Therefore, the case comparison is adopted in this appraisal.

1. We confirmed the basic information of the evaluated entity, including the conditions of the appraised object and its related equity, such as type of enterprise, capital size, business cope, business size and growth potential.
2. We selected transaction cases for comparative analysis with the evaluated entity. Firstly, transaction-ready cases enterprises are screened to determine the appropriate transaction cases. We conducted detailed research and analysis on specifics of transaction-ready cases, including main business scope, composition of income, company size and profitability. The business and financial conditions of these transaction-ready cases enterprises are analyzed and compared in order to select comparative transaction cases.
3. We analyzed the business and financial conditions of the selected transaction cases, compared and analyzed with the conditions of the evaluated entity, and made necessary adjustment. Firstly, financial information of the enterprise of transaction cases, such as industry statistics, research reports of research institutions, is collected. The above business and financial information obtained from public channels is analyzed and adjusted, so as to make the financial information of the enterprise of transaction cases as accurate and objective as possible, and comparable with the financial information of the appraisee.

4. We selected, calculated and adjusted value ratio. After analyzing and adjusting the financial data of reference enterprise, we needed to select appropriate value ratios, such as P/E ratio, P/B ratio, P/S ratio and other equity ratios, or enterprise value ratio, and analyze and adjust value ratios based on above work, as necessary.
5. Valuation results were obtained by applying value ratio. The equity value or enterprise value was calculated by multiplying the calculated and adjusted value ratio of the enterprise of transaction case by corresponding financial data or indicator of the appraised object.

The formula for calculating the equity value of the target company is as follows:

Equity value of the target company = net assets of the target company × revised P/B of the comparable companies

6. Non-operating assets, liabilities and surplus assets. After analysis, the assets were added back as non-operating assets.
7. Reasons for value ratio selection

Similar to other financial institutions, a finance company is a typical capital-driven enterprise, and is subject to the limitation imposed by regulatory authority on capital. That is to say, net asset size is an important factor to the determination of the asset value and revenues of a finance company, and net asset size is relatively stable as it is subject to less effect of macroeconomic policy and industry life cycle. Therefore, net asset size could better represent the value of a finance company. In view of the above, P/B ratio was selected as the value ratio in the appraisal.

VIII. APPRAISAL PROCESS AND FINDINGS

After being engaged as the appraiser of the asset appraisal, we designated valuers to be members of an assets appraisal team which commenced work commencing from 14 July 2022. The whole appraisal process includes the engagement acceptance, assets inspection, appraisal and estimation, appraisal summary and submission of reports. Particulars of the stages are stated as follows:

(I) Preparation

1. In July 2022, our company and the principal reached agreement on the basic matters related to the appraisal engagement such as appraisal purpose, appraised object and appraisal scope and valuation benchmark date, as well as the rights and obligations of the parties, and prepared corresponding appraisal plan through negotiation with the principal;

2. We worked together with the enterprise in verifying assets and preparing assets appraisal declaration lists. The appraisal team visited the site to have a general understanding of assets in the scope of appraisal, prepared for assets appraisal, assisted the enterprise in reporting assets in the scope of appraisal and collected documents and information required for assets appraisal, determined the focus of the appraisal and developed appraisal programs and basic idea of the appraisal.

(II) On-site Appraisal

From 14 July 2022 to 3 August 2022, the appraiser conducted necessary verification on the assets and liabilities related to the appraised object, carried out necessary due diligence investigation to the operation and management of the appraised entity. Based on the appraisal method determined in this appraisal, the appraisal project groups are mainly divided into the income approach group and the market approach group.

1. *Principal work of the income approach group*

Necessary due diligence investigation was made by appraisers to fully understand operation and management of the subject entity and the risk exposure. The sources of information for the due diligence mainly include information directly obtained from channels such as market, information obtained from relevant parties such as the consignor, and information obtained from government authorities, various professional bodies and other relevant departments, and conducted necessary analysis, conclusion and compilation of the appraisal information collected. The main contents of the due diligence are as follows:

- (1) Conducting market research to understand the basic situation of the same industry of the appraised entity, the development status and prospects of the industry in which the appraised entity is located, and regional economic factors affecting the production and operation of the appraised entity.
- (2) Understanding the history and evolution, substantial shareholders and shareholding ratios, the latest articles of association, ownership and operation management structure, operation model, concentration of group funds and customers coverage of the appraised entity.
- (3) Understanding previous appraisal and transactions of the appraised entity.
- (4) Understanding the assets, financial situation, operation and management status of the appraised entity and analyzing the financial indicators, such as historical income, cost, expenses and income and the reasons for changes of the appraised entity.

- (5) Combined with the size of capital, service quality and efficiency, customers coverage, historical performance, as well as future development plans and competitive advantages and disadvantages of the appraised entity, reasonably determining the appraisal assumption on the basis of considering various future possibilities and their impacts, reviewing and reasonably adjusting the forecast data provided by the management for the specific forecast period, and finally reach an agreement.
- (6) Determining the contents of the working capital, capital expenditure, surplus assets and non-operating assets and their asset utilization based on the asset allocation and the utilization of fixed assets of the appraised entity.
- (7) Establishing the income approach calculation model to determine various appraisal parameters and forecasting the expected income of the appraised entity for several years in the future.
- (8) Analyzing the trend of income during the sustainable period subsequent to the forecast period based on the macroeconomic and regional economic situations, the development prospects of the industry concerned, the business model and renewal of fixed assets investment, and select an appropriate method to estimate the value after the forecast period.

2. *Principal work for the market approach team*

- (1) Selecting transaction cases among domestic listed companies which are in the same or similar industries with the corporate receiving appraisal as a database of sample companies for comparison;
- (2) Selecting companies with similar scale of assets, profitability and growth capacity to the target company in database of samples of comparison companies as the company for comparison;
- (3) Calculating the value ratios of market capitalization to income indicators, asset indicators and value indicators based on the market capitalization and income indicators, asset indicators and value indicators of the company for comparison, respectively;
- (4) Through the above value ratios, establishing a quantitative model with the equity value of the corporate receiving appraisal;
- (5) Measuring the valuation of the company based on its fundamental indicators.

(III) Evaluating estimation and aggregation

Based on the established income approach calculation model, forecasting the expected earnings of the corporate for future to form the preliminary results of the income approach appraisal, and through the analysis of these results, making adjustment, modification and improvement to confirm the final results.

Based on the established market approach calculation model, forecasting the equity value of the corporate to form the preliminary results of the market approach appraisal, and through the analysis of these results, making adjustment, modification and improvement to confirm the final results.

Analyzing the factors of difference in the appraisal results formed by different methods and the reasonableness of the results, and selecting the results of one of the methods as the final appraisal conclusion of this report in combination with the purpose of the appraisal.

(IV) Submission of report

1. Drafting appraisal reports, writing appraisal notes and compiling and organizing appraisal working papers on the basis of the above work;
2. Performing review procedures and making amendment and corrections to appraisal reports in accordance with the internal report review system of the appraisal institute;
3. Exchanging views with the client on the appraisal results and issuing a formal asset appraisal report after thorough consideration of the relevant opinions.

IX. ASSUMPTIONS IN THE APPRAISAL**(i) General assumptions****1. Trade assumption**

All assets to be appraised were assumed to be in the course of trading. The appraisers valued the assets according to simulated trade terms.

2. Open market assumption

An open market is defined as full-fledged and developed market conditions, a competitive market with willing buyers and sellers. In this market, buyers and sellers are on equal footing, have the opportunity and time to get sufficient market information, and are able to trade in a voluntary and sensible manner, free from any compulsory or restrictive conditions.

3. Continuous use assumption

As the first step under the assumption, the target assets including assets being utilized and spare assets should be in use. Then such assets in use are supposed to be utilized continuously according to relevant data and information. Under the continuous use assumption, the possibility of repurposing of the assets or optimal conditions of use are disregarded.

4. Going concern assumption

The target company is assumed to legitimately continue as a going concern based on its existing assets and resource, and that the management is responsible and has the ability to take responsibilities conditions in the foreseeable future, instead of suspension due to various reasons.

(ii) Special valuation assumptions

1. It is assumed that the business operation of Magang Group Finance Company Limited is currently and shall continue to be on an on-going basis; the existing business scope shall have no material changes, and the existing business development and operation shall have no material changes due to changes, such as changes in future industrial policies.
2. Magang Group Finance Company Limited invests a certain amount of capital expenditure and maintenance fee each year in order to guarantee the proper use of assets; this valuation is conducted on the basic assumption that the company shall be able to operate on an on-going basis and ensure its profitability through continuous self-replenishment and update.
3. It is assumed that the accounting policies adopted during the period under forecast are expected to be consistent with those adopted currently by Magang Group Finance Company Limited and in the preparation of this report in all material aspects.

4. It is assumed that there shall be no material changes in the current financial industrial policies and the existing legal environment.
5. It is assumed that Magang Group Finance Company Limited will maintain the current level of capital and the corresponding scale of operation.
6. The scope of appraisal is only based on the appraisal declaration from provided by Magang Group Finance Company Limited, without considering the contingent assets and contingent liabilities that may exist outside the list that the appraised entity provided.
7. The main business income of the appraised enterprise is mainly derived from the current business operations and investment income without taking into account the incremental business that the enterprise may have in the future.
8. There shall be no material changes in deposit reserve, deposit and loan interest rates, exchange rates, tax bases, tax rates and policy charges.
9. The business scale of the appraised entity is limited to its existing capital scale, and does not consider the impact of possible future restructuring on the development of the business scale.
10. The revenue generated in the future, loans and advances to customers will basically be collected as planned without incurring any material bad debts.
11. There shall be no serious unexpected incidents in respect of the major assets of Magang Group Finance Company Limited during their lifecycles.
12. Magang Group Finance Company Limited shall be able to obtain sufficient funds in a timely manner when financial assistance is needed during its future operation.
13. Magang Group Finance Company Limited shall not encounter a large-scale staffing change that would affect the company's normal production and operating activities during its future operation.
14. The future supervisory indicators of Magang Group Finance Company Limited shall meet the requirements of the regulatory authorities.

The valuation conclusions of this Valuation Report are established based on the above assumptions as at the valuation benchmark date. When there is any significant change in the above assumptions, the signatory asset appraisers and the appraisal agency will not assume the responsibility for different valuation conclusions resulting from the change of assumptions.

X. APPRAISAL CONCLUSION

After implementing the aforesaid asset valuation procedures and methods, we set out the shareholders' total equity value of Magang Group Finance Company Limited as at the valuation benchmark date, as follows:

- (I) The appraised value by using the income approach is RMB2,935,094,900, representing an appreciation rate of 19.48% with a premium of RMB478,625,600 compared to the book net assets of 2,456,469,300 as at the valuation benchmark date.
- (II) The appraised value by using the market approach is RMB2,875,933,600, representing an appreciation rate of 17.08% with a premium of RMB419,464,300 compared to the book net assets of 2,456,469,300 as at the valuation benchmark date.

(III) Selection of valuation conclusions of the two methods

The difference between the income approach and the market approach was RMB59,161,300, representing a difference rate of 2.02%.

Market approach and income approach use different valuation paths. The income approach measures the value of a company from an income perspective. The company forecasts its future operating conditions and performance based on its historical performance. The valuation conclusion deriving from discounting the estimated future incomes can provide an effective reference in equity value. Market approach is a method to analyze and determine the appraisal value of the equity interest of an appraised enterprise, through analyzing the respective features of the comparable company and the appraised enterprise, based on the recent transaction price of the comparable company which is identical or similar to the appraised enterprise.

Considering that the valuation results by using the income approach are integrated with the development plan of Magang Group Finance Company Limited, focus on the overall profitability of the appraised entity in future and reflect the actual value of the enterprise by discounting the expected cash flow, the shareholders' total equity value of Magang Group Finance Company Limited can be more accurately reflected from the conclusion of the income approach.

Based on the above analysis and the purpose of this valuation, the conclusion of this valuation report adopts the results of the income approach valuation, namely the shareholders' total equity value of Magang Group Finance Limited as at 30 June 2022, being the valuation benchmark date, under the premise of going concern, is RMB2,935,094,900.

The period of validity of the valuation conclusions of this asset appraisal report lasts for one year from the valuation benchmark date.

XI. SPECIAL NOTES

(I) Incomplete or defective key information such as ownership

Nil

(II) Uncertain factors such as unresolved issues and legal disputes

Nil

(III) The nature and amount of mortgage, guarantees, leases and contingent liabilities (contingent assets) and their relationship with the appraised subject

Leases of Magang Group Finance Co., Ltd. on the valuation benchmark date are as follows:

No.	Lessor	Location	Leased		Annual rent (RMB)
			area	Term of lease	
1	Magang (Group) Holding Company Limited Assets Management Company	Main Floor, Magang Office Building, No. 8 Jiu Hua Xi Road, Maanshan City 803/805/ 807/825/827/829/831/833/835/837/839/84 1/843/845/847/849/851/923/925	1,134.3	1 January 2022 to 31 December 2024	583,354.00

(IV) Limitation of the appraisal procedures are affected

Nil

(V) Material subsequent events

Nil

(VI) Significant use of expert work and related reports

The book values of the appraised units involved in this appraisal are quoted from the audit report Qin Xin Shen Zi [2022] No. 0276 issued by Peking Certified Public Accountants (Special General Partnership) (中勤萬信會計師事務所(特殊普通合夥)).

(VII) Other matters that need to be explained

1. The profit forecast of the appraised entity obtained by the appraisal agency serves as the basis of the income approach in this valuation report. The valuers have conducted necessary inquiry, analysis and judgment on the profit forecast of the appraised entity. After repeated discussions with the management and major shareholders of the appraised entity and further revision and improvement of the forecast by the appraised entity, the appraisal agency adopted the relevant data of such profit forecast. The appraisal agency's use of the appraised entity's profit forecast is not a guarantee for the future profitability of the appraised entity.
2. The appraisal scope is only subject to and based on the Appraisal Declaration Form provided by the Clients and the Target Companies, without taking into account the contingent assets and contingent liabilities that may exist outside the list provided by the Clients and the Target Companies.
3. The appraisal institute and valuers disclaim any responsibility for those defects that may affect the valuation of the assets but are not explained specifically in engagement, and are unknown to the valuers after implementing appraisal procedures.
4. This appraisal is made on independent, fair, objective, and scientific basis. We and all the valuers hold no existing interests in the assets, or personal relationship of interests with or bias towards the principal and relevant stakeholders. The valuers has observed occupational ethics and codes during the appraisal process and made full efforts. The appraisal conclusion is prepared by Beijing China Assets Appraisal Co., Ltd., which is subject to the professional level and ability of the valuers involved in this appraisal project.
5. This report is compiled based on the economic activity documents, business licences, property right certificates, financial statements, asset ledger and other relevant data concerning this appraisal and supplied by the principal, the valued entity and other relevant stakeholders. The principal, property right owner and relevant stakeholders are responsible for the authenticity, validity and integrity of the original data supplied in relation to the abovementioned appraisal.

6. The appraisal conclusion reflects the market value of valuation target determined under the principles within open market for the purpose of this valuation, without considering the impact of mortgages and guarantees that may undertake in the future and of additional payment that may be paid by special trading parties on the appraisal price. No provision has been made for tax adjustments in respect of the appraisal gain of the assets. Meanwhile, the effects of changes in national macro-economic policies, natural forces and other force majeure on the price of assets are not taken into account.
7. The valuation of the appraised assets and related liabilities in this report is made to objectively reflect the value of the appraised assets. We do not intend to require the appraised entity to conduct relevant accounting treatment in accordance with the results and presentation method of this report. Whether or not to carry out or how to carry out the relevant accounting treatment shall be decided by the senior competent finance and taxation department of the appraised entity and shall comply with the requirements of the national accounting system.
8. According to the Guiding Opinions on Legal Ownership of the Asset Valuation Target, the client and other relevant parties shall provide the information of legal ownership of the valuation target in accordance with laws and be responsible for the truthfulness, completeness and legality of the materials provided by them. The purpose of assets appraisal is to estimate the value of the subject of assets appraisal and thereby express professional opinions, and it is beyond the working scope of Valuers to confirm or express an opinion on the legal ownership of the subject of assets appraisal. The Valuers shall not provide guarantees for the legal ownership of the subject of assets appraisal.
9. After the valuation base date and within the period of validity for using the report, the principal shall engage valuation institution to conduct re-valuation of the relevant assets in a timely manner.
10. This asset appraisal report did not take into consideration the possible premium or discount resulting from the possession or lack of right of control nor the impact of liquidity on the value of the appraised object.

Users of the asset appraisal report should pay attention to the impact of the abovementioned special matters on the conclusion of the appraisal.

XII. THE DESCRIPTION OF THE RESTRICTIONS ON THE USE OF THE ASSET APPRAISAL REPORT

- (I) This asset appraisal report can only be used for the appraisal purpose and purpose specified in the report;
- (II) The asset appraisal institution and the appraisal professionals will not be held liable or take the consequences, in case the clients or other users of the appraisal report fail to comply with the relevant laws, administrative regulations and use the report for other purposes than what is stated herein;
- (III) Any institution and individual shall not use the report on asset appraisal other than the client, other report users as agreed in the commission contract for asset appraisal, and report users in compliance with laws and administrative regulations;
- (IV) The asset valuer is responsible for estimating the value of the valued subject and providing professional opinions without bearing any responsibility for the decision-making of relevant parties. The user of the asset appraisal report should correctly understand the appraisal conclusion, which is not equal to the achievable price of the appraised object, and the appraisal conclusion should not be considered as a guarantee for the achievable price of the appraised object;
- (V) The asset appraisal report can only be used after it is signed by the asset valuer, sealed by the valuation agency and filed with the state-owned assets supervision and administration authority or the funded enterprise;
- (VI) The analysis on the value of assets concerned in the asset appraisal report is solely applicable to specific use stated in the asset appraisal report. Individual value of any part of the assets concerned is not applicable to any other uses and may not be applicable to other asset appraisal report.

XIII. REPORTING DATE OF ASSET APPRAISAL

The reporting date of asset appraisal and on which this professional opinion is formed is 26 October 2022.

The following is the valuation report received from China Assets Appraisal Co., Ltd. in relation to Baowu Finance as at 30 June 2022, which is prepared in Chinese. Should there be any inconsistency between the Chinese and the English version, the Chinese version shall prevail.

**Text of the Assets Appraisal Report
of the Shareholders' Total Equity Value of Baowu Group Finance Co., Ltd.
Involved in the Proposed Absorption and Merger of Magang Group Finance Co., Ltd.
by Baowu Group Finance Co., Ltd.**

Zhong Zi Ping Bao Zi (2022) No. 366

Baowu Group Finance Co., Ltd.:

China Assets Appraisal Co., Ltd. accepted the entrustment of the Company, adhered to the principles of independence, objectivity and impartiality in accordance with the laws, administrative regulations and asset appraisal criteria, adopted the income approach and the market approach, and assessed the market value of the shareholders' total equity of Baowu Group Finance Co., Ltd. involved in the proposed absorption and merger of Magang Group Finance Co., Ltd. by Baowu Group Finance Co., Ltd. as at 30 June 2022. The assets appraisal results are presented as follows:

I. OVERVIEW OF THE CLIENT, THE APPRAISED ENTITY AND OTHER USERS OF THE APPRAISAL REPORT AS AGREED IN THE APPRAISAL ENTRUSTMENT CONTRACT

The clients and the appraised entity are both Baowu Group Finance Co., Ltd., and other users of the assets appraisal report as agreed in the assets appraisal entrustment contract include the users of assets appraisal report stipulated by national laws and regulations.

(1) Client Profile

1. Registration Information

Name:	Baowu Group Finance Co., Ltd.
Type:	other limited liability companies
Address:	9th Floor, Building 1, No. 1859 Expo Avenue, China (Shanghai) Pilot Free Trade Zone
Legal Representative:	Chen Haitao
Registered Capital:	RMB2,600 million

Date of Establishment: 6 October 1992

Term of Operation: From 6 October 1992 to indefinite term

Scope of Activities: financial and financing consultancy, credit verification and relevant consultancy, agency business to members of the group; assisting members of the group in the collection and payment of transaction amount; approved insurance agency business; guarantee provided to members of the group; entrusted loans and investment among members of the group; bill acceptance and discounting provided to members of the group; settlement of internal transfer among members of the group and relevant settlement, design of liquidation plans; accepting deposits from members of the group; loans and finance leasing provided to members of the group; engagement in inter-bank borrowing; issuance of bonds of the finance company upon approval; underwriting of corporate bonds of members of the group; equity investments in financial institutions; investment in marketable securities; buyer credit for member companies and financing leases. (For projects subject to the administrative approval, approvals from the relevant authorities must be obtained prior to the commencement of operation)

2. Operation Qualification

Name of Institution:	Baowu Group Finance Co., Ltd.
Date of Approval of Establishment:	30 June 1992
Address:	9th Floor, Building 1, No. 1859 Expo Avenue, Pudong New District, Shanghai
Institution Number:	L0037H231000001
Issuing Authority:	Shanghai Office of China Banking and Insurance Regulatory Commission
Scope of License:	financial and financing consultancy, credit verification and relevant consultancy, agency business to members of the group; assisting members of the group in the collection and payment of transaction amount; approved insurance agency business; guarantee provided to members of the group; entrusted loans and investment among members of the group; bill acceptance and discounting provided to members of the group; settlement of internal transfer among members of the group and relevant settlement, design of liquidation plans; accepting deposits from members of the group; loans and finance leasing provided to members of the group; engagement in inter-bank borrowing; issuance of bonds of the finance company upon approval; underwriting of corporate bonds of members of the group; equity investments in financial institutions; investment in marketable securities; buyer credit for member companies and financing leases ordinary derivatives trading business (business varieties are limited to customer-initiated forward exchange settlement, forward foreign exchange trading, and forward trading of RMB and foreign currency swap products on behalf of customers).

3. Branch Profile*(1) Registration Information*

Name: Wuhan Branch, Baowu Group Finance Co., Ltd.

Type: other limited liability companies

Address: 11th floor, Room 1213 and 1217, 12th floor, 13th floor, Building B, Wugang Building, No. 999 Youyi Avenue, Qishan District, Wuhan City

Legal Representative: Yao Wenzhong

Date of Establishment: 4 January 2021

Term of Operation: Long-term

Scope of Activities: Permission Items: corporate group finance company services. (For projects subject to the administrative approval, approvals from the relevant authorities must be obtained prior to the commencement of operation. The specific business shall be subject to the documents or the business license approved by the relevant authorities)

(2) *Operation Qualification*

Name of Institution:	Wuhan Branch, Baowu Group Finance Co., Ltd.
Date of Approval of Establishment:	16 December 2020
Address:	11th floor, Room 1213 and 1217, 12th floor, 13th floor, Building B, Wugang Building, No. 999 Youyi Avenue, Qinshan District, Wuhan City, Hubei Province
Institution Number:	L0037H242010001
Issuing Authority:	Hubei Office of China Banking and Insurance Regulatory Commission
Scope of License:	financial and financing consultancy, credit verification and relevant consultancy, agency business to members of the group; assisting members of the group in the collection and payment of transaction amount; approved insurance agency business; entrusted loans and investment among members of the group; bill acceptance and discounting provided to members of the group; settlement of internal transfer among members of the group and relevant settlement, design of liquidation plans; accepting deposits from members of the group; loans and finance leasing provided to members of the group; other business as stipulated by laws and regulations and approved by the CBIRC and authorized by the head office.

4. History

Baowu Group Finance Co., Ltd., (formerly known as Baosteel Finance Co., Ltd.) a national non-banking financial institution jointly established by Baosteel Group Corporation and Members of the Group, was approved by the People's Bank of China in 1992 and issued with the PRC Financial Institution Legal Person License (《中華人民共和國金融機構法人許可證》) No. L11312930002, which was renewed with the PRC Financial License (《中華人民共和國金融許可證》) No. L0037H231000001 by the Shanghai Office of the China Banking Regulatory Commission on 23 October 2003.

The original registered capital of Baowu Group Finance Co., Ltd. was RMB1,140.11 million (including foreign exchange capital of USD100 million). In April 2005, the registered capital was reduced to RMB500 million after the approval of the Shanghai Office of the China Banking Regulatory Commission on the Reduction of Registered Capital of Baowu Group Finance Co., Ltd. (《關於寶武集團財務有限責任公司減少註冊資本的批覆》) (Hu Yin Jian Fu [2005] No. 77).

In August 2011, the registered capital was increased to RMB1,100 million after the approval of the Shanghai Office of the China Banking Regulatory Commission on the Increase of Registered Capital and Amendment of Articles of Association of Baowu Group Finance Co., Ltd. (《關於同意寶武集團財務有限責任公司增加註冊資本並修改公司章程的批覆》) (Hu Yin Jian Fu [2011] No. 610). Such capital increase has been verified by RSM China Certified Public Accountants (Special General Partnership) and a Capital Verification Report (Zhong Rui Yue Hua Yan Zi [2011] No. 221) was issued on 6 September 2011.

In September 2015, the Company increased its registered capital by RMB30 million by the resolution of the shareholders' meeting of Baowu Group Finance Co., Ltd. (Gu) 2015-002 and the amended articles of association. Such capital increase has been verified by RSM China Certified Public Accountants (Special General Partnership) and a Capital Verification Report (Rui Hua Yan Zi [2015] No. 01480006) was issued on 8 November 2015.

After the approval of China Banking and Insurance Regulatory Commission, namely the Approval of CBIRC on Issues Concerning the Absorption and Merger of Wuhan Iron and Steel Group Finance Co., Ltd. (Yin Bao Jian Fu [2020] No. 396) by Baosteel Group Finance Co., Ltd., Baosteel Group Finance Co., Ltd. integrated Baosteel Finance Co., Ltd. and Wuhan Iron and Steel Group Financial Co., Ltd. by way of "Absorption and Merger Plus New Branch" on 24 June 2020, according to the resolution of the twenty-second shareholders' meeting of Baosteel Finance Co., Ltd. in 2019, the Absorption and Merger Agreement (《吸收合併協議書》) signed between Baosteel Finance Co., Ltd. and Wuhan Iron and Steel Group Finance Co., Ltd., the Implementation Plan for the Absorption and Merger of Wuhan Iron and Steel Group Finance Co., Ltd. and the Establishment of Wuhan Branch by Baosteel Group Finance Co., Ltd. (《寶鋼集團財務有限責任公司吸收合併武漢鋼鐵集團財務有限責任公司並設立武漢分公司實施方案》) and the amended Articles of Association. The registered capital of the Company is RMB2,600 million after the completion of the absorption and merger. Such business has been verified by Pan-China Certified Public Accountants LLP and a Capital Verification Report (Tian Jian Yan [2020] No. 6-57) was issued on 14 August 2020.

In December 2021 and February 2022, the shareholders Wuhan Iron and Steel (Group) Corp, Baosteel Development Co., Ltd. and Baowu Group signed the Agreement to Transfer State-Owned Assets at Nil Consideration. According to the Approval of CBIRC Shanghai Office on the Adjustment of the Shareholding Structure of Baowu Group Finance Co., Ltd (Hu Yin Bao Jian Fu [2022] No. 210) by Shanghai regulatory bureau of China Banking and Insurance Regulatory Commission on 19 April 2022, WISCO and Baosteel Development transferred 20.80% and 0.31% of their shareholdings respectively to Baowu Group at nil consideration, after which Baowu Group's subscribed registered capital increased to RMB1,120.35 million, accounting for 43.09% of the registered capital.

According to the minutes of the executive meeting of the general manager of China Baowu (2021-032), the joint party and government committee of China Baowu, China Baowu Steel Group Co., Ltd intends to increase the capital of Baowu Group Finance Co., Ltd.. The registered capital of the company after the completion of the capital increase is RMB2,840 million. Such business has been verified by Pan-China Certified Public Accountants LLP and a Capital Verification Report (Tian Jian Yan [2020] No. 6-47) was issued on 29 June 2022.

5. *Previous valuations and transactions of the Appraisal Entity*

- (1) On 5 May 2019, China Baowu Steel Group Co., Ltd., after discussion, decided to agree to transfer 2.20% of the equity interest in Baowu Group Finance Co., Ltd. to Shanghai Baoye Group Corp., Ltd. and CISDI Group Co., Ltd. through public tender with the appraisal results filed as the price benchmark, and to exercise the right of first refusal to participate in the delisting transaction of the property rights trading agency.

The benchmark date of such appraisal is 31 December 2018. The appraisal was conducted by China Assets Appraisal Co., Ltd. using two methods, namely the asset base method and the market method, and the appraisal result of the market method was adopted as the appraisal conclusion. An asset appraisal report (Zhong Zi Pin Bao Zi [2019] No. 124) was issued, the appraisal result of which was RMB2,580.072 million, representing an appreciation of RMB328,188.4 million compared to the book net assets, with an appreciation rate of 14.57%.

- (2) In August 2019, after the approval of China Baowu Steel Group Co., Ltd. (Baowu Zi [2019] No. 368), it was agreed to integrated Baosteel Finance Co., Ltd. and Wuhan Iron and Steel Group Finance Co., Ltd. by way of “absorption and merger plus new branch”.

The benchmark date of such appraisal is 30 June 2019. The appraisal was conducted by China Assets Appraisal Co., Ltd. using two methods, namely the asset base method and the market method, and the appraisal result of the market method was adopted as the appraisal conclusion. An asset appraisal report (Zhong Zi Pin Bao Zi [2019] No. 362) was issued, the appraisal result of which was RMB2,838.829 million, representing an appreciation of RMB569.7137 million compared to the net assets as at the benchmark date, with an appreciation rate of 25.11%.

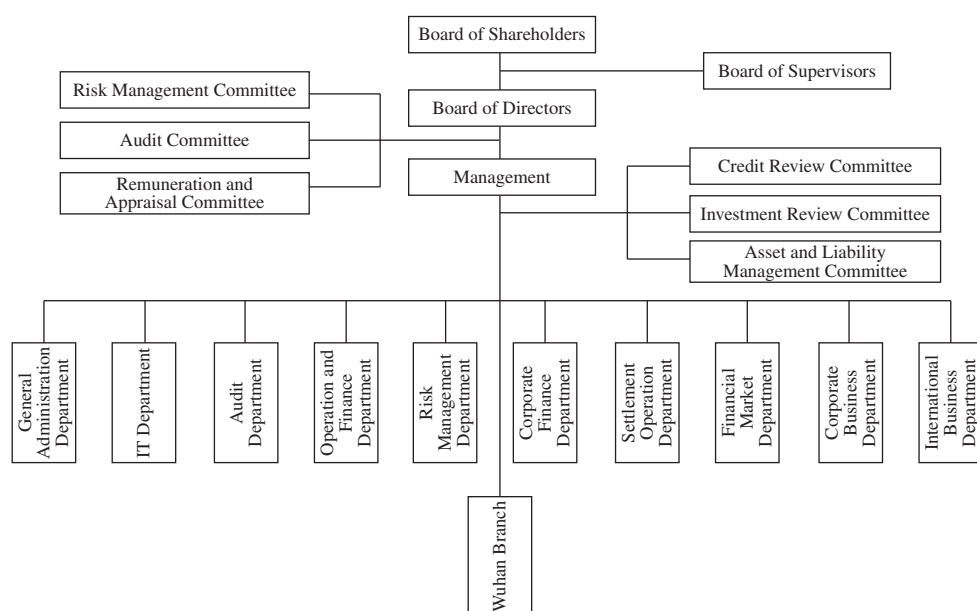
- (3) In January 2022, China Baowu Steel Group Co., Ltd. made a capital increase in cash to Baowu Group Finance Co., Ltd.

The valuation benchmark date of such appraisal is 30 September 2021. The appraisal was conducted by China Assets Appraisal Co., Ltd. using two methods, namely the asset base method and the market method, and the appraisal result of the market method was adopted as the appraisal conclusion. An asset appraisal report (Zhong Zi Pin Bao Zi [2021] No. 632) was issued, the appraisal result of which was RMB543,295.40, representing an appreciation of RMB108,343.55 compared to the net assets as at the benchmark date, with an appreciation rate of 24.91%.

6. *Shareholding structure as at the benchmark date*

Unit: RMB'0,000

Name of Shareholder	Registered Capital	Proportion of	Paid-up Capital	Proportion of
		Subscribed Capital Contribution		Paid-in Capital
China Baowu Steel Group Co., Ltd.	136,035	47.90%	136,035	47.90%
Baoshan Iron & Steel Co., Ltd.	94,948	33.43%	94,948	33.43%
Wuhan Iron and Steel Co., Ltd.	53,017	18.67%	53,017	18.67%
Total	284,000	100.00%	284,000	100.00%

7. *Necessary corporate property rights and management structure*8. *Financial and operating conditions in recent years**Statement of financial position in recent years**Amount in: RMB*

Items	31 December 2019	31 December 2020	31 December 2021	30 June 2022
Cash and bank balances	1,473,490,580	1,442,107,726	2,103,591,149	1,645,365,952
Deposits with banks and non-bank financial institutions			4,434,192,337	9,672,425,088
Deposits with central bank				
Placements with banks and non-bank financial institutions				699,688,869
Financial assets measured at fair value through profit or loss	29,156,415			
Derivative financial assets	15,718,996	63,802	264,600	23,498,064
Financial assets held under resale agreements	2,989,196,000	9,496,874,450	1,145,063,616	3,200,634,039
Interest receivables				
Loans and advances to customers	11,559,243,457	18,032,406,501	19,510,756,441	24,772,593,086
Trading financial assets	824,388,318	2,821,818,717	3,509,844,724	3,384,867,948
Other debt investments		172,642,723	7,797,312,850	5,951,496,660
Investment in other equity instruments		87,767,253	20,947,444	19,412,580

Items	31 December 2019	31 December 2020	31 December 2021	30 June 2022
Financial assets available-for-sale				
Investment properties	42,771,646	47,128,258	43,187,104	41,216,527
Fixed assets	7,552,560	8,495,203	9,717,200	8,299,666
Right-of-use assets			41,522,829	35,807,677
Intangible assets	19,740,103	41,933,635	40,318,667	35,745,151
Deferred income tax assets	68,369,066	112,517,137	118,629,171	111,586,141
Other assets	16,655,091	427,852,015	1,465,339,266	871,117,100
Total assets	19,659,675,810	36,414,393,341	40,240,687,398	50,473,754,546
Borrowings from central bank				
Deposits from banks and other financial institutions	1,016,261,347	379,274,812	225,207,808	228,364,411
Loans from other banks	423,039,985			
Derivative financial liabilities	9,526,529	62,915	260,743	24,196,853
Financial assets sold under repurchase agreements	227,048,073	1,022,318,071	933,512,886	668,206,770
Customer deposits	15,507,507,496	30,319,297,485	34,184,040,897	44,190,241,676
Accrued staff costs	24,549,063	23,525,555	27,514,893	6,478,088
Tax payable	32,133,003	20,380,848	35,443,648	32,466,230
Lease liabilities			39,973,555	36,095,220
Provision				2,664,717
Interest payables				
Deferred income tax liabilities	7,918,419	7,121,836	13,087,554	24,507,120
Other liabilities	4,871,084	451,681,925	385,169,175	417,387,751
Total liabilities	17,252,854,998	32,223,663,445	35,844,211,159	45,630,608,836
Total equity	2,406,820,812	4,190,729,895	4,396,476,239	4,843,145,710

*Statement of operating conditions in recent years**Amount in: RMB*

Items	January – June			
	2019	2020	2021	2022
I. Revenue	375,696,475	363,541,765	631,479,738	315,447,113
Net interest income	304,481,405	319,547,146	436,306,174	243,017,279
Net fee and commission income	8,747,527	5,316,684	4,285,871	1,686,916
Gains on investments	32,637,686	26,853,121	152,601,314	53,032,797
Gains raising from changes in fair value	4,317,385	1,321,543	22,478,931	1,251,145
Foreign exchange gains	7,445,072	-12,625,111	-8,166,970	9,118,015
Other gains	6,057,849	8,235,593	6,850,656	114,832
Other operating income	12,009,551	14,892,789	17,123,762	7,226,130
II. Operating expenses	10,812,502	42,933,283	202,483,429	59,844,388
Taxes and surcharges	6,357,389	6,165,493	9,162,830	4,438,120
Business and administrative fee	95,602,651	95,306,526	142,168,543	50,991,881
Credit impairment losses	-93,995,793	-63,407,908	44,692,638	1,714,467
Other operating expenses	2,848,255	4,869,172	6,459,419	2,699,919
III. Operating profits	364,883,973	320,608,482	428,996,309	255,602,726
Add: Non-operating income		68,936	248,522	
Less: Non-operating expenses				
IV. Total profits	364,883,973	320,677,419	429,244,831	255,602,726
Less: Income tax	89,299,870	79,146,790	102,385,653	63,600,108
V. Net profits	275,584,103	241,530,628	326,859,178	192,002,617

The financial statements of the appraised entity for June 2019, 2020, 2021 and 2022 were audited by Pan-China Certified Public Accountants LLP and Pan-China Certified Public Accountants LLP Shanghai Branch, which issued the standard audit reports with unqualified opinion of Tian Jian Shen [2020] No. 6–112, Tian Jian Shen [2021] No. 6–16, Tian Jian Shen [2021] No. 6–27 and Tian Jian Hu Shen [2022] No. 986

9. *Business*

Baowu Group Finance Co., Ltd. mainly provides financial services to the members of China Baowu Steel Group Co., Ltd. and its main financial services are as follows:

(1) *Treasury services*

- 1) Cash: ① Payment management: Provide a “gimbal” type settlement channel, so that customers can easily check and transfer funds from multiple bank accounts with a single “click”, and comprehensively control fund information. ② One-click service: The collection and payment information is connected to the enterprise financial system through the financial enterprise direct connection interface, so that the information will not be delayed throughout the process, avoiding duplicate entries, which is safe, efficient and convenient. ③ Electronic receipt: Provide electronic receipts for financial enterprise accounts and directly connected banks. The system automatically matches enterprise accounting vouchers, reducing the workload of manual order matching and helping customers to achieve paperless file management. ④ Centralised fund management: Provide high-quality, efficient and personalised centralised fund management services to support enterprises to strengthen fund control and improve the efficiency of fund usage.

- 2) Bill service: ① Electronic bill housekeeping service: Provide full lifecycle management of electronic bills, agent receipt of bills and automatic payment reminder when due, so that the management of electronic bills is as hassle-free and secure as cash. ② One-click service: Embed the electronic bill system into the enterprise financial system, so that various bill operations such as receipt, endorsement and issuance can be completed within the enterprise financial system, realising automatic matching of bill payment and transaction information. ③ Electronic bill system: Build an online, personalised and batch processing electronic bill system, which is faster, safer and simpler to operate. ④ Paper bill escrow: Provide customers with professional, standardised and electronic paper bill escrow services, making us the “Bill Steward” for our customers. ⑤ Bill financing, including bill discount, bill guaranteeing and bill pool; Bill discount: member companies or industrial chain customers hold bank (financial) bills or commercial bills to discount in financial companies, supporting multiple interest payment methods; Bill guaranteeing: financial companies cooperate with member companies to promise the supplier to guarantee the payment of commercial bills, bank bills or financial bills; Bill pool: financial companies provide bill collection management services for member companies to achieve unified management and intensive use of bills.

- 3) Foreign exchange services: ① Deposit and loan settlement services: Provide preferential deposits and loans in US dollars to domestic member companies. By utilising the direct bank-to-enterprise and swift channels between the financial company and the bank, we can achieve “one-to-many” instruction transmission and simplify the settlement process. ② Spot and forward exchange settlement and sales transactions: Holding the licence of interbank exchange settlement and sales, we provide member companies with spot and forward exchange settlement and sales transactions with transparent prices, confidential information and large price comparison space. ③ Cross-border fund management: With the qualification of sub-accounting business in the FTZ, we can provide member companies with a package of services such as collection and payment of foreign exchange, deposit and loan, settlement and sale of exchange under the FTZ, simplify the cross-border settlement process and enjoy the convenience of offshore investment and financing. ④ Professional market consulting services: By virtue of professional advantages, we provide diversified service solutions and consulting services for member companies’ international businesses, including marking to market of various foreign currencies, professional analysis, foreign exchange exposure analysis, design of foreign exchange risk avoidance solutions, foreign currency financing, etc.

(2) *Industrial chain finance*

- 1) Polycom is a full-process and one-stop comprehensive financial financing service for China Baowu's upstream suppliers, covering discount, factoring and other financing products, providing you with professional and attentive financing services to assure your capital liquidity.

① Bill financing: Suppliers can hold the outstanding acceptance bills opened by banks, finance companies or high-quality enterprises to finance companies to obtain financing by discounting. When the supplier needs short-term position turnover, the finance company handles the financing for it, solving the problem of difficulty in paying bills, speeding up the enterprise capital turnover and widening the enterprise financing channels. Business features: simple procedures, less material, low cost, fast lending, and flexible interest payment methods.

② Factoring financing: Suppliers assign their receivables based on the sales/service contracts of goods they enter into with member units within China Baowu to the finance company, which provides them with financing funds. The finance company adopts repurchase method, reverse and explicit factoring to simplify the debtor's credit granting process, which guarantees the risk and extends the business on a large scale. Business features: wider financing channels, affordable prices and top-class experience.

③ Tongbao financing: According to the characteristics of Tongbao, the finance company develops new fully online factoring financing products to simplify the Tongbao financing process and improve the efficiency of Tongbao financing. Business features: split financing enabled, fully online, high efficiency and low cost.

- 2) Baorongtong is a comprehensive online financing solution for the downstream customers of Baowu's industrial chain, providing flexible combinations of various financial products including bill financing, order financing and credit financing.

① Bill financing: Buyer's bill discounting: Based on the transaction relationship with Baowu member enterprises, downstream customers can hold bank acceptance bills, financial bills and commercial bills to the finance company for discounting, and the finance company will make direct payment to the member enterprises; Seller's bill discounting: Baowu member enterprises hold bank acceptance bills, financial bills and commercial bills collected from downstream customers to the finance company for discounting, and the finance company will make direct payment to the member enterprises. Business characteristics: simple procedures, less paperwork, low cost, fast lending and flexible interest payment.

② Order financing: In order to promote sales and ease the financial pressure of downstream customers, based on Baosteel's marketing system and logistics control, the finance company, Baosteel International and Ouyeel Financial Service work together to provide trade order-based financing services for downstream customers. Business features: relieve the pressure of purchasing funds, all online operation, efficient and convenient.

- ③ Credit financing: an online credit financing tool offered to Baowu's downstream customers, aiming to provide flexible and on-demand financing services for downstream customers. Meanwhile, in order to control risks, Ouyeel Guarantee Co., Ltd. is introduced to provide full guarantee for financing users. Business features: all online operation, flexibility in use, instant borrowing and repayment.

10. Significant accounting policies adopted

The Accounting Standards for Business Enterprises issued by the Ministry of Finance on 15 February 2006 is adopted and the details are set out in the notes to the accounting statements of the audit report.

(II) Relationship between the clients and the appraised entity

The clients and the appraised entity are the same party.

(III) Other users of the appraisal report agreed in the assets appraisal engagement contract

The users of this assets appraisal report include the clients, other users of the assets appraisal report as stipulated in the asset appraisal engagement contract and the users of the asset appraisal report as stipulated by laws and administrative regulations. Any other organization or individual can not be the user of this assets appraisal report.

II. PURPOSE OF APPRAISAL

According to the minutes of the general manager executive meeting of China Baowu (2021.032), China Baowu Party and Government Joint Committee, Baowu Group Finance Co., Ltd. intended to absorb and merge Magang Group Finance Co., Ltd.. Therefore, it is necessary to evaluate the total equity value of Baowu Group Finance Co., Ltd. to provide a value reference for the above economic behavior.

III. OBJECT AND SCOPE OF APPRAISAL

(I) Appraised object and scope of appraisal

The appraised object is the value of total shareholders' equity of Baowu Group Finance Co., Ltd. as of the valuation benchmark date. The scope of appraisal involves the entire assets and liabilities of Baowu Group Finance Co., Ltd..

Items	Book value <i>(RMB)</i>
Cash and balances with central bank	1,645,365,951.59
Cash and bank balances	
Clearing settlement funds	
Deposits with banks	9,672,425,087.61
Precious metals	
Interbank lending	699,688,869.45
Derivative financial assets	23,498,063.73
Receivables	
Interest receivable	
Financial assets purchased under resale agreements	3,200,634,038.89
Assets held for sale	
Loans and advances to customers	24,772,593,085.57
Financial investment	9,355,777,187.68
Long-term equity investments	
Investment properties	41,216,526.55
Fixed assets	8,299,666.10
Right-of-use assets	35,807,676.76
Intangible assets	35,745,150.91
Deferred income tax assets	111,586,141.33
Other assets	871,117,100.17
Total assets	<u><u>50,473,754,546.34</u></u>

Items	Book value <i>(RMB)</i>
Borrowings from central bank	
Deposits from banks and other financial institutions	228,364,410.97
Loans from other banks	
Financial liabilities held for trading	
Financial liabilities measured at fair value through profit or loss	
Derivative financial liabilities	24,196,853.34
Repurchase agreements	668,206,769.53
Customer deposits	44,190,241,676.46
Payroll and employee benefits payable	6,478,087.92
Taxes payable	32,466,230.06
Payables	
Interest payable	
Liabilities held for sale	
Lease liabilities	36,095,219.71
Provision	2,664,717.01
Bonds payable	
Deferred income tax liabilities	24,507,120.36
Other liabilities	417,387,751.00
	<hr/>
Total liabilities	<u>45,630,608,836.36</u>
Net assets (owners' equity)	<u>4,843,145,709.98</u>

The appraised object and scope of appraisal entrusted are consistent with those involved in the economic behavior, and have been audited by Pan-China Certified Public Accountants LLP.

(II) The type and quantity of off-balance sheet assets declared by the enterprise

As at the valuation benchmark date, the off-balance sheet assets of Baowu Group Finance Co., Ltd. are acceptance bill of RMB3,682,117,800, bills rediscounting of RMB672,860,400 and entrusted loan of RMB12,918,837,400.

(III) Citing the types, quantities, book amounts (or appraisal values) of assets involved in the conclusions of the report issued by other institutions

The book value of the appraised object involved in this appraisal is quoted in the audit report of Tian Jian Hu Shen [2022] No. 986 issued by Pan-China Certified Public Accountants LLP Shanghai Branch.

IV. VALUE TYPES AND THEIR DEFINITIONS

According to the purpose of this appraisal, the type of value adopted in this appraisal is the market value.

The market value refers to the appraised value of a voluntary buyer and a voluntary seller conducting normal and fair transactions on the valuation benchmark date under the condition that they act rationally and are not coerced by any force.

It should be noted that the same asset may have different values in different markets. This appraisal is generally based on the observable or analytical market conditions and market environment in China. The selection of this value type in this appraisal is mainly based on factors such as the purpose of this appraisal, market conditions, assumptions of appraisal and the conditions of the appraised objects themselves. The term “appraised value” mentioned in this report refers to the appraised opinion regarding the appraised scope and object as agreed under the value type, assumptions of appraisal and preconditions as agreed in this report and in accordance with the procedures and methods described in this report, which is put forward to serve the purpose of appraisal agreed in this report only.

V. VALUATION BENCHMARK DATE

The valuation benchmark date of this project is 30 June 2022.

The benchmark date is determined by the clients on the basis of comprehensive consideration of the assets scale, workload, expected time required, compliance and other factors of the appraised entity. The impact of the determination of the benchmark date on the appraisal results is in line with the general situation, without special influencing factors.

VI. BASIS OF APPRAISAL

The main basis of the appraisal are:

(I) Behaviour basis

Minutes of the general manager executive meeting of China Baowu (2021 • 032).

(II) Regulations basis

1. The Asset Appraisal Law of the PRC (released on 2 July 2016);
2. The Company Law of the People's Republic of China (revised in 2018);
3. The Law of State-owned Assets of the PRC (No. 5 Decree issued by Chairman of the PRC);
4. Administrative Measures for Appraisal of State-owned Assets (No. 732 Decree issued by the State Council in 2020);
5. Detailed Rules for the Implementation of Measures for the Appraisal and Management of State-owned Assets (Guo Zi Ban Fa [1992] No. 36);
6. Provisional Regulations on Supervision and Administration of State-owned Assets of Enterprises (revised in 2019);
7. Administration Measures for Supervision over Trading of State-owned Assets by Enterprises (SASAC and MOF Decree No. 32 issued by the State Council);
8. Interim Measures for Appraisal and Management of State-owned Assets by Enterprises (SASAC Decree No. 12 issued by the State Council);
9. The Circular on Strengthening Appraisal and Management of State-owned Assets by Enterprises (SASAC [2006] No. 274);
10. Notice on Printing and Distributing Guidelines for Filing State-owned Assets Appraisal Projects of Enterprises (Guo Zi Fa Chan Quan [2013] No. 64);
11. Interim Measures for Supervision and Management of State-owned Asset Evaluation of Financial Enterprises (Decree No. 47 of the Ministry of Finance of the PRC, 12 October 2007);

12. Interim Provisions for Supervision and Management of State-owned Assets of Enterprises (No. 378 of the State Council Decree of the PRC);
13. Notice of Issues concerning the Supervision and Administration of Assessment of State-owned Assets of Financial Enterprises (Cai Jin [2011] No. 59);
14. Notice of the Ministry of Finance on Printing and Distributing Rules for the Trading of State-Owned Property Rights in Unlisted Financial Enterprises (Cai Jin [2011] No. 118);
15. Decree of China Banking Regulatory Commission of the Administrative Measures on Financial Companies of Group Enterprises (revised on 28 December 2006);
16. The Interim Measures for the Assessment of Risk Supervision Indicators of Finance Company of Enterprise Group (Yin Jian Fa [2006] No. 96);
17. Notice in Relation to the Overall Implementation of Accounting Standard for Business Enterprises of Banking Financial Institutions (Yin Jian Tong [2007] No. 22);
18. Notice of the CBRC on Printing and Distributing the Guidelines for Classification of Loan Risks (Yin Jian Fa [2007] No. 54);
19. Notice for Corporate Group Finance Company Risk Assessment and Categorisation Monitoring Guidelines (Yin Jian Fa [2007] No. 81);
20. Policies and regulations concerning corporate finance, accounting, taxation and assets management promulgated by the Ministry of Finance, the People's Bank of China, State Administration of Taxation, and the former State Administration of State-owned Assets;
21. Other relevant laws, regulations and notice documents.

(III) Standards basis

1. Asset Appraisal Basic Standards (Cai Zi [2017] No. 43);
2. Asset Appraisal Code of Professional Ethics (CAS [2017] No. 30);
3. Asset Appraisal Practicing Standards – Asset Appraisal Procedures (CAS [2018] No. 36);
4. Asset Appraisal Practicing Standards – Asset Appraisal Report (CAS [2018] No. 35);
5. Asset Appraisal Practicing Standards – Asset Appraisal Engagement Contract (CAS [2017] No. 33);
6. Asset Appraisal Practicing Standards – Use of Experts’ Services and Relevant Reports (CAS [2017] No. 35);
7. Asset Appraisal Practicing Standards – Asset Appraisal Files (CAS [2018] No. 37);
8. Asset Appraisal Practicing Standards – Business Value (CAS [2018] No. 38);
9. Asset Appraisal Practicing Standards – Asset Appraisal Approach (CAS [2019] No. 35);
10. Asset Appraisal Practicing Standards – Real Estate (CAS [2017] No. 38);
11. Guiding Opinions on Valuation of Investment Properties (CAS [2017] No. 53);
12. A Guide for State-owned Assets Appraisal Report by Enterprises (CAS [2017] No. 42);
13. Guidelines of the Appraisal Report on State-owned Assets of Financial Enterprises;
14. A Guide for Quality Control by Asset Appraisal Agencies (CAS [2017] No. 46);
15. Guidelines for Value Types in Asset Appraisal (CAS [2017] No. 47);
16. Guiding Opinions on Legal Ownership of Assets Appraised objects (CAS [2017] No. 48);

17. Asset Appraisal Expert Guidance No. 1 – Financial Regulatory Indicators that Should Be Paid Attention to in the Appraisal of Financial Enterprises;
18. Assets Valuation Expert Guidance No. 3 – Income Approach Valuation Model and Parameter Determination for Financial Enterprises;
19. Asset Appraisal Expert Guidance No. 4 – Market Approach Appraisal Model and Parameter Determination for Financial Enterprises;
20. Notice on the Revision and Issuance of the Format of the Financial Statements of the Financial Enterprise for 2018;
21. Accounting Standard for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments (revised in 2017) (Cai Kuai [2017] No. 7);
22. Accounting Standard for Business Enterprises No. 23 – Transfer of Financial Assets (revised in 2017) (Cai Kuai [2017] No. 8);
23. Accounting Standard for Business Enterprises No. 24 – Hedge Accounting (revised in 2017) (Cai Kuai [2017] No. 9);
24. Accounting Standard for Business Enterprises No. 37 – Presentation and Reporting of Financial Instrument (revised in 2017);
25. Accounting Standards for Business Enterprises – Basic Standards (Ministry of Finance Decree No. 33).

(IV) Property rights basis

1. Business licenses of the clients;
2. Real estate ownership certificate;
3. The declaration form for valuation provided by the appraised entity;
4. Other property rights evidence documents.

(V) Pricing basis

1. Notice on Implementing the Pilot Program of Replacing Business Tax with Value-Added Tax in an All-round Manner (Cai Shui [2016] No. 36)
2. Notice of the Ministry of Finance and the SAT on Adjustment to the Value-added Tax Rate (Cai Shui [2018] No. 32);
3. Announcement of the Ministry of Finance, the SAT and the General Administration of Customs on deepening VAT reform ([2019] No. 39);
4. WIND Financial Terminal;
5. Revenue forecast data, development plan and other information provided by the enterprise;
6. Property right transaction information collected by the appraisal institution;
7. National macroeconomic, industry, regional market and enterprise statistical analysis data;
8. Other information collected and held by the appraisal institution.

(VI) Other basis

1. The assets appraisal engagement contract;
2. The special audit report and accounting statements of the economic behaviour provided by the appraised entity;
3. Financial information such as general ledgers and subsidiary ledgers provided by the appraised entity;
4. Historical operating information and annual work summary of the enterprise provided by the appraised entity;
5. Other relevant information provided by the appraised entity.

VII. APPRAISAL APPROACHES

(I) Selection and determination of approaches

The basic approaches for the valuation of an enterprise mainly include the income approach, the market approach and the asset-based approach.

The income approach in enterprise value evaluation refers to the valuation approach that capitalizes or discounts the expected income to determine the value of the valuation target. The discounted dividend income method and the discounted cash flow method are two methods commonly used in the income approach.

The market approach in the appraisal of enterprise value refers to the valuation method that compares the valuation subject with comparable listed companies or comparable transaction cases to determine the value of the valuation subject. Two methods commonly used under the market approach are the listed company comparison method and the transaction case comparison method.

The asset-based approach in the appraisal of enterprise value refers to the valuation method that uses the balance sheet as at the benchmark date of the appraised entity as the basis for determining the value of the valuation subject by appraising the value of the on-balance sheet and identifiable off-balance sheet assets and liabilities.

According to the requirements of Asset Appraisal Practicing Standards – Business Value, if different valuation methods are **suitable** for any appraisal of enterprise value, asset valuation professionals should adopt two or more valuation methods in their valuation.

The purpose of this appraisal is absorption and merger. Based on the investigation on the enterprises evaluated, it is in stable production and operation and its expected income in the future is predictable and measurable in currency. The risks to be borne by the asset owner for obtaining the expected income can also be predicted and quantified, and the expected profit period of the appraised assets can be predicted. Therefore, the income approach is adopted in this appraisal.

As the active transaction cases of equity transfer of finance company in the mergers and acquisitions (M&A) market in recent two years, and given that relevant relationship of M&A cases, specific conditions affecting the transaction price and related data are available through the announcements of the companies conducting the relevant transactions, an analysis could be made on the transaction price. Therefore, the case comparison of market approach is adopted in this appraisal.

In conclusion, the income approach and market approach are adopted in this appraisal.

(II) Income approach

The income approach is to value an enterprise's assets as a whole on the basis of income capitalization, i.e., the income expected to generate in the future is capitalized to derive the capital or investment amount as of the benchmark date. Under the income approach, the income from implication and utilization of target assets is consistent with the capitalization rate.

1. General guidelines of appraisal and calculation formula

Finance company belongs to a financial enterprise, having a relatively large discrepancy as compared with normal enterprises in terms of operating features, capital structure and other aspects. The gearing ratio of which is generally higher. As liabilities constitute its operating costs, the decision-making of financing is an important factor necessary to be considered in the course of the operation of the Company. The prerequisite of applying comprehensive investment cash flow is all investment of enterprises within the period of future operating forecast and equity investment and creditor's right investment shall remain unchanged. In general, as financial enterprises necessary for constantly adopting financing methods to increase creditor's right fail to satisfy the aforementioned assumption, the comprehensive investment cash flow is not applicable, and only equity free cash flow approach is applicable to finance company.

The expected free cash flow of equity of the appraised target in the future was estimated according to its operation history, the future profit forecasts made by the appraised entity, market development conditions in the future and etc., and then the free cash flow of equity in the future operation term was discounted and added up to work out the shareholders' total equity value. The model of the free cash flow of equity is as follows:

$$P = \sum_{i=1}^n \frac{FCFE_i}{(1+ke)^i} + \frac{FCFE_{(n+1)}}{(1+ke)^n}$$

In this formula:

P : Shareholders' total equity value of an enterprise

$FCFE_i$: Free cash flow of equity for tranche i in the specific forecast period

$FCFE_{(n+1)}$: Free cash flow of equity in the year following the specific forecast period

Ke – Cost of equity capital

2. Free cash flow of equity

According to the model selected for the appraisal, free cash flow of equity shall be the after-tax cash flow generated in business activities. The calculation formula is:

Free cash flow of equity = net profit after tax + depreciation and amortization – capital expenditure – increase in equity + other comprehensive income

Where: Other comprehensive income refers to the other comprehensive income of the enterprise as shown in the income statement.

3. Income period

This appraisal is based on the going concern assumption. In other words, the income period is the infinite operating period based on the assumption on continuing operation.

4. Forecast period

The sectioning method is applied to the valuation to predict the equity cash flows of the Company, i.e. dividing future equity cash flows of the enterprise into equity cash flows during and after the specific forecast period. Based on the development plan of the enterprise and the characteristic of the industry, the specific forecast period is expected to 2027.

5. *Discount rate*

Discount rate is a function of cash flow risks: the greater the risks, the higher the discount rate. In accordance with the matching principle of income amount and discount rate, we took the free cash flow of equity as the income amount, and the discount rate is arrived at based on the internationally accepted CAPM model.

$$\begin{aligned} \text{Formula: } K_e &= R_f + [E(R_m) - R_f] \times \beta + a \\ &= R_f + R_{pm} \times \beta + a \end{aligned}$$

Where,

R _f :	Risk-free return rate as at the benchmark date
E(R _m):	Market expected earning rate
R _{pm} :	Market risk premium
β :	Systemic risk coefficient of equity
a:	Enterprise-specific risk adjustment coefficient

6. *Non-operating assets, surplus assets and liabilities*

We note that the valuation derived through income approach represents the value generated from operating assets, and does not include non-operating assets, surplus assets and liabilities without contributing to income of the enterprise. Therefore, such amounts should be added back when determining the value of shareholders' equity.

The value of shareholders' equity is the value of operating assets plus the value of non-operating assets, surplus assets and liabilities.

(III) **Market approach**

The market approach is to appraise the current fair market value of the appraised object with reference to the real market. Its characteristics is adopting a direct perspective of valuation, intuitive evaluation process, direct evaluation data drawn from the market and strong persuasive appraisal results. The market approach in the appraisal of enterprise value includes the listed company comparison and case comparison.

Finance companies in China are not subsidiaries of commercial banks, but are non-banking financial institutions under a large group, function for financing and accommodation of funds for members of the Group and heavily rely on Group companies. Currently, there is no finance company that is listed independently in domestic capital market. In view of the above, it is not applicable to directly apply listed company comparison in the appraisal.

As the active transaction cases of equity transfer of finance company in the mergers and acquisitions (M&A) market in recent two years, and given that specific conditions relating to M&A cases and affecting the transaction price and related data are available through the announcements of the companies conducting the relevant transactions, an analysis could be made on the market value. Therefore, the case comparison is adopted in this appraisal.

1. We confirmed the basic information of the evaluated entity, including the conditions of the appraised object and its related equity, such as type of enterprise, capital size, business cope, business size and growth potential.
2. We selected transaction cases for comparative analysis with the evaluated entity. Firstly, transaction-ready cases enterprises are screened to determine the appropriate transaction cases. We conducted detailed research and analysis on specifics of transaction-ready cases, including main business scope, composition of income, company size and profitability. The business and financial conditions of these transaction-ready cases enterprises are analyzed and compared in order to select comparative transaction cases.
3. We analyzed the business and financial conditions of the selected transaction cases, compared and analyzed with the conditions of the evaluated entity, and made necessary adjustment. Firstly, financial information of the enterprise of transaction cases, such as industry statistics, research reports of research institutions, is collected. The above business and financial information obtained from public channels is analyzed and adjusted, so as to make the financial information of the enterprise of transaction cases as accurate and objective as possible, and comparable with the financial information of the appraisee.
4. We selected, calculated and adjusted value ratio. After analyzing and adjusting the financial data of reference enterprise, we needed to select appropriate value ratios, such as P/E ratio, P/B ratio, P/S ratio and other equity ratios, or enterprise value ratio, and analyze and adjust value ratios based on above work, as necessary.
5. Valuation results were obtained by applying value ratio. The equity value or enterprise value was calculated by multiplying the calculated and adjusted value ratio of the enterprise of transaction case by corresponding financial data or indicator of the appraised object.

The formula for calculating the equity value of the target company is as follows:

Equity value of the target company = net assets of the target company × revised P/B of the comparable companies

6. Non-operating assets, liabilities and surplus assets. After analysis, the assets were added back as non-operating assets.
7. Reasons for value ratio selection

Similar to other financial institutions, a finance company is a typical capital-driven enterprise, and is subject to the limitation imposed by regulatory authority on capital. That is to say, net asset size is an important factor to the determination of the asset value and revenues of a finance company, and net asset size is relatively stable as it is subject to less effect of macroeconomic policy and industry life cycle. Therefore, net asset size could better represent the value of a finance company. In view of the above, P/B ratio was selected as the value ratio in the appraisal.

VIII. APPRAISAL PROCESS AND FINDINGS

After being engaged as the appraiser of the asset appraisal, we designated valuers to be members of an assets appraisal team which commenced work commencing from 12 July 2022. The whole appraisal process includes the engagement acceptance, assets inspection, appraisal and estimation, appraisal summary and submission of reports. Particulars of the stages are stated as follows:

(I) Preparation

1. In July 2022, our company and the principal reached agreement on the basic matters related to the appraisal engagement such as appraisal purpose, appraised object and appraisal scope and valuation benchmark date, as well as the rights and obligations of the parties, and prepared corresponding appraisal plan through negotiation with the principal;
2. We worked together with the enterprise in verifying assets and preparing assets appraisal declaration lists. The appraisal team visited the site to have a general understanding of assets in the scope of appraisal, prepared for assets appraisal, assisted the enterprise in reporting assets in the scope of appraisal and collected documents and information required for assets appraisal, determined the focus of the appraisal and developed appraisal programs and basic idea of the appraisal.

(II) On-site Appraisal

From 12 July 2022 to 1 August 2022, the appraiser conducted necessary verification on the assets and liabilities related to the appraised object, carried out necessary due diligence investigation to the operation and management of the appraised entity. Based on the appraisal method determined in this appraisal, the appraisal project groups are mainly divided into the income approach group and the market approach group.

1. Principal work of the income approach group

Necessary due diligence investigation was made by appraisers to fully understand operation and management of the subject entity and the risk exposure. The sources of information for the due diligence mainly include information directly obtained from channels such as market, information obtained from relevant parties such as the consignor, and information obtained from government authorities, various professional bodies and other relevant departments, and conducted necessary analysis, conclusion and compilation of the appraisal information collected. The main contents of the due diligence are as follows:

- (1) Conducting market research to understand the basic situation of the same industry of the appraised entity, the development status and prospects of the industry in which the appraised entity is located, and regional economic factors affecting the production and operation of the appraised entity.
- (2) Understanding the history and evolution, substantial shareholders and shareholding ratios, the latest articles of association, ownership and operation management structure, operation model, concentration of group funds and customers coverage of the appraised entity.
- (3) Understanding previous appraisal and transactions of the appraised entity.
- (4) Understanding the assets, financial situation, operation and management status of the appraised entity and analyzing the financial indicators, such as historical income, cost, expenses and income and the reasons for changes of the appraised entity.

- (5) Combined with the size of capital, service quality and efficiency, customers coverage, historical performance, as well as future development plans and competitive advantages and disadvantages of the appraised entity, reasonably determining the appraisal assumption on the basis of considering various future possibilities and their impacts, reviewing and reasonably adjusting the forecast data provided by the management for the specific forecast period, and finally reach an agreement.
- (6) Determining the contents of the working capital, capital expenditure, surplus assets and non-operating assets and their asset utilization based on the asset allocation and the utilization of fixed assets of the appraised entity.
- (7) Establishing the income approach calculation model to determine various appraisal parameters and forecasting the expected income of the appraised entity for several years in the future.
- (8) Analyzing the trend of income during the sustainable period subsequent to the forecast period based on the macroeconomic and regional economic situations, the development prospects of the industry concerned, the business model and renewal of fixed assets investment, and select an appropriate method to estimate the value after the forecast period.

2. *Principal work for the market approach group*

- (1) Selecting transaction cases among domestic listed companies which are in the same or similar industries with the corporate receiving appraisal as a database of sample companies for comparison;
- (2) Selecting companies with similar scale of assets, profitability and growth capacity to the target company in database of samples of comparison companies as the company for comparison;
- (3) Calculating the value ratios of market capitalization to income indicators, asset indicators and value indicators based on the market capitalization and income indicators, asset indicators and value indicators of the company for comparison, respectively;
- (4) Through the above value ratios, establishing a quantitative model with the equity value of the corporate receiving appraisal;
- (5) Measuring the valuation of the company based on its fundamental indicators.

(III) Evaluating estimation and aggregation

Based on the established income approach calculation model, forecasting the expected earnings of the corporate for future to form the preliminary results of the income approach appraisal, and through the analysis of these results, making adjustment, modification and improvement to confirm the final results.

Based on the established market approach calculation model, forecasting the equity value of the corporate to form the preliminary results of the market approach appraisal, and through the analysis of these results, making adjustment, modification and improvement to confirm the final results.

Analyzing the factors of difference in the appraisal results formed by different methods and the reasonableness of the results, and selecting the results of one of the methods as the final appraisal conclusion of this report in combination with the purpose of the appraisal.

(IV) Submission of report

1. Drafting appraisal reports, writing appraisal notes and compiling and organizing appraisal working papers on the basis of the above work;
2. Performing review procedures and making amendment and corrections to appraisal reports in accordance with the internal report review system of the appraisal institute;
3. Exchanging views with the client on the appraisal results and issuing a formal asset appraisal report after thorough consideration of the relevant opinions.

IX. ASSUMPTIONS IN THE APPRAISAL**(I) General assumptions****1. Trade assumption**

All assets to be appraised were assumed to be in the course of trading. The appraisers valued the assets according to simulated trade terms.

2. *Open market assumption*

An open market is defined as full-fledged and developed market conditions, a competitive market with willing buyers and sellers. In this market, buyers and sellers are on equal footing, have the opportunity and time to get sufficient market information, and are able to trade in a voluntary and sensible manner, free from any compulsory or restrictive conditions.

3. *Continuous use assumption*

As the first step under the assumption, the target assets including assets being utilized and spare assets should be in use. Then such assets in use are supposed to be utilized continuously according to relevant data and information. Under the continuous use assumption, the possibility of repurposing of the assets or optimal conditions of use are disregarded.

4. *Going concern assumption*

The target company is assumed to legitimately continue as a going concern based on its existing assets and resource, and that the management is responsible and has the ability to take responsibilities conditions in the foreseeable future, instead of suspension due to various reasons.

(II) Special valuation assumptions

1. It is assumed that the business operation of Baowu Group Finance Co., Ltd. is currently and shall continue to be on an on-going basis; the existing business scope shall have no material changes, and the existing business development and operation shall have no material changes due to changes, such as changes in future industrial policies.
2. Baowu Group Finance Co., Ltd. invests a certain amount of capital expenditure and maintenance fee each year in order to guarantee the proper use of assets; this valuation is conducted on the basic assumption that the company shall be able to operate on an on-going basis and ensure its profitability through continuous self-replenishment and update.
3. It is assumed that the accounting policies adopted during the period under forecast are expected to be consistent with those adopted currently by Baowu Group Finance Co., Ltd. and in the preparation of this report in all material aspects.

4. It is assumed that there shall be no material changes in the current financial industrial policies and the existing legal environment.
5. It is assumed that Baowu Group Finance Co., Ltd. will maintain the current level of capital and the corresponding scale of operation.
6. The scope of appraisal is only based on the appraisal declaration from provided by Baowu Group Finance Co., Ltd., without considering the contingent assets and contingent liabilities that may exist outside the list that the appraised entity provided.
7. The main business income of the appraised enterprise is mainly derived from the current business operations and investment income without taking into account the incremental business that the enterprise may have in the future.
8. There shall be no material changes in deposit reserve, deposit and loan interest rates, exchange rates, tax bases, tax rates and policy charges.
9. The business scale of the appraised entity is limited to its existing capital scale, and does not consider the impact of possible future restructuring on the development of the business scale.
10. The revenue generated in the future, loans and advances to customers will basically be collected as planned without incurring any material bad debts.
11. There shall be no serious unexpected incidents in respect of the major assets of Baowu Group Finance Co., Ltd. during their lifecycles.
12. Baowu Group Finance Co., Ltd. shall be able to obtain sufficient funds in a timely manner when financial assistance is needed during its future operation.
13. Baowu Group Finance Co., Ltd. shall not encounter a large-scale staffing change that would affect the company's normal production and operating activities during its future operation.
14. The future supervisory indicators of Baowu Group Finance Co., Ltd. shall meet the requirements of the regulatory authorities.

The valuation conclusions of this Valuation Report are established based on the above assumptions as at the valuation benchmark date. When there is any significant change in the above assumptions, the signatory asset appraisers and the appraisal agency will not assume the responsibility for different valuation conclusions resulting from the change of assumptions.

X. APPRAISAL CONCLUSION

After implementing the aforesaid asset valuation procedures and methods, the shareholders' total equity value of Baowu Group Finance Co., Ltd. as at the valuation benchmark date is set out as follows:

- (I) The appraised result by using the income approach is RMB6,065,100,700, representing an appreciation of RMB1,221,955,000 compared to the book net assets of RMB4,843,145,700 as at the benchmark date, with an appreciation rate of 25.23%.
- (II) The appraised result by using the market approach is RMB6,062,809,400, representing an appreciation of RMB1,219,663,600 compared to the book net assets of RMB4,843,145,700 as at the benchmark date, with an appreciation rate of 25.18%.
- (III) **Selection of valuation conclusions of the two approaches**

The difference between the income approach and the market approach was RMB2,291,300, representing a difference rate of 0.04%.

Market approach and income approach use different valuation paths. The income approach measures the value of a company from an income perspective. The company forecasts its future operating conditions and performance based on its historical performance. The valuation conclusion deriving from discounting the estimated future incomes can provide an effective reference in equity value. Market approach is a method to analyze and determine the appraisal value of the equity interest of an appraised enterprise, through analyzing the respective features of the comparable company and the appraised enterprise, based on the recent transaction price of the comparable company which is identical or similar to the appraised enterprise.

Considering that the valuation results by using the income approach are integrated with the development plan of Baowu Group Finance Co., Ltd., focus on the overall profitability of the appraised entity in future and reflect the actual value of the enterprise by discounting the expected cash flow, the shareholders' total equity value of Baowu Group Finance Co., Ltd. can be more accurately reflected from the conclusion of the income approach.

Based on the above analysis and the purpose of this valuation, the conclusion of this valuation report adopts the results of the income approach valuation, namely the shareholders' total equity value of Baowu Group Finance Co., Ltd. as at 30 June 2022, being the valuation benchmark date, under the premise of going concern, is RMB6,065,100,700.

The period of validity of the valuation conclusions of this asset appraisal report lasts for one year from the valuation benchmark date.

XI. SPECIAL NOTES

(I) Incomplete or defective key information such as ownership

Nil

(II) Uncertain factors such as unresolved issues and legal disputes

Nil

(III) The nature and amount of mortgage, guarantees, leases and contingent liabilities (contingent assets) and their relationship with the appraised subject

Leases of Baowu Group Finance Co., Ltd. on the valuation benchmark date are as follows:

No.	Lessor	Location	Leased		Annual rent (RMB)
			area	Term of lease	
1	Baosteel Group (Shanghai) Real Estate Co., Ltd.	Canteen 04 Unit, 6/F, Building 1, Baowu Building, Unit 1 at 9/F and unit at 8/F, Building 1, Baowu Building	2,488.77	2022-1-1 to 2022-12-31	561,694.65
2	Baosteel Group (Shanghai) Real Estate Co., Ltd.	201 and 202, 2/F, Building 2, Baowu Building	525.17	2022-1-1 to 2022-12-31	191,687.05
3	Baosteel Group (Shanghai) Real Estate Co., Ltd.	35 units parking lots		2022-1-1 to 2021-12-31	21,000.00
4	Wuhan Iron and Steel (Group) Corp.	11/F, Room 1215 – 1216 at 12/F, Room 1306-1311, 1315-1316 at 13/F, Building B, Wugang Building	2,424.61	2021-11-8 to 2022-11-7	190,590.40
5	Wuhan Qingshan Huamu Company	North Side of 1/F, Zhongxing Building	1,090	2013-2-16 to 2023-2-15	115,747.10

(IV) Limitation of the appraisal procedures are affected

Nil

(V) Material subsequent events

Nil

(VI) Significant use of expert work and related reports

The book value of the appraised target involved in this appraisal is quoted from the audit report of Tian Jian Hu Shen [2022] No. 986 issued by Pan-China Certified Public Accountants LLP Shanghai Branch.

(VII) Other matters that need to be explained

1. The profit forecast of the appraised entity obtained by the appraisal agency serves as the basis of the income approach in this valuation report. The valuers have conducted necessary inquiry, analysis and judgment on the profit forecast of the appraised entity. After repeated discussions with the management and major shareholders of the appraised entity and further revision and improvement of the forecast by the appraised entity, the appraisal agency adopted the relevant data of such profit forecast. The appraisal agency's use of the appraised entity's profit forecast is not a guarantee for the future profitability of the appraised entity.
2. The appraisal scope is only subject to and based on the Appraisal Declaration Form provided by the Clients and the Target Companies, without taking into account the contingent assets and contingent liabilities that may exist outside the list provided by the Clients and the Target Companies.
3. The registered capital of the appraised entity was changed to RMB2,840 million on 27 June 2022, which was approved by the CBIRC Shanghai Office, and the renewal of the latest business license was in process as of the date of the report.
4. The appraisal institute and valuers disclaim any responsibility for those defects that may affect the valuation of the assets but are not explained specifically in engagement, and are unknown to the valuers after implementing appraisal procedures.

5. This appraisal is made on independent, fair, objective, and scientific basis. We and all the valuers hold no existing interests in the assets, or personal relationship of interests with or bias towards the principal and relevant stakeholders. The valuers has observed occupational ethics and codes during the appraisal process and made full efforts. The appraisal conclusion is prepared by Beijing China Assets Appraisal Co., Ltd., which is subject to the professional level and ability of the valuers involved in this appraisal project.
6. This report is compiled based on the economic activity documents, business licences, property right certificates, financial statements, asset ledger and other relevant data concerning this appraisal and supplied by the principal, the valued entity and other relevant stakeholders. The principal, property right owner and relevant stakeholders are responsible for the authenticity, validity and integrity of the original data supplied in relation to the abovementioned appraisal.
7. The appraisal conclusion reflects the market value of valuation target determined under the principles within open market for the purpose of this valuation, without considering the impact of mortgages and guarantees that may undertake in the future and of additional payment that may be paid by special trading parties on the appraisal price. No provision has been made for tax adjustments in respect of the appraisal gain of the assets. Meanwhile, the effects of changes in national macro-economic policies, natural forces and other force majeure on the price of assets are not taken into account.
8. The valuation of the appraised assets and related liabilities in this report is made to objectively reflect the value of the appraised assets. We do not intend to require the appraised entity to conduct relevant accounting treatment in accordance with the results and presentation method of this report. Whether or not to carry out or how to carry out the relevant accounting treatment shall be decided by the senior competent finance and taxation department of the appraised entity and shall comply with the requirements of the national accounting system.
9. According to the Guiding Opinions on Legal Ownership of the Asset Valuation Target, the client and other relevant parties shall provide the information of legal ownership of the valuation target in accordance with laws and be responsible for the truthfulness, completeness and legality of the materials provided by them. The purpose of assets appraisal is to estimate the value of the subject of assets appraisal and thereby express professional opinions, and it is beyond the working scope of Valuers to confirm or express an opinion on the legal ownership of the subject of assets appraisal. The Valuers shall not provide guarantees for the legal ownership of the subject of assets appraisal.

10. After the valuation base date and within the period of validity for using the report, the principal shall engage valuation institution to conduct re-valuation of the relevant assets in a timely manner.
11. This asset appraisal report did not take into consideration the possible premium or discount resulting from the possession or lack of right of control nor the impact of liquidity on the value of the appraised object.

Users of the asset appraisal report should pay attention to the impact of the abovementioned special matters on the conclusion of the appraisal.

XII. THE DESCRIPTION OF THE RESTRICTIONS ON THE USE OF THE ASSET APPRAISAL REPORT

- (I) This asset appraisal report can only be used for the appraisal purpose and purpose specified in the report;
- (II) The asset appraisal institution and the appraisal professionals will not be held liable or take the consequences, in case the clients or other users of the appraisal report fail to comply with the relevant laws, administrative regulations and use the report for other purposes than what is stated herein;
- (III) Any institution and individual shall not use the report on asset appraisal other than the client, other report users as agreed in the commission contract for asset appraisal, and report users in compliance with laws and administrative regulations;
- (IV) The asset valuer is responsible for estimating the value of the valued subject and providing professional opinions without bearing any responsibility for the decision-making of relevant parties. The user of the asset appraisal report should correctly understand the appraisal conclusion, which is not equal to the achievable price of the appraised object, and the appraisal conclusion should not be considered as a guarantee for the achievable price of the appraised object;
- (V) The asset appraisal report can only be used after it is signed by the asset valuer, sealed by the valuation agency and filed with the state-owned assets supervision and administration authority or the funded enterprise;
- (VI) The analysis on the value of assets concerned in the asset appraisal report is solely applicable to specific use stated in the asset appraisal report. Individual value of any part of the assets concerned is not applicable to any other uses and may not be applicable to other asset appraisal report.

XIII. REPORTING DATE OF ASSET APPRAISAL

The reporting date of asset appraisal and on which this professional opinion is formed is 26 October 2022.

APPENDIX VI LETTER FROM REPORTING ACCOUNTANTS ON PROFIT FORECAST

The following is the text of a report from the Company's reporting accountants, E&Y Hua Ming, for inclusion in this circular.

REPORT FROM REPORTING ACCOUNTANTS ON THE DISCOUNTED CASH FLOW FORECAST IN CONNECTION WITH THE VALUATION OF MASTEEL GROUP FINANCE CO., LTD.

15 November 2022

The Board of Directors
Maanshan Iron & Steel Company Limited

No. 8, Jiuhua West Road, Ma'anshan, Anhui, The People's Republic of China

We have been engaged to report on the arithmetical accuracy of the calculations of the discounted cash flow forecast (the "**Forecast**") on which the valuation dated 26 October 2022 prepared by China Assets Appraisal Co., Ltd. in respect of the appraisal of the fair value of Masteel Group Finance Co., Ltd. ("**Masteel Finance**") as at 30 June 2022 is based. The valuation is set out in the announcement of Maanshan Iron & Steel Company Limited (the "**Company**") dated 15 November 2022 (the "**Announcement**") in connection with the absorption and merger of Masteel Finance. The valuation based on the Forecast is regarded by The Stock Exchange of Hong Kong Limited as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Directors' responsibilities

The directors of the Company are solely responsible for the Forecast. The Forecast has been prepared using a set of bases and assumptions (the "**Assumptions**"), the completeness, reasonableness and validity of which are the sole responsibility of the Directors. The Assumptions are set out in the section headed "Valuation Assumptions" of the valuation report of Masteel Finance.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Chinese Institute of Certified Public Accountants ("**CICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

APPENDIX VI LETTER FROM REPORTING ACCOUNTANTS ON PROFIT FORECAST

Our firm applies Quality Control Standards No. 5101 Quality Control for Accounting Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' responsibilities

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the Forecast based on our work. The Forecast does not involve the adoption of accounting policies.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) Assurance Engagements Other Than Audits or Reviews of Historical Financial Information issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the arithmetical accuracy of the calculations are concerned, the Directors have properly compiled the Forecast in accordance with the Assumptions. Our work consisted primarily of checking the arithmetical accuracy of the calculations of the Forecast prepared based on the Assumptions made by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

We are not reporting on the appropriateness and validity of the Assumptions on which the Forecast are based and thus express no opinion whatsoever thereon. Our work does not constitute any valuation of Masteel Finance. The Assumptions used in the preparation of the Forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Forecast and the variation may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

Opinion

Based on the foregoing, in our opinion, so far as the arithmetical accuracy of the calculations of the Forecast is concerned, the Forecast has been properly compiled in all material respects in accordance with the Assumptions adopted by the Directors.

Ernst & Young Hua Ming LLP

Certified Public Accountants

Beijing, the PRC

15 November 2022

The Listing Division
The Stock Exchange of Hong Kong Limited
12/F, Two Exchange Square
8 Connaught Place, Central, Hong Kong

Dear Sir or Madam,

**Discloseable and connected transaction –
absorption and merger of Masteel Finance**

We refer to the announcement of Maanshan Iron & Steel Company Limited (the “**Company**”) dated 15 November 2022 concerning the captioned transaction (the “**Announcement**”). Unless the context otherwise requires, terms defined in the Announcement shall have the same meanings when used herein.

Reference is made to the asset valuation report dated 26 October 2022 prepared by China Assets Appraisal Co., Ltd. in respect of the valuation of Masteel Finance, which constitutes a profit forecast under Rule 14.61 of the Listing Rules.

We have discussed with the independent valuer about different aspects including the bases and assumptions based upon which the valuation has been prepared, and reviewed the valuation for which the independent valuer is responsible. We have also considered the letter from Ernst & Young Hua Ming regarding whether the discounted future cash flows of Masteel Finance, so far as the arithmetical calculations are concerned, have been properly complied, in all material respects, in accordance with their respective bases and assumptions.

On the basis of the foregoing, we are of the opinion that the valuation of Masteel Finance prepared by China Assets Appraisal Co., Ltd. has been made after due and careful enquiries.

Yours faithfully,
By order of the Board
Maanshan Iron & Steel Company Limited
He Hongyun
Secretary to the Board

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. INTERESTS OF DIRECTORS

As at the Latest Practicable Date, the interests and short positions (including interests or short positions which they were taken or deemed to have under relevant provisions of the Securities and Futures Ordinance (“SFO”)) of the Directors, supervisors and senior management members in the shares or underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to the Rules Governing the Listing of Securities on the Stock Exchange and the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange, were as follows:

Name	Capacity	Nature of interest	Total number of shares	Class of shares	Percentage in the total share capital of the Company
Ding Yi	Director	Beneficial interest	850,000	A	0.0109%
Ren Tianbao	Director	Beneficial interest	600,000	A	0.0077%

Save as that Mr. Ding Yi, who is also director of the Parent Group, none of the Directors is also a director or employee of a company which has an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS’ AND SUPERVISORS’ INTERESTS IN ASSETS AND CONTRACTS

As at the Latest Practicable Date, none of the Directors and the Supervisors of the Company had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to the Company or are proposed to be acquired or disposed of by or leased to the Company since 31 December 2021, being the date to which the latest published audited accounts of the Company were made up.

None of the Directors and the Supervisors of the Company was materially interested in any contract or arrangement entered into by the Company subsisting at the Latest Practicable Date and which is significant in relation to the business of the Company.

4. SERVICE CONTRACT

As at the Latest Practicable Date, none of the Directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

5. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors and their respective associates were interested in any business, which competes or is likely to compete, either directly or indirectly, with that of the Group.

6. LITIGATION

As at the Latest Practicable Date, neither the Company nor any other members of the Group was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirmed that there was no material adverse change in the financial or operation position of the Group since 31 December 2021, being the date to which the latest published audited consolidated accounts of the Group were made up.

8. EXPERT'S QUALIFICATION AND CONSENT

The qualification of the expert who has provided its advice which is contained in this circular is set out as follows:

Name	Qualification
Halcyon Capital Limited	A licensed corporation to conduct type 6 (advising on corporate finance) regulated activities under the SFO (Chapter 571 of the Laws of Hong Kong)
China Assets Appraisal Co., Ltd.	Independent professional valuer
E&Y Hua Ming	Certified Public Accountants

The abovenamed experts have given and have not withdrawn its written consent to the issue of this circular with the inclusion of its letter, report and/or opinions and/or the references to its name in the form and context in which it respectively appears.

As at the Latest Practicable Date, (i) the abovenamed experts did not have any interest, either direct or indirect, in any assets which had been, since 31 December 2021, 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 (ii) the abovenamed experts did not have any shareholding interests in any member of the Group and it did not have any right, whether legally enforceable or not, to subscribe for or nominate persons to subscribe for securities of any members of the Group.

9. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group within the two years immediately preceding the Latest Practicable Date which are or may be material:

- (a) the equity transfer agreement entered into between Ma Steel (Hong Kong) Company Limited (“**Ma Steel (Hong Kong)**”), a subsidiary of the Company and Huabao Investment Co., Ltd., (“**Huabao Investment**”) on 28 October 2022, pursuant to which Ma Steel (Hong Kong) shall transfer 3.11% equity interests in Huabao Leasing to Huabao Investment at a total consideration of RMB88,635,000. For details, please refer to the announcement of the Company dated 28 October 2022.
- (b) the equity transfer agreement entered into between the Company and Magang Group on 21 July 2022, pursuant to which the Company shall transfer 9.88% equity interests in Ouye Lianjin Renewable Resources Co., Ltd. to Magang Group at a total consideration of RMB348,501,500. For details, please refer to the announcement of the Company dated 21 July 2022.
- (c) the ironmaking capacity replacement quota transfer agreement entered into between Anhui Changjiang Steel Co., Ltd. (“**Changjiang Steel**”), a subsidiary of the Company, and Baosteel Zhanjiang Iron and Steel Co., Ltd. (“**Zhanjiang Steel**”) on 7 June 2022, pursuant to which Changjiang Steel shall transfer 550,000 tonnes of ironmaking capacity to Zhanjiang Steel at a total consideration of RMB281.6 million. For details, please refer to the announcement of the Company dated 7 June 2022.

- (d) the steelmaking capacity replacement quota transfer agreement entered into between the Company and Baosteel Special Steel Co., Ltd. (“**Baosteel Special Steel**”) on 7 June 2022, pursuant to which the Company shall purchase 280,000 tonnes of steelmaking capacity from Baosteel Special Steel at a total consideration of RMB182.28 million. For details, please refer to the announcement of the Company dated 7 June 2022.
- (e) the capital injection agreement entered into between the Company, China Baowu, Baosteel Metal Co., Ltd., Wuhan Iron & Steel Co., Ltd., Zhanjiang Iron and Steel Co., Ltd., and Baowu Group Echeng Iron and Steel Co., Ltd., on 30 November 2021, pursuant to which the parties agreed to inject capital in Baowu Clean Energy Co., Ltd. and the Company shall make its capital injection by 51% equity interest in Anhui Masteel Gas Technology Co., Ltd. For details, please refer to the announcement of the Company dated 30 November 2021.
- (f) the equity transfer agreement entered into between the Company and Baowu Environment Maanshan Resources Utilization Co., Ltd. (“**Baowu Environment**”) on 29 September 2021, pursuant to which the Company shall transfer 30% equity interests in Anhui Ma Steel K. Wah New Building Materials Co., Ltd. to Baowu Environment at a total consideration of RMB111,342,400. For details, please refer to the announcement of the Company dated 29 September 2021.
- (g) the capital injection agreement entered into between the Company, China Baowu, Magang Group, Baowu Carbon Technology Co., Ltd., Baosteel Chemical Zhanjiang Co., Ltd., Wuhan Iron and Steel (Group) Corp., Baoshan Iron & Steel Co., Ltd., Wuhan Iron and Steel Company Limited, Zhanjiang Steel, Shanghai Meishan Iron & Steel Co., Ltd., Baosteel Engineering & Technology Group Co., Ltd. and Baowu Water Technology Co., Ltd. (“**Baowu Water**”), on 17 September 2021, pursuant to which the parties agreed to inject capital in Baowu Water and the Company shall make its capital injection by water treatment related fixed assets which was equivalent to RMB661,300,000. For details, please refer to the announcement of the Company dated 17 September 2021.
- (h) the equity transfer agreement entered into between Ma Steel (Hefei) Steel Plates Co., Ltd. (“**Hefei Steel Plates**”), a subsidiary of the Company, and Baowu Water on 25 August 2021, pursuant to which the Company shall 100% equity interests of Maanshan Iron & Steel (Hefei) Industrial Water Supply Co., Ltd. to Baowu Water at a total price of RMB104,430,100. For details, please refer to the announcement of the Company dated 25 August 2021.

- (i) the merger agreement entered into between the Company, Ma Steel (Shanghai) Commercial Factoring Company Limited (“**Ma Steel Factoring**”), Magang Group Investment Company Limited, Anhui Masteel Mining Resources Co., Ltd., Baowu Heavy Industry Co., Ltd., Ma Steel International Trade and Economic Co., Ltd., Ouye Commercial Factoring Company Limited (“**Ouye Factoring**”) and Shanghai Ouye Financial Information Services Company Limited on 28 April 2021, pursuant to which all parties including the Company agreed that Ouye Factoring shall absorb and merge Ma Steel Factoring by issuing shares to the existing shareholders of Ma Steel Factoring. For details, please refer to the announcement of the Company dated 28 April 2021.

10. MISCELLANEOUS

- (i) The registered office and the principal place of business in the PRC of the Company are at No.8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC.
- (ii) The Company’s H Share Registrars and transfer office in Hong Kong is Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.
- (iii) The joint company secretaries of the Company are Ms. He Hongyun and Ms. Chiu Hoi Shan (who is a practising solicitor of the High Court of Hong Kong).
- (iv) Unless stated otherwise, in the event of inconsistency, the English language text of this circular shall prevail over the Chinese language text.

11. DOCUMENTS AVAILABLE ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (<http://www/hkexnews.hk>) and the Company (www.magang.com.hk) for the period of 14 days commencing from the date of this circular:

- (i) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out in page 30 of this circular;
- (ii) the written consent from the experts named under section 8 “Expert’s qualification and consent” above;
- (iii) the letter from Halcyon Capital Limited to the Independent Board Committee and the Independent Shareholders, the text of which is set out in pages 31 to 67 of this circular;
- (iv) the Absorption and Merger Agreement;
- (v) the Financial Services Agreement.



(A joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 00323)

NOTICE OF 2022 THIRD EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2022 third extraordinary general meeting (the “**EGM**”) of Maanshan Iron & Steel Company Limited (the “**Company**”) will be held at the Magang Office Building, No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the People's Republic of China (the “**PRC**”) at 1:30 p.m. on Thursday, 29 December 2022.

The following resolutions will be considered at the EGM:

ORDINARY RESOLUTIONS

RESOLUTIONS FOR NON-CUMULATIVE VOTING

1. To consider and approve the Absorption and Merger Agreement of Baowu Group Finance Co., Ltd. and Magang Group Finance Company Limited
2. To consider and approve the Financial Services Agreement entered into between the Company and Baowu Group Finance Co., Ltd.
3. To consider and approve the resolution in relation to transfer of equity interest in Holly Industrial Co., Ltd., a subsidiary controlled by the Company

SPECIAL RESOLUTION

RESOLUTION FOR NON-CUMULATIVE VOTING

4. To consider and approve the resolution in relation to repurchase and cancellation of certain restricted shares

By Order of the Board
Maanshan Iron & Steel Company Limited
Ding Yi
Chairman

8 December 2022
Maanshan City, Anhui Province, the PRC

As at the date of this announcement, the directors of the Company include executive directors Ding Yi, Mao Zhanhong and Ren Tianbao; and independent non-executive directors Zhang Chunxia, Zhu Shaofang, Guan Bingchun and He Anrui.

Notes:

I. ELIGIBILITY FOR ATTENDING THE EGM

The Company's register of members for H shares will be closed from Thursday, 22 December 2022 to Thursday, 29 December 2022 (both days inclusive), during which period no transfer of H shares will be registered. Holders of H shares who wish to be entitled to attend the EGM must deliver their instruments of transfer together with the relevant share certificates to The Hong Kong Registrars Limited, the Registrar of H shares of the Company, by no later than 4:30 p.m. on Wednesday, 21 December 2022. The address of the Registrar for the Company's H shares: Shops 1712-1716, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. Share registration date for holders of A shares will be announced separately.

II. REGISTRATION PROCEDURES FOR ATTENDING THE EGM

1. Holders of H shares shall deliver their copies of transfers for attending the EGM, share certificates or copies of receipts of share transfer and copies of their own identity cards to the Company by no later than Wednesday, 21 December 2022. If proxies are appointed by shareholders to attend the meeting, they shall, in addition to the aforementioned documents, deliver the proxy forms and copies of their own identity cards to the Company.
2. Shareholders can deliver the necessary documents for registration to the Company in one of the following ways: in person, by post or by facsimile. Upon receipt of such documents, the Company will complete the registration procedures for attending the EGM.

III. APPOINTING PROXIES

1. Shareholders who have the right to attend and vote at the EGM are entitled to appoint in writing one or more proxies (whether a shareholder or not) to attend the EGM and vote on their behalves.
2. The instrument of appointing a proxy must be in writing signed by the appointer or his attorney duly authorized in writing. If that instrument is signed by an attorney of the appointer, the power of attorney authorising that attorney to sign or other documents of authorisation must be notarially certified. The notarially certified power of attorney or other documents of authorisation and proxy forms must be delivered to the registered office of the Company by not less than 24 hours before the time appointed for the holding of the EGM in order for such documents to be valid.

IV. Shareholders or their proxies attending the EGM shall be responsible for their own food, accommodation and travel expenses.

V. CONTACT METHODS OF THE COMPANY

1. Registered address: No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC
2. Postal code: 243003
3. Telephone: 86-555-2888158
4. Fax: 86-555-2887284
5. Contact persons: Mr. Xu Yayan, Mr. Li Wei



(A joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 00323)

NOTICE OF 2022 SECOND CLASS MEETING OF THE HOLDERS OF H SHARES

NOTICE IS HEREBY GIVEN that the 2022 Second Class Meeting of the Holders of H Shares (the “**H Shareholders’ Class Meeting**”) of Maanshan Iron & Steel Company Limited (the “**Company**”) will be held at the Magang Office Building, No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the People’s Republic of China (the “**PRC**”) at 1:30 p.m. on Thursday, 29 December 2022 (or following the 2022 third extraordinary general meeting and 2022 second class meeting of the holders of A shares or any adjournment thereof).

The following resolution will be considered at the H Shareholders’ Class Meeting:

SPECIAL RESOLUTION

RESOLUTION FOR NON-CUMULATIVE VOTING

1. To consider and approve the resolution in relation to repurchase and cancellation of certain restricted shares

By Order of the Board
Maanshan Iron & Steel Company Limited
Ding Yi
Chairman

8 December 2022

Maanshan City, Anhui Province, the PRC

As at the date of this announcement, the directors of the Company include executive directors Ding Yi, Mao Zhanhong, Ren Tianbao; and independent non-executive directors Zhang Chunxia, Zhu Shaofang, Guan Bingchun and He Anrui.

Notes:

I. ELIGIBILITY FOR ATTENDING THE H SHAREHOLDERS' CLASS MEETING

The Company's register of members for H shares will be closed from Thursday, 22 December 2022 to Thursday, 29 December 2022 (both days inclusive), during which period no transfer of H shares will be registered. Holders of H shares who wish to be entitled to attend the H Shareholders' Class Meeting must deliver their instruments of transfer together with the relevant share certificates to The Hong Kong Registrars Limited, the Registrar of H shares of the Company, by no later than 4:30 p.m. on Wednesday, 21 December 2022. The address of the Registrar for the Company's H shares: Shops 1712–1716, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. Share registration date for holders of A shares will be announced separately.

II. REGISTRATION PROCEDURES FOR ATTENDING THE H SHAREHOLDERS' CLASS MEETING

1. Holders of H shares shall deliver their copies of transfers for attending the H Shareholders' Class Meeting, share certificates or copies of receipts of share transfer and copies of their own identity cards to the Company by no later than Wednesday, 21 December 2022. If proxies are appointed by shareholders to attend the meeting, they shall, in addition to the aforementioned documents, deliver the proxy forms and copies of their own identity cards to the Company.
2. Shareholders can deliver the necessary documents for registration to the Company in one of the following ways: in person, by post or by facsimile. Upon receipt of such documents, the Company will complete the registration procedures for attending the H Shareholders' Class Meeting.

III. APPOINTING PROXIES

1. Shareholders who have the right to attend and vote at the H Shareholders' Class Meeting are entitled to appoint in writing one or more proxies (whether a shareholder or not) to attend the H Shareholders' Class Meeting and vote on their behalves.
2. The instrument of appointing a proxy must be in writing signed by the appointer or his attorney duly authorized in writing. If that instrument is signed by an attorney of the appointer, the power of attorney authorising that attorney to sign or other documents of authorisation must be notarially certified. The notarially certified power of attorney or other documents of authorisation and proxy forms must be delivered to the registered office of the Company by not less than 24 hours before the time appointed for the holding of the H Shareholders' Class Meeting in order for such documents to be valid.

IV. Shareholders or their proxies attending the H Shareholders' Class Meeting shall be responsible for their own food, accommodation and travel expenses.

V. CONTACT METHODS OF THE COMPANY

1. Registered address: No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC
2. Postal code: 243003
3. Telephone: 86–555–2888158
4. Fax: 86–555–2887284
5. Contact persons: Mr. Xu Yayan, Mr. Li Wei