THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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.

MA STEEL

馬 鞍 山 鋼 鐵 股 份 有 限 公 司

Maanshan Iron & Steel Company Limited

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

(Stock Code: 00323)

(1) CONTINUING CONNECTED TRANSACTIONS REVISION OF THE ANNUAL CAPS FOR THE EXISTING ENERGY SAVING AND ENVIRONMENTAL PROTECTION AGREEMENT AND THE EXISTING CCT AGREEMENT; (2) CONTINUING CONNECTED TRANSACTIONS – IN RELATION TO NEW SALE AND PURCHASE OF ORE AGREEMENT, NEW ENERGY SAVING AND ENVIRONMENTAL PROTECTION AGREEMENT, NEW CCT AGREEMENT AND NEW FINANCIAL SERVICES AGREEMENT; (3) CONNECTED TRANSACTIONS – DISPOSAL AND DEEMED DISPOSAL OF INTEREST IN SUBSIDIARIES AND CONTINUING CONNECTED TRANSACTIONS; AND (4) NOTICE OF EGM

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

SOMERLEY CAPITAL LIMITED

A letter from the Board is set out on pages 12 to 118 of this circular. A letter from the Independent Board Committee is set out on page 119 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 120 to 248 of this circular.

Notice for convening the 2018 second extraordinary general meeting (the "EGM") of Maanshan Iron & Steel Company Limited (the "Company") to be held at Magang Office Building, No.8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC, at 1:30p.m. on 21 November 2018 was issued on 28 September 2018.

Whether or not you intend to attend the said 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 Rooms 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.

23 October 2018

CONTENTS

DEFINITIONS

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

"2019-2021 CCT Agreements"	means	the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environmental Protection Agreement, the New CCT Agreement and the New Financial Services Agreement
"Abstained Directors"	means	Mr. Ding Yi, Mr. Qian Haifan, and Mr. Ren Tianbao, who abstained from voting as Directors on the relevant Board resolution(s) relating to the Agreements
"Agreements"	means	the Supplementary Energy Saving and Environmental Protection Agreement, the Supplementary CCT Agreement, the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environmental Protection Agreement, the New CCT Agreement, the New Financial Services Agreement, the Scrap Steel Company Share Transfer Agreement, the K. Wah Company Capital Increase Agreement, the Chemical Energy Company Capital Increase Agreement, the Scrap Steel Company Continuing Connected Transaction Agreement, the K. Wah Company Continuing Connected Transaction Agreement and the Chemical Energy Company Continuing Connected Transaction Agreement
"Anhui Xinchuang"	means	Anhui Xinchuang Energy Saving and Environmental Protection Science & Technology Co., Ltd., a joint stock limited company incorporated in the PRC
"Associate" or "Associates"	means	has the meaning as ascribed thereto in the Listing Rules
"Board"	means	the board of the Directors of the Company
"CBRC"	means	China Banking Regulatory Commission

"Chemical Energy Company"	means	Anhui Ma Steel Chemical Energy Technology Co., Ltd.（安徽馬鋼化工能源科技有限公司）, a limited company incorporated in the PRC
"Chemical Energy Company Capital Increase Agreement"	means	The capital increase agreement dated 15 August 2018 executed by the Company, the Parent Company and Chemical Energy Company, according to which the parties agreed that the Parent Company shall subscribe for the capital of Chemical Energy Company
"Chemical Energy Company Continuing Connected Transaction Agreement"	means	The Continuing Connected Transaction Agreement dated 15 August 2018 executed by the Company and Chemical Energy Company, according to which the parties agree that from 2019 to 2021, the Group will sell or provide products to Chemical Energy Company, and Chemical Energy Company will sell or provide products to the Group
"Company"	means	Maanshan Iron & Steel Company Limited, a joint stock limited company incorporated in the PRC, the shares of which are listed on the Stock Exchange
"CCT Agreements for Scrap Steel Company, K. Wah Company and Chemical Energy Company"	means	The Scrap Steel Company Continuing Connected Transaction Agreement, the K. Wah Company Continuing Connected Transaction Agreement and the Chemical Energy Company Continuing Connected Transaction Agreement
"Directors"	means	the directors of the Company
"Disposal"	means	The disposal of 55% shareholding of Scrap Steel Company by the Company to the Parent Company according to the Scrap Steel Company Share Transfer Agreement

"Deemed Disposal"	means	According to the K. Wah Company Capital Increase Agreement and the Chemical Energy Company Capital Increase Agreement, the share capital of K. Wah Company and Chemical Energy Company shall be increased, and the shareholding held by the Company will be diluted accordingly. According to Rule 14.29 of the Listing Rules, the relevant dilution is considered to be deemed disposal of the Company's interest in a subsidiary
"Disposal and Deemed Disposal Agreements"	means	the Scrap Steel Company Share Transfer Agreement, the K. Wah Company Capital Increase Agreement and the Chemical Energy Company Capital Increase Agreement
"EGM" or "2018 Second Extraordinary General Meeting"	means	the extraordinary general meeting of the Company to be held on 21 November 2018 to approve, among other things, the Revision of Annual Cap Agreements, the 2019-2021 CCT Agreements, the Disposal and Deemed Disposal Agreements as well as the CCT Agreements for Scrap Steel Company, K. Wah Company and Chemical Energy Company and the transactions contemplated thereunder, and the respective Proposed Annual Caps
"Energy Saving and Environmental Protection Construction and Services"	means	the environmental protection construction, maintenance services, the procurement of spare parts and dust removal bags & dust removal bag cages, contract energy services, operation and management of environmental protection facilities, sintering waste heat power generation services and operation and management of water quality, etc. that will be provided by Anhui Xinchuang to the Group according to the Existing Energy Saving and Environmental Protection Agreement, the Supplementary Energy Saving and Environmental Protection Agreement and the New Energy Saving and Environmental Protection Agreement

"Existing Annual Caps"	means	the maximum cumulative annual amount connected with the transactions during the period from 1 January 2016 to 31 December 2018 under the Existing Energy Saving and Environmental Protection Agreement and during the period from 1 January 2016 to 31 December 2018 under the Existing CCT Agreement
"Existing CCT Agreement"	means	the continuing connected transactions agreement entered into between the Company and the Parent Company on 10 September 2015
"Existing Energy Saving and Environmental Protection Agreement"	means	the energy saving and environmental protection agreement entered into between the Company and Anhui Xinchuang on 10 September 2015
"Existing Sale and Purchase of Ore Agreement"	means	the sale and purchase of ore agreement entered into between the Company and the Parent Company on 10 September 2015
"Finance Company"	means	Magang Group Finance Company Limited, a limited company incorporated in the PRC
"Finished Products and Related Commodities"	means	the finished products and related commodities, which consist of steel, steel ingots, continuous casting billets, accessories, materials (cables and tools), iron oxide red and iron scales, and other commodities (labour protection and office supplies, etc.) that will be sold by the Group to the Parent Group according to the Existing CCT Agreement and Supplementary CCT Agreement
"Group"	means	the Company and its subsidiaries
"Hong Kong"	means	Hong Kong Special Administrative Region of the PRC

"Independent Board Committee"	means	a board committee comprising all the Independent Non-executive Directors, which will, among others, consider and advise the Independent Shareholders in relation to the Revision of Annual Cap Agreements, the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environmental Protection Agreement, the New CCT Agreement, the loan services under the New Financial Services Agreement, the Disposal and Deemed Disposal Agreements, the CCT Agreements for Scrap Steel Company, K. Wah Company and Chemical Energy Company, and the transactions contemplated thereunder, and the respective Proposed Annual Caps
"Independent Financial Adviser"	means	Somerley Capital Limited, a licensed corporation to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Revision of Annual Cap Agreements, the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environmental Protection Agreement, the New CCT Agreement, the loan services under the New Financial Services Agreement, the Disposal and Deemed Disposal Agreements, the CCT Agreements for Scrap Steel Company, K. Wah Company and Chemical Energy Company, the transactions contemplated thereunder, and the respective Proposed Annual Caps
"Independent Non-executive Directors"	means	Independent non-executive Directors of the Company
"Independent Shareholders"	means	shareholders of the Company other than the Parent Company and any of its Associates

"Infrastructure Technical and Renovation Engineering Services"	means	the infrastructure technical and renovation engineering services to be provided by the Parent Group to the Group under the Existing CCT Agreement and Supplementary CCT Agreement
"Integrated Port Services"	means	loading and unloading the furnace burden (爐料裝卸), transportation services of imported ores, loading and unloading the steel products, transportation services of cargos (Twenty-foot Equivalent Unit), transportation services of water slag, transportation services of cold rolled coils, loading and unloading of scrap steel, loading and unloading of water slag, loading and unloading of iron powder (微粉), storage, lump ore screening, transfer and short-distance handling, weighing, pickup and delivery
"Iron Ore"	means	magnetic iron ore concentrates produced in Aoshan, Dongshan, and Baixiangshan, haematite iron concentrates produced in Gushan, haematite iron pieces produced in Guhsan, iron ore concentrates produced in Hemushan, specularite iron concentrates (powder) produced in Taochong, iron block ore produced in Dashan, sintered mixed fine powder, pelletized fine powder, iron ore concentrates and iron ore lumps produced in Zhangzhuang and iron ore concentrates produced in Luohe and other iron ore finished products
"K. Wah Company"	means	Anhui Ma Steel K. Wah New Building Materials Co., Ltd. (安徽馬鋼嘉華新型建材有限公司), a limited company incorporated in China
"K. Wah Company Capital Increase Agreement"	means	The capital increase agreement dated 15 August 2018 executed by the Company, the Parent Company, Leader Investments and K. Wah Company, according to which the parties agreed that the Parent Company and Leader Investments shall subscribe for the increased share capital of K. Wah Company

"K. Wah Company Continuing Connected Transaction Agreement"	means	The Continuing Connected Transaction Agreement dated 15 August 2018 executed by the Company and K. Wah Company, according to which the parties agreed that from 2019 to 2021, the Group will sell or provide products to K. Wah Company
"Latest Practicable Date"	means	16 October 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
"Leader Investments"	means	Leader Investments Company Limited（利達投資有限公司）, a company incorporated in British Virgin Islands
"Listing Rules"	means	The Rules Governing the Listing of Securities on the Stock Exchange
"New CCT Agreement"	means	the continuing connected transactions agreement entered into between the Company and the Parent Company on 15 August 2018, according to which the parties agreed that from 2019 to 2021, the Group shall sell or provide products and services to the Parent Group, and the Parent Group shall sell or provide products and services to the Group
"New Energy Saving and Environmental Protection Agreement"	means	the energy saving and environmental protection agreement entered into between the Company and Anhui Xinchuang on 15 August 2018, according to which Anhui Xinchuang shall provide Energy Saving and Environmental Protection Construction and Services to the Group, and the Group shall sell power, energy medium and finished products to Anhui Xinchuang from 2019 to 2021
"New Sale and Purchase of Ore Agreement"	means	the sale and purchase of ore agreement entered into between the Company and the Parent Company on 15 August 2018, according to which the Company shall purchase Ore and Iron Ore from the Parent Company from 2019 to 2021

"New Financial Services Agreement"	means	the financial services agreement entered into between the Finance Company and the Parent Group on 15 August 2018, according to which the Finance Company shall provide certain financial services to the Parent Group from 2019 to 2021
"Ore"	means	iron ore, dolomite and/or limestone to be sold by the Parent Group to the Company under the Existing Sale and Purchase of Ore Agreement and the New Sale and Purchase of Ore Agreement
"Parent Company"	means	Magang (Group) Holding Company Limited, a wholly state-owned 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
"Parent Group"	means	the Parent Company and its subsidiaries and associated companies (excluding the Group)
"PRC"	means	the People's Republic of China
"Proposed Annual Caps"	means	the maximum cumulative annual amount connected with the transactions involved in the Revision of Annual Cap Agreements, the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environmental Protection Agreement, the New CCT Agreement, and the CCT Agreements for Scrap Steel Company, K. Wah Company and Chemical Energy Company during the period from 1 January 2019 to 31 December 2021; and the maximum daily balance for loan services in the New Financial Services Agreement
"Revision of Annual Cap Agreements"	means	the Supplementary Energy Saving and Environmental Protection Agreement and the Supplementary CCT Agreement

"RMB"	means	Renminbi, the lawful currency of the PRC
"Scrap Steel Company"	means	Ma Steel Scrap Steel Co., Ltd.（馬鞍山馬鋼廢鋼有限責任公司）, a limited company incorporated in the PRC
"Scrap Steel Company Continuing Connected Transaction Agreement"	means	The Continuing Connected Transaction Agreement dated 15 August 2018 executed by the Company and Scrap Steel Company, according to which the parties agreed that from 2019 to 2021, the Group will sell or provide products and services to Scrap Steel Company, and Scrap Steel Company will sell or provide products and services to the Group
"Scrap Steel Company Share Transfer Agreement"	means	The share transfer agreement dated 15 August 2018 executed by the Company and the Parent Company, according to which the Company shall sell 55% shareholding of Scrap Steel Company to the Parent Company
"Services"	means	the services, which consist of the further processing of steel billets, metering services and related services (i.e. railway transportation, inspection) that will be provided by the Group to the Parent Group according to the Existing CCT Agreement and Supplementary CCT Agreement
"Services and Products"	means	Water, Electricity and Gas, Finished Products and Related Commodities and Services to be provided by the Group to the Parent Group under the Existing CCT Agreement and Supplementary CCT Agreement
"Services, Products and Construction Engineering"	means	the Spare-parts, Fittings and Related Products, Infrastructure Technical and Renovation Engineering Services, Water and Land Transportation and Related Services that will be sold or provided by the Parent Group to the Group according to the Existing CCT Agreement and Supplementary CCT Agreement

"SFO"	means	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shareholder(s)"	means	holder(s) of shares of the Company
"Spare-parts, Fittings and Related Products"	means	the spare-parts, fittings and related products, including refractory materials, spare-parts and complete equipment, nonstandard spare-parts, recycled steel scraps and related products (cokes, pig irons and coals, etc.) that will be sold by the Parent Group to the Group according to the Existing CCT Agreement and Supplementary CCT Agreement
"Stock Exchange"	means	The Stock Exchange of Hong Kong Limited
"Supplementary CCT Agreement"	means	the supplementary continuing connected transactions agreement entered into between the Company and the Parent Company on 15 August 2018, according to which the parties agreed that the Existing Annual Caps for the year of 2018 under the Existing CCT Agreement shall be revised
"Supplementary Energy Saving and Environmental Protection Agreement"	means	the supplementary energy saving and environmental protection agreement entered into between the Company and Anhui Xinchuang on 15 August 2018, according to which the parties agreed that the Existing Annual Caps for the year of 2018 under the Existing Energy Saving and Environmental Protection Agreement shall be revised
"Waste Materials"	means	the waste materials generated from iron and steel production sold by the Group to Anhui Xinchuang according to the Existing Energy Saving and Environmental Protection Agreement and the Supplementary Energy Saving and Environmental Protection Agreement

"Water and Land Transportation and Related Services"	means	water and land transportation and related services, including the transport for production support, road transportation, waterway transport and logistics, Integrated Port Services, equipment (facility) maintenance services for production support, overhaul and medium maintenance of equipment, project and maintenance services for electrical, motor and transformer, operation and maintenance for automation and informatisation, lifting logistics services, import and export agency services and related services (automobile repair, monitoring and diagnostic services, etc.) that will be provided by the Parent Group to the Group according to the Existing CCT Agreement and Supplementary CCT Agreement
"Water, Electricity and Gas"	means	water, electricity and gas including electricity, domestic water, industrial treated water, blast furnace gas, coke oven gas, converter gas, vapor, compressed air and other gases to be sold by the Group to the Parent Group under the Existing CCT Agreement and Supplementary CCT Agreement
"Year"	means	From 1 January to 31 December
"%"	means	Percentage

馬鞍山鋼鐵股份有限公司
Maanshan Iron & Steel Company Limited
(A joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 00323)

Executive Directors:
Ding Yi *(Chairman)*
Qian Haifan
Zhang Wenyang

Non-executive Director:
Ren Tianbao

Independent Non-executive Directors:
Zhang Chunxia
Zhu Shaofang
Wang Xianzhu

Registered office:
No. 8 Jiu Hua Xi Road
Maanshan City
Anhui Province
the PRC

Office address:
No. 8 Jiu Hua Xi Road
Maanshan City
Anhui Province
the PRC

23 October 2018

Dear Sir or Madam,

(1) CONTINUING CONNECTED TRANSACTIONS REVISION OF THE ANNUAL CAPS FOR THE EXISTING ENERGY SAVING AND ENVIRONMENTAL PROTECTION AGREEMENT AND THE EXISTING CCT AGREEMENT; (2) CONTINUING CONNECTED TRANSACTIONS – IN RELATION TO NEW SALE AND PURCHASE OF ORE AGREEMENT, NEW ENERGY SAVING AND ENVIRONMENTAL PROTECTION AGREEMENT, NEW CCT AGREEMENT AND NEW FINANCIAL SERVICES AGREEMENT; (3) CONNECTED TRANSACTIONS – DISPOSAL AND DEEMED DISPOSAL OF INTEREST IN SUBSIDIARIES AND CONTINUING CONNECTED TRANSACTIONS; AND (4) NOTICE OF EGM

1. INTRODUCTION

Reference is made to the announcements of the Company dated 15 August 2018 related to (1) continuing connected transactions – revision of the annual caps for the Existing Energy Saving and Environmental Protection Agreement and the Existing CCT Agreement, (2) continuing connected transactions – in relation to New Sale And Purchase of Ore Agreement, New Energy Saving and Environmental Protection Agreement, New CCT Agreement and New Financial Services Agreement; and (3) connected transactions – Disposal and Deemed Disposal of interest in subsidiaries and continuing connected transactions.

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

2. CONTINUING CONNECTED TRANSACTIONS – REVISION OF THE ANNUAL CAPS FOR THE EXISTING ENERGY SAVING AND ENVIRONMENTAL PROTECTION AGREEMENT AND THE EXISTING CCT AGREEMENT

Supplementary Energy Saving and Environmental Protection Agreement

Background

On 10 September 2015, the Company and Anhui Xinchuang entered into the Existing Energy Saving and Environmental Protection Agreement for the continuous provision of Energy Saving and Environmental Protection Construction and Services by Anhui Xinchuang to the Group and the sale of Waste Materials generated from iron and steel production by the Group to Anhui Xinchuang during the period from 1 January 2016 to 31 December 2018.

As the PRC government implements more stringent requirements on energy saving and environmental protection especially on iron and steel industry in recent years, the Company needs to devote further resources for compliance with regulatory requirements on environmental protection and renovate its existing equipment to comply with national regulations. In addition to the increase in labour and material costs, resulting in cost increase, the caps for the Existing Energy Saving and Environmental Protection Agreement cannot satisfy the expected needs, therefore, the Company and the Parent Company entered into the Supplementary Energy Saving and Environmental Protection Agreement, which is designated to increase the Proposed Annual Caps for Energy Saving and Environmental Protection Construction and Services by Anhui Xinchuang to the Group from RMB619,500,000 by RMB217,500,000 to RMB837,000,000 in 2018. All existing key terms and conditions under the Existing Energy Saving and Environmental Protection Agreement remain unchanged.

The Company confirms, as of the Latest Practicable Date, the transaction amounts under the Existing Energy Saving and Environmental Protection Agreement have not exceeded the Existing Annual Caps.

Date

15 August 2018

Parties

(1) The Company; and

(2) Anhui Xinchuang

Subject matter

Anhui Xinchuang shall provide Energy Saving and Environmental Protection Construction and Services to the Group. The terms (including but not limited to pricing and payment) of the Energy Saving and Environmental Protection Construction and Services are agreed under arm's length negotiations and under normal commercial terms between the parties and the terms (including but not limited to pricing and payment) shall be no less favourable than those provided by independent third parties to the Group for similar environmental protection construction and services.

The Group shall sell the Waste Materials generated from iron and steel production to Anhui Xinchuang for utilization. The terms (including but not limited to pricing and payment) of sales of Waste Materials generated from iron and steel production are agreed under arm's length negotiations and under normal commercial terms between the parties and the terms (including but not limited to pricing and payment) shall not be more favourable than the terms offered by the Group to independent third parties for the sales of similar waste materials generated from the iron and steel production.

Pricing

The parties agreed to adopt an appropriate, reasonable and fair pricing method in accordance with the principle of fairness in formulating the transactions under the Supplementary Energy Saving and Environmental Protection Agreement. The pricing shall be based on state-prescribed price. In the absence of the state-prescribed price, the pricing shall be based on the market price, agreed through open tender, price comparison and arm's length negotiation under normal commercial terms. At the same time, the price regarding Energy Saving and Environmental Protection Construction and Services shall not be higher than the price of the same categories of energy saving and environmental protection construction and services provided by independent third parties to the Group. The price regarding the Waste Materials shall not be lower than the price of same categories of waste materials sold by the Group to independent third parties.

In accordance with the current pricing standards, except for the sintering waste heat power generation services in the Energy Saving and Environmental Protection Construction and Services that are priced based on the latest state-prescribed price determined by the National Development and Reform Commission, the transactions under the Supplementary Energy Saving and Environmental Protection Agreement shall be priced based on the market price. The said sintering waste heat power generation services relates to energy management service and therefore constitutes one of the Energy Saving and Environmental Protection Construction and Services provided by Anhui Xinchuang under the Supplementary Energy Saving and Environmental Protection Agreement. Its price is determined by the price prescribed by State Grid Corporation of China（國家電網）without adjustment.

Payment

The payment of Energy Saving and Environmental Protection Construction and Services shall be made by the Company to Anhui Xinchuang according to the construction progress as verified by the Company's management department. For the sales of Waste Materials to Anhui Xinchuang, at the end of each month, the Company shall receive an estimated sum from Anhui Xinchuang in advance for the sales with respect to the following month.

Preconditions

The Supplementary Energy Saving and Environmental Protection Agreement is conditional upon the Independent Shareholders approving the Supplementary Energy Saving and Environmental Protection Agreement and the Proposed Annual Caps at the EGM.

Duration

The term shall take effect from the approval of the Independent Shareholders at the upcoming EGM and expire on 31 December 2018.

Existing Annual Caps and actual transaction amounts

The Existing Annual Caps (tax exclusive) in respect of Energy Saving and Environmental Protection Construction and Services provided by Anhui Xinchuang to the Group under the Existing Energy Saving and Environmental Protection Agreement for the three years ended/ending 31 December 2016, 31 December 2017 and 31 December 2018 and the actual transaction amounts (tax exclusive) for the two years ended 31 December 2016 and 31 December 2017, and the first five months ended 31 May 2018 are set out below:

RMB

	For the year ended 31 December 2016	For the year ended 31 December 2017	For the year ending 31 December 2018	For the first five months ended 31 May 2018
Existing Annual Caps	658,500,000	639,500,000	619,500,000	N/A
Actual transaction amounts	597,743,000	567,360,000	N/A	291,763,900

The Existing Annual Caps (tax exclusive) in respect of the sale of Waste Materials generated from iron and steel production by the Group to Anhui Xinchuang under the Existing Energy Saving and Environmental Protection Agreement for the three years ended/ending 31 December 2016, 31 December 2017 and 31 December 2018 and the actual transaction amounts (tax exclusive) for the two years ended 31 December 2016 and 31 December 2017, and the first five months ended 31 May 2018 are set out below:

RMB

	For the year ended 31 December 2016	For the year ended 31 December 2017	For the year ending 31 December 2018	For the first five months ended 31 May 2018
Existing Annual Caps	25,000,000	25,000,000	25,000,000	N/A
Actual transaction amounts	4,577,000	15,912,000	N/A	4,332,800

Proposed Annual Caps

The Proposed Annual Caps for the transactions contemplated under the Supplementary Energy Saving and Environmental Protection Agreement for the year ending 31 December 2018 are set out below:

	RMB
	For the year ending 31 December 2018
Proposed Annual Caps in respect of Energy Saving and Environmental Protection Construction and Services provided by Anhui Xinchuang to the Group	837,000,000
Proposed Annual Caps in respect of sale of Waste Materials generated from iron and steel production by the Group to Anhui Xinchuang	25,000,000
Total	862,000,000

The Proposed Annual Caps in respect of the Supplementary Energy Saving and Environmental Protection Agreement for the year of 2018 are determined by reference to (i) the state-prescribed price and/or the market price regarding the Energy Saving and Environmental Protection Construction and Services and Waste Materials from the iron and steel production; (ii) the Group's anticipated demand for Energy Saving and Environmental Protection Construction and Services; (iii) Anhui Xinchuang's anticipated capacity in providing the Energy Saving and Environmental Protection Construction and Services; and (iv) the anticipated production of Waste Materials from the Group's iron and steel production and Anhui Xinchuang's anticipated demand for such Waste Materials. In particular, in respect of the anticipated capacity of Anhui Xinchuang, the Directors have considered the current status and future development plan of Anhui Xinchuang to formulate the annual cap for the year 2018.

In light of the "Ultra-low Emission Transformation Work Plan" issued by the PRC government in 2018, the Group is required to increase an expenditure of RMB130 million on the new sintering machine and flue gas denitration（燒結機煙氣脱硝項目）as well as the coke oven for denitration（焦爐脱硝項目）. It is estimated that more environmental protection facilities will be constructed and sub-contracted to Anhui Xinchuang for operation for the rest of 2018 and Anhui Xinchuang may be engaged for management and operation of environmental protection facilities for an amount of approximately RMB390 million for 2018. Together with the increasingly stringent requirements imposed by the PRC government regarding water pollution, water quality management contracts of approximately RMB160 million have been awarded to Anhui Xinchuang for the year ending 31 December 2018. It is also estimated that other services (including mainly contract energy services and maintenance services) of approximately RMB157 million have also been obtained from Anhui Xinchuang.

The Directors opine that the assumptions as referred in (a) the expected increase of expenditure in environmental protection construction projects and (b) the anticipated capacity of Anhui Xinchuang are fair and reasonable.

Reasons for, and benefits of, the Supplementary Energy Saving and Environmental Protection Agreement

In light of the stringent governmental requirements on energy saving and environmental protection in the PRC, in particular in the iron and steel industry, it is in the interest of the Company to engage the construction and services provided by Anhui Xinchuang, which is in close proximity of the Company and is in possession of advanced supporting hardware facilities for energy saving and environmental protection, and to focus on its main operation and business of iron and steel production. The terms and pricing of the Supplementary Energy Saving and Environmental Protection Agreement are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

Supplementary CCT Agreement

Background

On 10 September 2015, the Company and the Parent Company entered into the Existing CCT Agreement for the continuous sale or provision of Services and Products by the Group to the Parent Group and sale or provision of Services, Products and Construction Engineering by the Parent Group to the Group during the period from 1 January 2016 to 31 December 2018.

Under the influence of the increased costs due to the increase in labour and material costs, the caps for the Existing CCT Agreement cannot satisfy the expected needs, and therefore the Company and the Parent Company entered into the Supplementary CCT Agreement, which is designated to increase the annual caps for Services and Products from RMB4,954,414,100 by RMB1,447,421,000 to RMB6,401,835,100 in 2018. All existing key terms and conditions under the Existing CCT Agreement remain unchanged.

The Company confirms, as of the Latest Practicable Date, the transaction amounts under the Existing CCT Agreement have not exceeded the Existing Annual Caps.

Date

15 August 2018

Parties

(1) The Company; and

(2) The Parent Company

Subject matter

(1) The Company itself and the Group agreed to sell or provide the following Services and Products to the Parent Group:

(i) Water, Electricity and Gas;

(ii) Finished Products and Related Commodities; and

(iii) Services.

(2) The Parent Company itself and the Parent Group agreed to sell or provide the following Services, Products and Construction Engineering to the Group:

(i) Spare-parts, Fittings and Related Products;

(ii) Infrastructure Technical and Renovation Engineering Services; and

(iii) Water and Land Transportation and Related Services.

The parties agreed to adopt an appropriate, reasonable and fair pricing method in accordance with the principle of fairness in formulating the transactions under the Supplementary CCT Agreement. All terms of the Services and Products to be provided by the Group to the Parent Group shall not be more favourable than those to the independent third parties provided by the Group for similar categories of services and products. All terms of the Services, Products and Construction Engineering to be provided by the Parent Group to the Group shall not be less favourable than those provided by the independent third parties to the Group for similar categories of services, products and construction engineering.

During the term of the Supplementary CCT Agreement, the Company may decide, at its discretion, whether to enter into transactions with any independent third parties in respect of the transactions contemplated under the Supplementary CCT Agreement.

Pricing

The pricing shall be based on the state-prescribed price. In the absence of the state-prescribed price, the pricing shall be based on the market price, agreed through open tender, price comparison and arm's length negotiations under normal commercial terms.

Meanwhile, the price regarding the Services and Products to be provided by the Group to the Parent Group shall not be lower than the price of the same categories of services and products provided by the Group to independent third parties. The price regarding the Services, Products and Construction Engineering to be provided by the Parent Group to the Group shall not be higher than the price of the same type of Services, Products and Construction Engineering provided by the independent third parties to the Group.

In accordance with the current pricing standards, except for the electricity provided by the Group to the Parent Company which shall be priced based on the latest state-prescribed price determined by the National Development and Reform Commission and the domestic water and industrial treated water which shall be priced based on the latest state-prescribed price determined by the People's Government of Maanshan City in the PRC, all the other transactions under the Supplementary CCT Agreement shall be priced based on the market price.

Payment

Regarding the payment of Water, Electricity and Gas under Services and Products, at the beginning of each month, the Parent Company shall pay to the Company the sum for the sales with respect to the last month and settlement will be done on a monthly basis. For the payment of steel, steel ingots and iron scales under Finished Products and Related Commodities, at the end of each month, the Parent Company shall pay to the Company the estimated sum in advance for the sales with respect to the following month and settlement will be done on a monthly basis. As for the payment of accessories, materials and other products, the Parent Company shall pay to the Company the sum for the sales with respect to the last month and settlement will be done on a monthly basis. As for the payment of further processing of steel billets, metering services, inspection services and related services under Services, the Parent Company shall pay to the Company the sum for the sales with respect to the last month and settlement will be done on a monthly basis.

For the payment of Spare-parts, Fittings and Related Products under Services, Products and Construction Engineering, the Company shall pay for the relevant Spare-parts, Fittings and Related Products within 30 business days after the Company shall have received and verified the quality of the goods. The payment of Infrastructure Technical and Renovation Engineering Services shall be made by the Company to the Parent Company within 30 business days according to the construction progress after being verified by Company's management department. As for the payment of Water and Land Transportation and Related Services, the Company shall pay the Parent Company within 30 business days in accordance with the service progress after the Company shall have verified the quality.

Preconditions

The Supplementary CCT Agreement is conditional upon the Independent Shareholders approving the Supplementary CCT Agreement and respective Proposed Annual Caps at the EGM.

Duration

The term shall take effect from the approval of the Independent Shareholders at the upcoming EGM and expire on 31 December 2018.

Existing Annual Caps and actual transaction amounts

The Existing Annual Caps (tax exclusive) in respect of Services and Products under the Existing CCT Agreement for the three years ended/ending 31 December 2016, 31 December 2017, and 31 December 2018 and the actual transaction amounts (tax exclusive) for the two years ended 31 December 2016 and 31 December 2017, and the first five months ended 31 May 2018 are set out below:

RMB

		For the year ended 31 December 2016	For the year ended 31 December 2017	For the year ending 31 December 2018	For the first five months ended 31 May 2018
1. Water, Electricity and Gas	Existing Annual Caps	141,019,800	142,837,800	142,665,800	N/A
	Actual transaction amounts	80,231,300	90,800,700	N/A	39,508,800
2. Finished Products and Related Commodities	Existing Annual Caps	570,688,000	570,688,000	570,688,000	N/A
	Actual transaction amounts	154,715,800	372,982,100	N/A	253,682,400
3. Services	Existing Annual Caps	9,340,400	8,334,000	7,342,400	N/A
	Actual transaction amounts	3,065,400	360,000	N/A	540,000

The Existing Annual Caps (tax exclusive) in respect of Services, Products and Construction Engineering under the Existing CCT Agreement for the three years ended/ending 31 December 2016, 31 December 2017 and 31 December 2018 and the actual transaction amounts (tax exclusive) for the two years ended 31 December 2016 and 31 December 2017, and the first five months ended 31 May 2018 are set out below:

RMB

		For the year ended 31 December 2016	**For the year ended 31 December 2017**	**For the year ending 31 December 2018**	**For the first five months ended 31 May 2018**
1. Spare-parts, Fittings and Related Products	Existing Annual Caps	1,460,810,000	1,470,170,000	1,475,170,000	N/A
	Actual transaction amounts	1,075,434,500	1,419,553,600	N/A	985,574,000
2. Infrastructure Technical and Renovation Engineering Services	Existing Annual Caps	730,000,000	730,000,000	730,000,000	N/A
	Actual transaction amounts	422,916,600	669,481,500	N/A	283,099,000
3. Water and Land Transportation and Related Services	Existing Annual Caps	1,934,869,700	2,001,808,000	2,028,547,900	N/A
	Actual transaction amounts	902,244,200	1,854,430,700	N/A	880,739,300

Proposed Annual Caps

The Proposed Annual Caps (tax exclusive) for Services and Products provided by the Group to the Parent Group under the Supplementary CCT Agreement for the year ending 31 December 2018 are set as below:

	RMB
	For the year ending 31 December 2018
1. Proposed Annual Caps for Water, Electricity and Gas	160,000,000
2. Proposed Annual Caps for Finished Products and Related Commodities	707,403,800
3. Proposed Annual Caps for Services	19,569,000
Total	886,972,800

The Proposed Annual Caps (tax exclusive) for Services, Products and Construction Engineering provided by the Parent Group to the Group under the Supplementary CCT Agreement for the year ending 31 December 2018 are set as below:

	RMB
	For the year ending 31 December 2018
1. Proposed Annual Caps for Spare-parts, Fittings and Related Products	1,666,945,500
2. Proposed Annual Caps for Infrastructure Technical and Renovation Engineering Services	1,350,000,000
3. Proposed Annual Caps for Water and Land Transportation and Related Services	2,497,916,800
Total	5,514,862,300

The Proposed Annual Caps in respect of the Supplementary CCT Agreement for the year of 2018 are determined by reference to (i) the historical transaction amounts; (ii) the state-prescribed price or the market price for the continuing connected transactions; (iii) the Group's anticipated capacity in providing the Services and Products to the Parent Group and the Group's anticipated demand for the Parent Group's Services, Products and Construction Engineering to meet its production plan; and (iv) the Parent Group's anticipated demand for the Group's Services and Products and the Parent Group's anticipated capacity in providing the Services, Products and Construction Engineering to the Group.

Regarding the Proposed Annual Caps of the Services and Products provided by the Group to the Parent Group, since the profitability of the iron and steel industry has enhanced in 2017, the Parent Group has greater demand for steel products in 2018. Coupled with the rising price of steel products, the business expansion plan of the Parent Group and the expected rise of the price of steel products, it is expected that the Proposed Annual Caps of the Products would increase. Moreover, among the Services provided by the Group to the Parent Group, processing of steel billets account for the major part. Due to the introduction of electrical furnace in the production, the Group's productivity in respect of processing of steel billets would be further enhanced. Considering the above and the upward trend of the iron and steel industry, it is expected that more processing of steel billets services will be provided by the Group to the Parent Group, hence increasing the Proposed Annual Caps for the Services in 2018.

At the time of formulating the Existing CCT Agreement in 2015, the steel industry was in a downturn. In 2018, as the steel industry recovers, prices and labour costs have surged, such that the transaction amount would increase accordingly. Regarding the Spare-parts, Fittings and Related Products provided by the Parent Group to the Group, environmental protection pressure imposed by the PRC government which urged the Company to use a larger volume and higher quality of refractory materials to protect the production facilities such as blast furnace, and more spare-parts and complete equipment are required to repair and maintain the existing production equipment. Further, the prices of refractory materials and spare-parts and complete equipment increase in general since 2016 with growing demand in the iron and steel industry. Coupled with the fact that the Group plans to carry out a number of construction and upgrading projects in 2018 to improve the production efficiency of the Group and to meet the increasing stringent environmental protection requirement imposed by the PRC government, it is expected that more products (i.e. refractory materials, spare-parts and complete equipment, non-standard spare-parts and related products (i.e. coke, pig iron, coal, grout, concrete, welded wire mesh, wine, electrical appliances, heatstroke prevention products, automobiles, auto spare parts, gasoline, diesel, marine oil)) will be required for the projects commencing the second half of 2018. Moreover, the steel and iron market has been recovering in recent years and the utilisation rate of the Company's production line has increased. Some new production lines have been set up, which accelerates the frequency of replacing the spare parts, fittings and related products. These all contribute to the increase in the Proposed Annual Caps for Spare-parts, Fittings and Related Products for the year of 2018, with the breakdown as follows:

Items	**Existing annual caps for 2018** *(RMB0'000)*	**Revised annual caps for 2018** *(RMB0'000)*	**Reason of increase**
Refractory materials	80,000.00	93,289.21	1. Due to structural adjustment of the Company's products, the consumption of refractory materials during the Company's production process has increased. 2. Due to the more stringent requirements under the state's environmental protection policies, it is expected that the price of the refractory materials would increase, and that the operating cost of manufacturer of refractory materials would also increase.

Items	Existing annual caps for 2018 *(RMB0'000)*	Revised annual caps for 2018 *(RMB0'000)*	Reason of increase
Spare-parts and complete equipment	57,345.00	56,163.05	1. The purchase of spare parts and complete equipment is relatively stable.
Non-standard spare parts	6,500.00	11,010.00	2. Amount of non-standard spare parts to be purchased has increased due to new production lines of the Company. Further, the purchase price of spare parts in the past two years has gone up due to higher costs.
Other related products (e.g. coke, pig iron, coal)	3,672.00	6,232.29	Both quantity and price of the products to be purchased have increased.
Total	**147,517.00**	**166,694.55**	

Based on the above reasons, it is estimated that the proposed annual caps for Spare-parts, Fittings and Related Products for the year of 2018 increased from RMB1,475 million to RMB1,666 million.

Regarding the Infrastructure Technical and Renovation Engineering Services, the transaction amount in 2018 would increase because of projects including heavy-duty H beam and medium section steel upgrading renovation. The heavy-duty H beam and medium section steel upgrading renovation was not included in the previous assessment of the proposed annual caps for Infrastructure Technical and Renovation Engineering Services in the 2016-2018 CCT Agreements. The item was newly added in 2018. The Proposed Annual Caps for the year of 2018 increased because of the new addition of the item "heavy-duty H beam and medium section steel upgrading renovation".

Regarding Water and Land Transportation and Related Services, labour costs to be incurred in the equipment (facility) maintenance services for production support and overhaul and medium maintenance of equipment will increase in the coming few years. Also, in order to meet the increasingly stringent requirements on energy saving and environmental protection imposed by the PRC government, it is necessary for the Parent Group to upgrade the equipment and facilities used to provide transportation and integrated port services therefore the costs to be incurred by the Parent Group in providing such services to the Group are expected to increase for coming years. Accordingly, it is expected a higher service fee will be charged by the Parent Group for the provision of highway transport, waterway transport and integrated port services to the Group in the coming few years, resulting in the expected increase of transaction amount for Water and Land Transportation and Related Services for the year of 2018. The breakdown of the Proposed Annual Cap of RMB2,498 million in terms of nature of transactions is as follows:

Item	**Transaction amount in 2018** *(RMB0'000)*	**Actual transaction amount from January to June 2018** *(RMB0'000)*	**Information on the revision**
Land transportation	25,246.53	12,408.83	The Company has undergone structural change and added more processing lines in order to upgrade its products. Hence, internal transportation within plants and factories would rise. Further, due to the more stringent requirements under the state's environmental protection policies, the costs for land transportation is expected to increase accordingly.
Water transportation	31,535.36	19,150.61	
Integrated port services (including cargo loading and unloading, storage, lump ore screening, transfer and short-distance handling, weighing, pickup and delivery, etc.)	26,000	9,077.13	Affected by (1) the change in production capacity of the Company, (2) the requirements under the state's environmental protection policies, such that some ordinary land transportation route cannot be further adopted, the transaction amount is expected to increase.
Storage and delivery service	16,765.71	8,445.30	

Item	Transaction amount in 2018 *(RMB0'000)*	Actual transaction amount from January to June 2018 *(RMB0'000)*	Information on the revision
Equipment (facility) maintenance services for production support	76,654.25	38,849.44	1. The Company has added various production lines, such as heavy-duty H beam and medium section steel upgrading renovation and construction of galvanization lines, increasing the amount of maintenance projects. 2. Due to increase of labour costs year by year and the more stringent requirements under the state's environmental protection policies, the costs of maintenance projects have increased accordingly.
Overhaul and medium maintenance of equipment	21,480	9,846.09	
Project and maintenance services for electrical, motor and transformer	4,515.48	1,057.99	
Operation and maintenance service and modification regarding automation and informatization	19,550	10,247.96	Due to centralization of the information system, growing demand for the adoption of cloud computing and virtual machine, and wider scope of online management of environmental protection facilities resulting from the increase in such facilities in compliance with the relevant regulations, the transaction amount is expected to increase.
Wheel processing services	5,291.3	1,355.47	1. The Company has actively expand its share in the wheels market, enlarged the production volume of high-end wheel products and enhanced the quality of such products. Therefore, the processing costs increased. 2. The Company has also explored more distribution channels, and thus increasing the processing quantity.
Agency services	3,675.8	100.04	Relatively stable
Other service (including automobile repair, monitoring and diagnostic services)	19,077.25	3,739.14	Relatively stable
Total	**249,791.68**	**114,278.00**	

The Directors opine that the assumptions as referred in the increase of (a) Spare-parts, Fittings and Related Products; (b) Infrastructure Technical and Renovation Engineering Services; and (c) Water and Land Transportation and Related Services are fair and reasonable.

The (a) Spare-parts, Fittings and Related Products; (b) Infrastructure Technical and Renovation Engineering Services; and (c) Water and Land Transportation and Related Services are not related to the "Services and Products" provided by the Group to the Parent Group. The Company produces iron and steel products only, and does not provide any other products and services. All other products and services that the Company requires are provided by the Parent Group or independent third parties. The products or services provided by the Group to the Parent Group do not overlap with those provided by the Parent Group to the Group. The provision of the products or services by the Parent Group to the Group relates to the general operation of the Group but not a particular project.

Reasons for, and benefits of, the Supplementary CCT Agreement

It will be in the interest of the Group to obtain a reliable and uniquely skilled supply of Services, Products and Construction Engineering from the Parent Group to ensure the Group's stable and continuous production. The terms and pricing of the Supplementary CCT Agreement are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

Information on the Company, the Parent Company and Anhui Xinchuang

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

The Parent Company is a wholly state-owned enterprise with limited liability and a 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, agriculture and forestry.

Anhui Xinchuang is principally engaged in energy saving and environmental protection engineering and operation, industrial water treatment and operation, production of energy saving and environmental protection equipment, energy management under contract, environmental monitoring and comprehensive utilization of solid waste resources.

Internal Management of the Revision of Annual Cap Agreements

To ensure effective execution and implementation of the pricing of the transactions under the Revision of Annual Cap Agreements, the Company has established "Internal Control Management Measures for Connected Transactions" to regulate the pricing management of related connected transactions.

Listing Rules Implications

As at the Latest Practicable Date, the Parent Company is interested in approximately 45.54% of the Company's share capital and is a controlling shareholder and connected person of the Company. As at the Latest Practicable Date, Anhui Xinchuang is a company controlled by the Parent Company and the Company is also interested in 16.34% of Anhui Xinchuang's share capital. As an Associate of the Parent Company, Anhui Xinchuang is a connected person of the Company. Accordingly, the transactions contemplated under the Supplementary Energy Saving and Environmental Protection Agreement and the Supplementary CCT Agreement constitute continuing connected transactions of the Company under Rule 14A of the Listing Rules.

As the applicable percentage ratios under the Listing Rules in respect of the respective Proposed Annual Caps for the transactions contemplated under the Supplementary Energy Saving and Environmental Protection Agreement and the Supplementary CCT Agreement, on an annual basis, are more than 5%, such continuing connected transactions and Proposed Annual Caps are subject to requirements including reporting, announcement, annual review and Independent Shareholder' approval under Rule 14A of the Listing Rules.

3. CONTINUING CONNECTED TRANSACTIONS – IN RELATION TO NEW SALE AND PURCHASE OF ORE AGREEMENT, NEW ENERGY SAVING AND ENVIRONMENTAL PROTECTION AGREEMENT, NEW CCT AGREEMENT AND NEW FINANCIAL SERVICES AGREEMENT

Introduction

New Sale and Purchase of Ore Agreement

The Company and the Parent Company entered into the New Sale and Purchase of Ore Agreement on 15 August 2018 for the continuous purchase of ore by the Company and the continuous sale of ore by the Parent Company after the expiry of the Existing New Sale and Purchase of Ore Agreement.

New Energy Saving and Environmental Protection Agreement

The Company and Anhui Xinchuang entered into the New Energy Saving and Environmental Protection Agreement on 15 August 2018, under which Anhui Xinchuang will continue to provide Energy Saving and Environmental Protection Construction and Services to the Group and the Group will sell power, energy medium and finished products and provide relevant services to Anhui Xinchuang, after the expiry of the Existing Energy Saving and Environmental Protection Agreement.

New CCT Agreement

The Company and the Parent Company entered into the New CCT Agreement on 15 August 2018 for the continuous sale or provision of products and services by the Group to the Parent Group and the continuous sale and provision of products and services by the Parent Group to the Group after the expiry of the Existing CCT Agreement.

New Financial Services Agreement

The Financial Services Agreement for the Year of 2018 between the Finance Company and the Parent Group signed on 27 December 2017 will expire on 31 December 2018. On 15 August 2018, the Finance Company and the Parent Group entered into the New Financial Services Agreement for the years from 2019 to 2021, pursuant to which, the Finance Company agrees to provide the Parent Group and its subsidiaries with deposit services, loan services and other financial services subject to the terms and conditions provided therein.

The principal terms of the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environmental Protection Agreement, the New CCT Agreement and the New Financial Services Agreement are set out below:

(1) New Sale and Purchase of Ore Agreement

Background

The Existing Sale and Purchase of Ore Agreement entered into between the Company and the Parent Company on 10 September 2015 will expire on 31 December 2018. In order to ensure the continuous supply of Ore to the Group, the Company and the Parent Company entered into the New Sale and Purchase of Ore Agreement.

Date

15 August 2018

Parties

(i) The Company as the purchaser; and

(ii) The Parent Company as the supplier

Subject matter

Ore produced by the Parent Company including iron ore, dolomite and/or limestone must first satisfy the quantity demanded by the Company and first be offered to the Company for purchase. Such Ore is not allowed to be sold by the Parent Company to any other party unless prior written consent is given by the Company.

Consideration

Price for iron ore per tonne will be determined after arm's length negotiations between the Company and the Parent Company under normal commercial terms and according to Platts index (Platts daily iron ore assessments) and shall not be higher than the market price of the same types of iron ore provided by independent third parties in the vicinity of the Company in Maanshan City, Anhui Province, the PRC.

The number of grade and types of iron ore used for the price determination is as follows:

	Type of iron ore	**Standard grading** *(Tfe)*	**Corresponding Platts index**
Ore in Nanshan（南山礦）	Ore concentrates produced in Aoshan（凹精）	64.00	Platt 62 index plus the difference between Platts 65 index and Platts 62 index (Platt 65-62 index)
	Ore concentrates produced in Dongshan（東精）	64.00	Platt 62 index plus the difference between Platts 65 index and Platts 62 index (Platt 65-62 index)
Ore in Gushan（姑山礦）	Ore concentrates produced in Gushan（姑精）	56.00	Platt 581a index
	Iron ore pellet produced in Gushan（姑塊）	48.00	Platt 581a index
	Ore concentrates produced in Hemushan（和睦精）	65.00	Platt 65 index
	Ore concentrates produced in Baixiangshan（白象精）	65.00	Platt 65 index

	Type of iron ore	Standard grading *(Tfe)*	Corresponding Platts index
Ore in Taochong（桃沖礦）	Iron concentrates (powder) produced in Taochong 桃精（粉）	54.00	Platt 581a index
	Iron block ore produced in Dashan（大山塊礦）	47.00	Platt 581a index
	Sintering blend of concentrates powder（燒結混合精粉）	60.00	Platt 58la index plus the difference between Platts 62 index and Platts 58la index (Platt 62-58la index)
	Agglomerate blend of concentrates powder（造球混合精粉）	64.00	Platt 62 index plus the difference between Platts 65 index and Platts 62 index (Platt 65-62 index)
Ore in Zhangzhuang（張莊礦）	Iron ore concentrates（鐵精礦）	66.00	Platt 65 index
	Block ore（塊礦）	30.00	Platt 581a index
Iron ore in Luohe（羅河鐵礦）	Iron ore concentrates（鐵精礦）	66.00	Platt 65 index

The grading depends on the content of iron in different types of iron ores and is used for determination of the price.

"Tfe" refers to the content of the iron element in the iron ore and is a unit in regard to the content of the iron.

Price for iron ore consists of three parts: the base price for the content of iron, the increased or decreased price for iron powder and sinter fine ore and the freight and miscellaneous expenses. The base price for the content of iron is determined by the actual grade of iron of each type by reference to the Platts index:

(i) TFe≥65, determined by reference to the Platts 65 index iron ore price per tonne

(ii) 65>TFe≥62, determined by reference to the differential between the Platts 62 index and the Platts 65-62 index

(iii) 62>Tfe>58, determined by reference to the differential between the Platts 58la index and the Platts 62-58la index

(iv) Tfe≤58, determined by reference to the Platts 58la index iron ore price per tonne

Platts index is a price evaluation for fine ore and is a market-recognized index for the pricing of iron ore in the industry. The four largest mines in the world including VALE, Rio Tinto mines, BHP and FMG all determine the price for the iron ore according to Platts index. There are significant differences in qualities and uses between fine ore and iron ore concentrates produced in Aoshan（凹精）, Dongshan（東精）, Hemushan（和睦精）, Baixiangshan（白象精）, pelletized and blended concentrates produced in Taochong（桃冲造球混合精）, iron ore concentrates produced in Zhangzhuang（張莊精）, and Luohe（羅河精）. The Platts index is denominated in US Dollars and is published by S&P Global Platts, which mainly assesses the international price of iron ores which grade 65% or above. The latest base price for the content of iron of Platts 65 index, Platts 62 index and Platts 58la index are as follows:

Date	Platts 62 index	Platts 65 index	Platts 58la index
15 October 2018	71.25	97.45	62.00

The official source is the "SBB STEEL MARKETS DAILY" published by S&P Global Platts, which is updated on daily basis.

In gist, the final price of the iron ore will be determined based on the following formula:

Price of iron ore = (1) the base price for the content of iron + (2) the increased or decreased price for iron powder and sinter fine ore + (3) the freight and miscellaneous expenses

*The base price for the content of iron = monthly average value based on the corresponding Platts index of the relevant iron ore (calculated by the Company based on the published Platts index)/the corresponding standard grading of iron ore × actual grading of iron ore**

(For example, for the case of ore concentrates produced in Aoshan（凹精）, the basic price = [(price under Platts 65 index – price under Platts 62 index)/(65 – 62) × (the actual grading of iron ore – 62) + price under Platts 62 index] × exchange rate published by the People's Bank of China)*

* *The actual grading of iron ore will be determined by the average grading of the particular type of iron ore after quality check of each supply, which should not be materially different from the standard grading.*

The increased or decreased price for iron powder and sinter fine ore = average price under "65% iron powder of Fanchang region" published on www.mysteel.com and www.steelhome.cn – monthly average value based on the Platts index × exchange rate (published by the People's Bank of China)

If for any reasons the price of "65% iron powder of Fanchang region" is no longer published, the Company and the Parent Company may negotiate and replace it with the price of other significant 65% or above iron powder published on www.mysteel.com and/or www.steelhome.cn. The price under "65% iron powder of Fanchang region" is updated on the two PRC websites daily. The Platts index is the price assessment for fines（粉礦）, which is not entirely the same as iron powder（精粉）in terms of the quality. Therefore, making reference to the average price under "65% iron powder of Fanchang region" would produce more accurate result of the price assessment.

Price of "65% iron powder of Fanchang region" published by the two websites mentioned above (i.e. www.mysteel.com and www.steelhome.cn) mainly assesses the price of iron ores which grades 65% or above in Fancheng area. The two indices mentioned above are denominated in RMB and are both recognised indices in the market, have both been in operation and continued to provide the most updated and reliable information in regard to the relevant indices every day. The two PRC websites are among the most important websites in PRC that provide information in the iron and steel industry, and the price of "65% iron power of Fanchang region" published thereon are recognised by the industry in general.

www.mysteel.com and www.steelhome.cn are the most important provider of information regarding iron and steel. The websites publish information in regard to the iron and steel industry as well as other relevant industries daily. www.mysteel.com is managed by Shanghai Ganglian（上海鋼聯）, which is an enterprise providing large-scale integrated IT services across China, including information in regard to iron and steel, e-commerce and network technology services. It is officially listed on ChiNext Market of the Shenzhen Stock Exchange. www.steelhome.cn is invested and operated by Shanghai SteelHome E-Commerce Co., Ltd（上海鋼之家電子商務股份有限公司）and has operated since 1 November 2004. It is a large-scale professional website for iron and steel that integrated market information, professional consultancy, research report, industry statistics, e-commerce, exhibition and convention, brand planning and information technology. It was successfully listed in National Equities Exchange and Quotations (NEEQ) on 17 December 2015. The two PRC websites have been operating for over 10 years and given various awards. In particular, Shanghai SteelHome E-Commerce Co., Ltd（上海鋼之家電子商務股份有限公司）which runs www.steelhome.cn was awarded "Certificate for corporation of new technologies"（高新技術企業證書）through passing the certification on corporation of new technologies of the state in 2011, and it was named "China demonstrating internet enterprise with integrity"（中國互聯網誠信示範企業）in 2015; Shanghai Ganglian（上海鋼聯）which runs www.mysteel.com is a cooperating corporation for big data designated by the National Bureau of Statistics of China. It was also awarded one of the top 100 enterprises in Shanghai in 2016 and 2017.

Settlement of iron ore shall be done at its delivery to the factory. The freight and miscellaneous expenses shall be calculated by the actual average of the freight and miscellaneous expenses from Beilun port to the plant of the Group.

Price for dolomite and limestone will be determined after arm's length negotiations between the Company and the Parent Company on normal commercial terms with reference to the market price. The price for dolomite and limestone shall not be higher than the market price of the same categories of dolomite and limestone provided by independent third parties in the same area in the vicinity of the Company in Maanshan City, Anhui Province, the PRC.

Payment

The invoice amount and all prices shall be denominated and paid in RMB. After the Company has received the Ore and verified its quality, the purchase price of iron ore shall be paid within 30 days and the purchase price of dolomite and limestone shall be paid within 50 days.

Preconditions

The New Sale and Purchase of Ore Agreement is conditional upon the Independent Shareholders approving the New Sale and Purchase of Ore Agreement and the respective Proposed Annual Caps at the EGM.

Duration

Subject to the fulfillment of the aforementioned condition precedent, the New Sale and Purchase of Ore Agreement shall be for a term of three years commencing 1 January 2019 and ending 31 December 2021.

Existing Annual Caps and actual transaction amounts

The Existing Annual Caps (tax exclusive) for transactions under the Existing Sale and Purchase of Ore Agreement for the three years ended/ending 31 December 2016, 31 December 2017 and 31 December 2018 and the actual transaction amounts (tax exclusive) for the two years ended 31 December 2016 and 31 December 2017, and the first five months ended 31 May 2018 are set out below:

RMB

	For the year ended 31 December 2016	**For the year ended 31 December 2017**	**For the year ending 31 December 2018**	**For the first five months ended 31 May 2018**
Existing Annual Caps	3,815,450,000	4,873,170,000	5,425,240,000	N/A
Actual transaction amounts	2,883,966,200	3,720,681,000	N/A	1,610,526,100

Proposed Annual Caps

The Proposed Annual Caps for the transactions (tax exclusive) contemplated under the New Sale and Purchase of Ore Agreement for the three years ending 31 December 2019, 31 December 2020 and 31 December 2021 are set out below:

	RMB		
	For the year ending 31 December 2019	**For the year ending 31 December 2020**	**For the year ending 31 December 2021**
Proposed Annual Caps	5,232,820,000	5,368,260,000	5,761,700,000

The Proposed Annual Caps in respect of the New Sale and Purchase of Ore Agreement for the term commencing 1 January 2019 and ending 31 December 2021 are determined by reference to (i) the forecasted market price of the Ore; (ii) the Group's anticipated demand for Ore to meet its production requirements and capacity; and (iii) the Parent Company's anticipated production capacity.

It is anticipated that the price of iron ore for 2019, 2020 and 2021 would be in the region of US$62.0/t, US$60.0/t and US$61.3/t respectively, based on the UBS Global I/O: Miner's Price Review 2018 Outlook: Riding the Cycle issued by UBS Securities Australia Ltd. The Platts 65 index does not provide a preview of the price of iron and ore in the upcoming years. Therefore, when estimating the transaction amount in determining the Proposed Annual Caps, the Company made reference to the price of iron ore based on the UBS Global I/O: Miner's Price Review 2018 Outlook: Riding the Cycle issued by UBS Securities Australia Ltd, a renowned international investment bank. Its research on the price prediction for iron and steel is generally recognised by the industry. The price stated in the said report is comparable to the Company's pricing benchmark.

When deciding the expected demand for Ore, the Company took into account the Company's production plan for the next three years and the existing demand for Ore (which amounted to approximately 23,500,000 tonnes annually). It is expected that there would not be major projects which would substantially affect the demand for Ore in 2019 to 2021. The expected demand (in tonnes) of the Company from the Parent Company from 2019 to 2021 is as follows:

	2019	**2020**	**2021**
Demand for iron ore *(in tonnes)*	8,480,000	9,000,000	9,540,000
Demand for dolomite and limestone *(in tonnes)*	1,140,000	1,200,000	1,200,000

The production capacity of a mine in Anhui Province has gradually increased after completion of its construction and the Parent Company is planning to carry out modification work for other mines in the coming years to increase its production capacity. In addition, due to change in sales strategy for certain mine, more iron ore are available for domestic sales. Therefore, the quantity of iron ore to be purchased from the Parent Company will increase.

Reasons for, and benefits of, the New Sale and Purchase of Ore Agreement

It is beneficial for the Company to enter into the New Sale and Purchase of Ore Agreement so as to take advantage of the Parent Group's ore reserves which are in close proximity to the off-loading port adjacent to the production facilities of the Company within Anhui Province, the PRC. Furthermore, it is of strategic importance to secure a stable and reliable supply of good grade and quality ore from the Parent Group at a reasonable price to ensure the Company's continuous production. The terms and pricing of the New Sale and Purchase of Ore Agreement are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

(2) The New Energy Saving And Environmental Protection Agreement

The Existing Energy Saving and Environmental Protection Agreement entered into between the Company and Anhui Xinchuang on 10 September 2015 will expire on 31 December 2018. The Company and Anhui Xinchuang entered into the New Energy Saving and Environmental Protection Agreement on 15 August 2018, under which Anhui Xinchuang will continue to provide Energy Saving and Environmental Protection Construction and Services to the Group and the Group will continue to sell power, energy medium, and finished products to Anhui Xinchuang.

Date

15 August 2018

Parties

(i) The Company; and

(ii) Anhui Xinchuang

Subject matter

Anhui Xinchuang shall provide Energy Saving and Environmental Protection Construction and Services to the Group, including:

(a) environmental protection construction, maintenance services (i.e. the environmental protection construction for the infrastructure technical and renovation engineering projects, which generally includes flue gas desulfurization and/or denitration, dust removal project, sewage plant project and other environmental protection projects; maintenance service means the daily maintenance projects, such as preservation work and maintenance work for environmental protection equipment);

(b) sales of spare parts and dust removal bags & dust removal bag cages (i.e. the sales of spare parts and dust removal bags & dust removal bag cages used in the dust removal system applied in the Company's environmental protection projects and equipment maintenance);

(c) management and operation of environmental protection facility (i.e. entrusting Anhui Xinchuang to manage and operate the environmental protection facility of the Company, so as to enhance the efficiency of such management and ensure the waste emission level complies with the relevant standard);

(d) inspection and diagnosis service, environmental monitoring service and management of water quality (i.e. entrusting Anhui Xinchuang to inspect environmental protection facilities and identify malfunctioning parts, monitor air and water emission, manage and operate the water treatment facility of the Company and ensure that the water quality complies with the relevant standard);

(e) other services (including contract energy services, which means the signing of energy saving contract to provide integrated service of designing energy saving project and monitoring of energy saving etc.).

The terms (including but not limited to pricing and payment) of the Energy Saving and Environmental Protection Construction and Services are agreed through arm's length negotiations and under normal commercial terms between the parties, and the terms (including but not limited to pricing and payment) shall be no less favourable than those provided by independent third parties to the Group for similar environmental protection construction and services.

The Group shall sell power, energy medium and finished products to Anhui Xinchuang, including lime, energy medium, etc. The terms (including but not limited to pricing and payment) regarding sale of power, energy medium and finished products are agreed after arm's length negotiations and under normal commercial terms between the parties and the terms (including but not limited to pricing and payment) shall not be more favourable than those offered by the Group to independent third parties for the sales of similar power, energy medium and finished products.

Due to the more stringent requirement on energy saving and environmental protection introduced by the PRC government, it is expected that the Group will carry out large-scale environmental protection projects and maintenance, including flue gas denitration and dust removal project. The services to be provided by Anhui Xinchuang would be mainly for the construction projects and facilities in compliance with such requirements, without specific location for the services. As required by the Group's flue gas denitration and dust removal project, Anhui Xinchuang would provide services including technological design, supply of environmental protection facilities and construction and installation service. It would also provide spare parts such as dust removal bags and dust removal bag cages. After the completion of the environmental protection facilities, more operating and management service would be required. These would increase the Proposal Annual Caps for the Energy Saving and Environmental Protection Construction and Services. The details of the environmental projects and maintenance are as follows:

	2019		**2020**		**2021**	
	Project	**Amount** *(RMB0'000)*	**Project**	**Amount** *(RMB0'000)*	**Project**	**Amount** *(RMB0'000)*
Environmental protection project	1# sintering machine and flue gas denitration at southern district of the Company's No.2 iron-making factory	6,000	A# sintering machine and flue gas denitration at the Company's No.3 iron-making factory	6,000	Sewage plant project at the Company's new district	7,000
	3# sintering machine and flue gas denitration at southern district of the Company's No.2 iron-making factory	6,000	B# sintering machine and flue gas denitration at the Company's No.3 iron-making factory	6,000	1#2# Coke oven and flue gas denitration at the Company's coking factory	8,000
	1#2# Shaft furnace and flue gas denitration at southern district of the Company's No.2 iron-making factory	5,000	Chain grate machine and flue gas denitration at the Company's No.3 iron-making factory	4,000		
	3# Shaft furnace and flue gas denitration at southern district of the Company's No.2 iron-making factory	5,000	3#4# Coke oven and flue gas denitration at the Company's coking factory	7,000		
	Ultra-low emission dust removal system of the Company	6,000				
Maintenance work		6,000		6,000		6,000

Maintenance work means the equipment maintenance service and production ensuring service etc. It is expected that the transaction amount will remain stable in the coming 3 years.

In view of the "Ultra-low Emission Transformation Work Plan of Iron and Steel Enterprises" issued by the PRC government in 2018, the Company will construct some new environmental protection facilities, such as the denitration project of 1-4# coke oven of the coking factory, denitration project of the sintering machine of No.2 iron-making factory and denitration project of the sintering machine of No.3 iron-making factory. It is expected that the investment and construction will take 3 years, and be completed by the end of 2020. As the projects will complete gradually, the number of environmental protection projects in 2021 will decrease.

Consideration

The parties agreed to adopt an appropriate, reasonable and fair pricing method in accordance with the principle of fairness in formulating the transactions under the New Energy Saving and Environmental Protection Agreement. The pricing shall be based on state-prescribed price, if any. In the absence of the state-prescribed price, the pricing shall be based on the market price, determined through open tender, price comparison and arm's length negotiation under normal commercial terms and by reference to comparable transaction prices in the market. Meanwhile, the price regarding Energy Saving and Environmental Protection Construction and Services shall not be higher than the price of the same categories of energy saving and environmental protection construction and services provided by independent third parties to the Group. The price regarding the sales of power, energy medium, finished product shall not be lower than the price of same categories of power, energy medium, finished product sold by the Group to independent third parties.

In accordance with the current pricing standards, except for the pricing of sales of energy medium and part of the services provided by Anhui Xinchuang to the Group, namely testing and diagnostic services and environmental testing services, that shall adopt the state-prescribed price, transactions under the New Energy Saving and Environmental Protection Agreement shall be priced based on the market price through open tender for contract with value over RMB100,000 to ensure services are obtained under a fair and competitive environment and it is the Company's practice to obtain at least three tenders for each contract.

Payment

The payment for Energy Saving and Environmental Protection Construction and Services shall be paid by the Company to Anhui Xinchuang in accordance with the construction progress as verified by the Company's management department. Payment for power, energy medium and finished goods shall be settled by the Company at the end of each month.

Preconditions

The New Energy Saving and Environmental Protection Agreement is conditional upon the Independent Shareholders approving the New Energy Saving and Environmental Protection Agreement and the respective Proposed Annual Caps at the EGM.

Duration

Subject to the fulfillment of the aforementioned preconditions, the New Energy Saving and Environmental Protection Agreement shall be for a term of three years commencing 1 January 2019 and ending 31 December 2021.

Existing Annual Caps and actual transaction amounts

The Existing Annual Caps (tax exclusive) in respect of the Existing Energy Saving and Environmental Protection Construction and Services provided by Anhui Xinchuang to the Group under the Existing Energy Saving and Environmental Protection Agreement for the three years ended/ending 31 December 2016, 31 December 2017 and 31 December 2018 and the actual transaction amounts (tax exclusive) for the two years ended 31 December 2016 and 31 December 2017, and the first five months ended 31 May 2018 are set out below:

RMB

	For the year ended 31 December 2016	**For the year ended 31 December 2017**	**For the year ending 31 December 2018**	**For the first five months ended 31 May 2018**
Existing Annual Caps	658,500,000	639,500,000	619,500,000	N/A
Actual transaction amounts	597,743,000	567,360,000	N/A	291,763,900

The Existing Annual Caps (tax exclusive) in respect of the sale of Waste Materials by the Group to Anhui Xinchuang under the Existing Energy Saving and Environmental Protection Agreement for the three years ended/ending 31 December 2016, 31 December 2017 and 31 December 2018 and the actual transaction amounts (tax exclusive) for the two years ended 31 December 2016 and 31 December 2017, and the five months ended 31 May 2018 are set out below:

RMB

	For the year ended 31 December 2016	**For the year ended 31 December 2017**	**For the year ending 31 December 2018**	**For the first five months ended 31 July 2018**
Existing Annual Caps	25,000,000	25,000,000	25,000,000	N/A
Actual transaction amounts	4,577,000	1,591,200	N/A	4,332,800

Proposed Annual Caps

The Proposed Annual Caps (tax exclusive) for the transactions contemplated under the New Energy Saving and Environmental Protection Agreement for the three years ending 31 December 2019, 31 December 2020 and 31 December 2021 are set out below:

RMB

	For the year ending 31 December 2019	**For the year ending 31 December 2020**	**For the year ending 31 December 2021**
Proposed Annual Caps in respect of Energy Saving and Environmental Protection Construction and Services provided by Anhui Xinchuang to the Group	906,100,000	916,100,000	896,100,000
Proposed Annual Caps in respect of sale of power, energy medium and finished product by the Group to Anhui Xinchuang	79,000,000	80,000,000	81,000,000
Total	985,100,000	996,100,000	977,100,000

The Proposed Annual Caps in respect of the New Energy Saving and Environmental Protection Agreement for the term commencing 1 January 2019 and ending 31 December 2021 are determined by reference to (i) the state-prescribed price and/or market price regarding the Energy Saving and Environmental Protection Construction and Services and the sale of power, energy media and finished products; (ii) the Group's anticipated demand for Energy Saving and Environmental Protection Construction and Services; (iii) Anhui Xinchuang's anticipated capacity in providing the Energy Saving and Environmental Protection Construction and Services; and (iv) the anticipated production of sale of power, energy medium and finished product and Anhui Xinchuang's anticipated demand for such power, energy medium and finished product and relevant services.

Details of the ongoing and expected projects of the Group that require the services of Anhui Xinchuang, the scope of services provided and the expected contract sum are as follows:

	Financial year ending 31 December			
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Environmental protection construction and maintenance services				
– Flue gas denitration	130,000	220,000	230,000	80,000
– Dust removal system	–	60,000	–	–
– Sewage plant project	–	–	–	70,000
Sub-total:	130,000	280,000	230,000	150,000
Management and operation of environmental protection facilities	390,000	290,000	350,000	410,000
Management of water quality	160,000	166,100	166,100	166,100
Other services (including mainly contract energy services and maintenance services)	157,000	170,000	170,000	170,000

The anticipated demand for power, energy medium and finished product of Anhui Xinchuang is related to the ongoing and expected projects provided by Anhui Xinchuang to the Group because power, energy medium (including water and electricity) and finished products such as limestone are consumables required by Anhui Xinchuang for the provision of Energy Saving and Environmental Protection Construction and Services. The Directors opine that the basis of determining the Proposed Annual Caps under the New Energy Saving and Environmental Protection Agreement is fair and reasonable. The demand of "power, energy medium and finished products" attributable to the ongoing projects provided by Anhui Xinchuang to the Group is as follows:

Type of projects	**Demand in 2019** *(RMB0'000)*	**Demand in 2020** *(RMB0'000)*	**Demand in 2021** *(RMB0'000)*
Contract energy	1,500	1,500	1,500
Management of water quality	500	500	500
Management and operation of environmental protection facility	4,400	4,500	4,600
Total	6,400	6,500	6,600

The number and demand of projects in relation to contract energy and management of water quality remain stable in the coming three years. As more environmental protection facilities will be constructed in compliance with the stricter environmental protection policies of the state, the number of projects in relation to management and operation of environmental protection facility will gradually increase such that the demand will increase by more than 1% each year. The total demand of "power, energy medium and finished products" attributable to the ongoing projects provided by Anhui Xinchuang to the Group accounts for more than 80% of the Proposed Annual Caps in respect of sale of power, energy medium and finished product by the Group to Anhui Xinchuang and therefore the Proposed Annual Caps in 2020 and 2021 is expected to increase gradually by more than 1% following the demand of the said projects.

All the Proposed Annual Caps in the New Energy Saving and Environmental Protection Agreement are approximately RMB900,000,000, representing an increase of approximately RMB100,000,000 in comparison to the year of 2018. The main reason for the increase was that after the PRC government issued the "Iron and Steel Enterprise Ultra-low Emission Transformation Work Plan (draft for comments)", the Company has planned to implement a series of environmental protection projects during the period of 2019-2020. Anhui Xinchuang will participate through open tenders. After the completion of the environmental protection projects, Anhui Xinchuang will be responsible for the operation and management of environmental protection facilities. Therefore the Proposed Annual Caps of the continuing connected transaction in the following three years are expected to exceed the annual cap of 2018.

The Company has made reference to the expected projects to be provided by Anhui Xinchuang to the Group when estimating the Proposed Annual Caps, since Anhui Xinchuang's demand for power, energy medium and finished product and relevant service are derived from the Energy Saving and Environmental Protection Construction and Services to be provided by Anhui Xinchuang to the Group. For example, energy medium including water and electricity is required by Anhui Xinchuang when providing environmental protection construction service to the Group.

Reasons for, and benefits of, the New Energy Saving and Environmental Protection Agreement

Given the stringent requirements imposed by the PRC government on environmental protection (especially in iron and steel industry), adoption of the construction and services provided by Anhui Xinchuang will benefit the Company from using the advanced energy saving and environmental protection ancillary facilities and focusing on its business and operations of steel production. The terms and pricing of the New Energy Saving and Environmental Protection Agreement are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

(3) The New CCT Agreement

Background

The Existing CCT Agreement entered into between the Company and the Parent Company on 10 September 2015 will expire on 31 December 2018. In order to secure the Group's stable and continuous production, the Company and the Parent Company entered into the New CCT Agreement on 15 August 2018 for the continuous sale or provision of products and services by the Group to the Parent Group and the continuous sale or provision of products and services by the Parent Group to the Group.

Date

15 August 2018

Parties

(i) The Company; and

(ii) The Parent Company

Subject Matter

(1) The Company itself and the Group agree to sell or provide the following products and services to the Parent Group:

(i) Products, including:

(a) Finished products and related commodities, including steel, steel ingot, accessories, materials (stainless steel band, cable, tool, etc.), coke powder, iron scales and other products (labour protection and office supplies, etc.);

(b) Water, electricity and gas, including electricity, living water, industrial treated water, blast furnace gas, coke oven gas, converter gas, steam, compressed air and other gases; and

(ii) Services, including providing entrusted steel billets processing, metering services, inspection services and other services.

(2) The Parent Company itself and the Parent Group agree to sell or provide the following products and services to the Group:

(i) Products, including refractory materials, spare-parts and complete equipment, non-standard spare-parts and other products (coke, pig iron, coal, etc.); and

(ii) Services, including:

(a) Infrastructure technical and renovation engineering;

(b) Water and land transportation and related services, including highway transport, waterway transport, Integrated Port Services (including cargo loading and unloading, storage, lump ore screening, transfer and short-distance handling, weighing, pickup and delivery, etc.), storage and delivery services, equipment (facility) maintenance services for production support, overhaul and medium maintenance of equipment, project and maintenance services for electrical, motor and transformer, operation and maintenance service and modification regarding automation and informatization, wheel processing services, agency services and automobile repair, monitoring and diagnostic services and related services).

Both parties agreed to adopt an appropriate, reasonable and fair pricing method in accordance with the principle of fairness in formulating the transactions under the New CCT Agreement. The terms of the products and services (including but not limited to pricing and payment) to be provided by the Group to the Parent Group shall not be more favourable than those to the independent third parties provided by the Group for similar categories of products and services. The terms of the products and services (including but not limited to pricing and payment) to be provided by the Parent Group to the Group shall not be less favourable than those provided by the independent third parties to the Group for similar categories of products and services.

During the term of the New CCT Agreement, the Company has the right to decide whether to enter into transactions with any independent third parties in respect of the transactions contemplated under the New CCT Agreement.

The above transactions do not include transactions with Anhui Xinchuang.

The Water, Electricity and Gas as well as the Finished Products and Related Commodities provided by the Group to the Parent Group under the Existing CCT Agreement are now merged into one category as products provided by the Group to the Parent Group under the New CCT Agreement, while the Services provided by the Group to the Parent Group under the Existing CCT Agreement are still classified as services provided by the Group to the Parent Group under the New CCT Agreement.

The Spare-parts, Fittings and Related Products provided by the Parent Group to the Group under the Existing CCT Agreement is now classified as products provided by the Parent Group to the Group under the New CCT Agreement, while the Infrastructure Technical and Renovation Engineering Services as well as the Water and Land Transportation and Related Services are now merged as one category as services provided by the Parent Group to the Group under the New CCT Agreement.

Consideration

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

The pricing regarding the products and services to be provided by the Group to the Parent Group shall not be lower than the price of the same categories of services and products provided by the Group to independent third parties.

The pricing regarding the services and products to be provided by the Parent Group to the Group shall not be higher than the pricing of the same categories of products and services provided by the independent third parties to the Group.

In accordance with the current price standards, the price benchmarks adopted in other transactions under the New CCT Agreement are as follows:

Category	Principle of Pricing	Items
Products sold by the Group to the Parent Group	Government price	Electricity/domestic water/industrial treated water
	Market price	Blast furnace gas/coke oven gas/converter gas/steam/compressed air/other gases, etc.
	Market price	Steel/ingot/coke/iron oxide/metallurgical accessories/materials (stainless steel belt, cable, tools, etc.)/labor insurance, office supplies, etc.
Services provided by the Group to the Parent Group	Market price	Provide entrusted steel billets processing, provide metering, inspection services, etc.
Products purchased by the Group from the Parent Group	Market price	Refractory materials/spare parts and complete equipment/non-standard spare parts, etc.
	Market price	Other commodities (coke, coal, oil, etc.)
Services received by the Group from the Parent Group	Market price	Infrastructure technical and renovation engineering services/overhaul and medium maintenance of equipment/highway transport/waterway transport/integrated port services/equipment (facility) maintenance services for production support/operation and maintenance service and modification regarding automation and informatization/project and maintenance services for electrical, motor and transformer/other services (automobile repair, monitoring and diagnostic services etc.)/wheel processing etc.
	Market price	Warehousing, distribution services/agency services, etc.

Payment

Regarding the payment of electricity, domestic water, industrial treated water, blast furnace gas, coke oven gas, converter gas, steam, compressed air, other gases, etc. sold by the Group to the Parent Group, the sum for the sales with respect to the previous month shall be paid by the Parent Group to the Group at the beginning of each month and settlement will be done on a monthly basis. For the payment of steel, ingot, coke, iron oxide and other products (labour insurance, office supplies, etc.), at the end of each month, the Parent Group shall pay to the Group the estimated sum in advance for the sales with respect to the following month and settlement will be done on a monthly basis. As for the payment of accessories and other materials (stainless steel belts, cables, tools, etc.), the sum for the sales with respect to the previous month shall be paid by the Parent Group to the Group and settlement shall be done on a monthly basis. As for the payment of further processing of steel billets, metering and detection services and related services under Services, the sum for the sales with respect to the previous month shall be paid by the Parent Company to the Group and settlement will be done on a monthly basis.

For the payment of products sold or provided by the Parent Group to the Group, the Group shall pay for them within 30 business days after the Group shall have received and verified the quality of the goods. The payment of infrastructure technical and renovation engineering services shall be made by the Group to the Parent Group within 30 business days in accordance with the construction progress after confirmation by the Company's management department. As for the payment of water and land transportation and related services, the Group shall ascertain the fee in accordance with the service progress and pay the Parent Group within 30 business days after the Group shall have verified the quality.

Please refer to the tabulated payment method for each of the items under the New CCT Agreement on an exhaustive basis below.

Items (provided by the Group to the Parent Group)	Payment method
Electricity, domestic water, industrial treated water, blast furnace gas, coke oven gas, converter gas, steam, compressed air, other gases, etc. sold by the Group to the Parent Group	The sum for the sales with respect to the previous month shall be paid by the Parent Group to the Group at the beginning of each month and settlement will be done on a monthly basis
Steel, ingot, coke, iron oxide and other products (labour insurance, office supplies, etc.)	At the end of each month, the Parent Group shall pay to the Group the estimated sum in advance for the sales with respect to the following month and settlement will be done on a monthly basis
Accessories and other materials (stainless steel belts, cables, tools, etc.)	The sum for the sales with respect to the previous month shall be paid by the Parent Group to the Group and settlement shall be done on a monthly basis
Further processing of steel billets, metering and detection services and related services under Services	The sum for the sales with respect to the previous month shall be paid by the Parent Company to the Group and settlement will be done on a monthly basis

Preconditions

The New CCT Agreement is conditional upon the Independent Shareholders approving the New CCT Agreement and respective Proposed Annual Caps at the EGM.

Duration

Subject to the fulfillment of the aforementioned preconditions, the New CCT Agreement shall be for a term of three years commencing 1 January 2019 and ending 31 December 2021.

Existing Annual Caps and actual transaction amounts

The Existing Annual Caps (tax exclusive) for Services and Products under the Existing CCT Agreement for the three years ended/ending 31 December 2016, 31 December 2017 and 31 December 2018 and the actual transaction amounts (tax exclusive) of Services and products for the two years ended 31 December 2016, the year ended 31 December 2017, and the first five months ended 31 May 2018 are set out as below:

RMB

			For the year ended 31 December 2016	For the year ended 31 December 2017	For the year ending 31 December 2018	For the first five months ended 31 May 2018
1.	Water, electricity and gas	Existing annual caps	141,019,800	142,837,800	142,665,800	N/A
		Actual transaction amounts	80,231,300	90,800,700	N/A	39,508,800
2.	Finished products and related commodities	Existing annual caps	570,688,000	570,688,000	570,688,000	N/A
		Actual transaction amounts	154,715,800	372,982,100	N/A	253,682,400
3.	Services	Existing annual caps	9,340,400	8,334,000	7,342,400	N/A
		Actual transaction amounts	3,065,400	360,000	N/A	540,000

The existing annual caps (tax exclusive) for services, products and construction projects under the Existing CCT Agreement for the three years ended/ending 31 December 2016, 31 December 2017 and 31 December 2018 and the actual transaction amounts (tax exclusive) of services, products and construction projects for the two years ended 31 December 2016 and 31 December 2017, and the five months ended 31 May 2018 are set out as below:

RMB

			For the year ended 31 December 2016	For the year ended 31 December 2017	For the year ending 31 December 2018	For the first five months ended 31 May 2018
1.	Spare-parts, fittings and related products	Existing annual caps	1,460,810,000	1,470,170,000	1,475,170,000	N/A
		Actual transaction amounts	1,075,434,500	1,419,553,600	N/A	985,574,000
2.	Infrastructure technical and renovation engineering	Existing annual caps	730,000,000	730,000,000	730,000,000	N/A
		Actual transaction amounts	422,916,600	669,481,500	N/A	283,099,000
3.	Water and land transportation and related services	Existing annual caps	1,934,869,700	2,001,808,000	2,028,547,900	N/A
		Actual transaction amounts	902,244,200	1,854,430,700	N/A	880,739,300

Proposed Annual Caps

The Proposed Annual Caps for services and products provided by the Group to the Parent Group under the New CCT Agreement for the three years ending 31 December 2019, 31 December 2020 and 31 December 2021 (tax exclusive) are set out as below:

RMB

		For the year ending 31 December 2019	For the year ending 31 December 2020	For the year ending 31 December 2021
1.	Proposed Annual Caps of products, including:	965,297,000	1,061,345,700	1,165,371,400
	(a) Finished products and related commodities, including steel, steel ingot, accessories, materials (stainless steel band, cable, tool, etc.), coke powder, iron scales and other products (labour protection and office supplies, etc.);	800,297,000	891,345,700	990,371,400
	(b) Water, electricity and gas, including electricity, living water, industrial treated water, blast furnace gas, coke oven gas, converter gas, steam, compressed air and other gases;	165,000,000	170,000,000	175,000,000
2.	Proposed Annual Caps of services, including providing entrusted steel billets processing, metering services, inspection services and other services.	83,874,000	83,874,000	83,874,000
	Total	1,049,171,000	1,145,219,700	1,249,245,400

The Proposed Annual Caps for services and products and provided by the Parent Group to the Group under the New CCT Agreement for the three years ending 31 December 2019, 31 December 2020 and 31 December 2021 (tax exclusive) are set out as below:

RMB

	For the year ending 31 December 2019	For the year ending 31 December 2020	For the year ending 31 December 2021
1. Proposed Annual Caps of products, including refractory materials, spare-parts and complete equipment, non-standard spare-parts and other products (cokes, pig irons and coals, etc.).	2,033,126,400	2,105,434,900	2,125,822,600
2. Proposed Annual Caps of services, including:	4,094,340,800	4,002,740,100	4,010,140,300
(a) infrastructure technical and renovation engineering services;	1,350,000,000	1,100,000,000	1,000,000,000
(b) water and land transportation and related services, including highway transport, waterway transport, integrated port services (including cargo loading and unloading, storage, lump ore screening, transfer and short-distance handling, weighing, pickup and delivery, etc.), storage and delivery services, equipment (facility) maintenance services for production support, overhaul and medium maintenance of equipment, project and maintenance services for electrical, motor and transformer, operation and maintenance service and modification regarding automation and informatization, wheel processing services, agency services and automobile repair, monitoring and diagnostic services and related services.	2,744,340,800	2,902,740,100	3,010,140,300
Total	6,127,467,200	6,108,175,000	6,135,962,900

The Proposed Annual Caps in respect of the New CCT Agreement for the term commencing 1 January 2019 and ending 31 December 2021 are determined by reference to (i) the historical transaction amounts; (ii) the state-prescribed price or the market price for the continuing connected transactions; (iii) the Group's anticipated capacity to provide the services and products to the Parent Group and the Group's anticipated demand for the Parent Group's services and products to meet its production plan; and (iv) the Parent Group's anticipated demand for the Group's services and products and the Parent Group's anticipated capacity to provide the services and products to the Group.

The comparison is made between the original proposed annual caps under the Existing CCT Agreement and the Proposed Annual Caps under the New CCT Agreement. In fact, the former are insufficient for the operation need of the Company in 2018 and have to be increased under the Supplementary CCT Agreement. The growth in 2019 will be less significant if compared to the revised annual caps under the Supplementary CCT Agreement.

The detailed factors leading to the growth in the Proposed Annual Caps in 2019 to 2021 are as follows:

Sale of products by the Group to the Parent Group

Finished products and related commodities

(1) the Company is proceeding with the restructuring and upgrading of the production facilities so it is expected that the number of contracts awarded to the Parent Group in relation to, among other things, infrastructure and equipment engineering and maintenance services will increase. As a result, it is expected that the demand for steel products and steel ingots (an intermediate steel products) from the Parent Group will increase since 2018. The production volume of the Group increased in 2017 and they are of the view that the Group will be able to provide a larger amount of steel products to the Parent Group in the rest of 2018 and for the coming three years from 2019 to 2021.

Water, electricity and gas

(2) the Company understands from the management of the Parent Group that it has plan for further business development following the steady rising trend in steel industry since 2017. Accordingly, it is estimated that more water, electricity and gas will be consumed by the Parent Group in terms of volume for the rest of 2018 and the three financial years ending 31 December 2019, 2020 and 2021, comparing to that for the financial year ending 31 December 2017.

Among the approximately 10% year-to-year increase in the Proposed Annual Caps of products, a major part is contributed by the change in sales of finished products and related commodities, and approximately 90% of which is attributable to the increase in sales of steel products. The Proposed Annual Caps of finished products and related commodities increases by RMB91 million from 2019 to 2020, among which RMB79 million represents the increase in sales of steel products; the Proposed Annual Caps of finished products and related commodities increases by RMB99 million from 2020 to 2021, among which RMB89 million represents the increase in sales of steel products. Considering the enhancement of the Group's production lines, it may produce more steel products, especially for the Parent Group's infrastructure technical and renovation engineering service.

Provision of services by the Group to the Parent Group

(1) With the restructuring and upgrading of the Group's production facilities being carried out, the production efficiency of the Group is expected to increase. Also, the Group plan to introduce electric furnaces to replace some of the existing furnaces commencing 2020, which will further enhance the efficiency of the Group, it is expected that continuous capacity will be available for the provision of entrusted steel billets processing services to the Parent Group. Taking into account the above and the steady rising trend in steel industry since 2017, it is estimated that the Group will provide more entrusted steel billets processing services to the Parent Group again commencing the second half of 2018 and through to 2019.

Procurement of products by the Group to the Parent Group

(1) The Group plans to carry out a number of construction and upgrading projects in 2018 and from 2019 to 2021 to improve the production efficiency of the Group and to meet the increasing stringent environmental protection requirement imposed by the PRC government. As a result, it is expected that more products (such as refractory materials) will be required for the projects commencing the second half of 2018, but there will not be significant increase in the year 2020 and 2021.

Procurement of services by the Group to the Parent Group

Infrastructure technical and renovation engineering services

(1) For the year ending 31 December 2019, 2020 and 2021, the key infrastructure technical and renovation engineering services that may be awarded to the Parent Group are different considering the business plan of the Group and the progress of the same construction throughout the 3 years. The Proposed Annual Caps have been calculated accordingly.

Water and land transportation and related services

(2) The Group is now in the process of constructing a heavy H beam production line and upgrading of long products manufacturing and other supporting facilities. It is also expected the construction of galvanization lines will commence in 2019. It is expected that more facility maintenance services are required for the rest of 2018 and the coming three years from 2019 to 2021. In addition, the labour costs to be incurred in the equipment (facility) maintenance services for production support and overhaul and medium maintenance of equipment is expected to increase in the coming few years. Given the increasingly stringent requirements on energy saving and environmental protection imposed by the PRC government, the Parent Group will have to upgrade the equipment and facilities used to provide transportation and integrated port services therefore the costs to be incurred by the Parent Group in providing such services to the Group are expected to increase for coming years. Accordingly, it is expected that a higher service fee will be charged by the Parent Group for the provision of highway transport, waterway transport and integrated port services to the Group in the coming few years. The Proposed Annual Caps for each of 2020 and 2021 will be at a level similar to that of 2019.

The annual cap of services of 2018 is proposed to increase from RMB2,758,547,900 to RMB3,847,916,800. Therefore, the growth rate of Proposed Annual Caps is approximately 6% compared with the revised annual cap of 2018 and is comprised of the following:

(1) The Proposed Annual Caps of infrastructure technical and renovation engineering services for 2019 is RMB1,350,000,000, representing an increase of RMB620,000,000 from the annual caps in 2018. Such increase is mainly attributable to the new heavy duty H beam and medium section steel upgrading renovation project;

(2) Manufacturing is expected to increase due to new production lines and upgrading of products, which in turn lead to high demand for transportation. Further, transportation costs will rise in view of the stricter environmental protection policies. Hence, the Proposed Annual Caps of transportation services in 2019 will increase RMB452,000,000 compared with that in 2018.

(3) As the Group will introduce more production lines (e.g. heavy duty H beam, upgrading of long products and construction of galvanization lines), maintenance projects will increase. Coupled with higher costs of the projects contributed by higher labour costs and compliance costs under the new environmental protection regulations, the Proposed Annual Caps of overhaul and medium maintenance of equipment in 2019 will increase by RMB264,000,000 compared with that in 2018.

Reasons for, and benefits of, the New CCT Agreement

It will be in the interest of the Group to obtain a reliable and uniquely skilled supply of products and services from the Parent Group to ensure the Group's stable and continuous production. The terms and pricing of the New CCT Agreement are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

(4) New Financial Services Agreement

Background

The Financial Services Agreement for the Year of 2018 between the Finance Company and Parent Group signed on 27 December 2017 will expire on 31 December 2018. On 15 August 2018, the Finance Company and Parent Group entered into the New Financial Services Agreement for the years from 2019 to 2021, pursuant to which, the Finance Company agreed to provide the Parent Group and its subsidiaries with deposit services, loan services and other financial services subject to the terms and conditions provided therein.

Date

15 August 2018

Parties

(i) The Finance Company; and

(ii) The Parent Group

Duration

The New Financial Services Agreement shall be for a term commencing from 1 January 2019 to 31 December 2021.

Deposit services

When the Finance Company provides deposit services to the Parent Group and its subsidiaries, the interest rate for deposits shall refer to the benchmark interest rate and floating range set by the People's Bank of China ("PBOC"), and according to the principle of marketization, it must not be higher than the interest rates for deposits of a similar nature and under similar terms provided to the Parent Group and its subsidiaries by other independent commercial banks or financial institutions in the PRC.

The Parent Group and its subsidiaries open saving accounts with the Finance Company, and deposit funds into the saving accounts opened at the Finance Company under the principle of free access to these accounts, and in accordance with the requirements for the Parent Group to deposit cash in the Finance Company under the "Funds Administrative Measures"(《資金管理辦法》). Deposits can be in the form of demand deposits, time deposits and agreement savings, etc. Such services are financial assistance to be provided by the Parent Group and its subsidiaries on normal commercial terms (or better terms for the Company (including its subsidiaries)) for the interests of the Company (including its subsidiaries), and are not secured by the assets of the Company (including its subsidiaries).

Regarding the interest under the deposit service, the interest is calculated monthly with reference to the benchmark interest rates for deposits and the floating range set by PBOC and is payable quarterly. The calculation of interest and the interest rate are consistent with that of independent merchant banks and financial institutions.

Loan services

When the Finance Company provides loan services to the Parent Group and its subsidiaries, the loan interests charged shall refer to the range of interest rates set by the PBOC, and according to the principle of marketization, it must not be lower than the interest rates for loans of similar nature and under similar terms charged on the Parent Group and its subsidiaries by other independent commercial banks or financial institutions in the PRC.

The Parent Group and its subsidiaries can apply for the provision of loan services from the Finance Company anytime when necessary, and the Finance Company shall provide the Parent Group with loan services according to the terms and amounts of the applications and in accordance with law. During the term of the agreement, the daily cap of the loans to be provided by the Finance Company to the Parent Group and its subsidiaries shall be RMB3,170,000,000 (interest payment included). The Parent Group and its subsidiaries shall provide security or guarantee for the loan services as required by the Finance Company.

The total amount of loan provided by the Finance Company to the Parent Group and its subsidiaries and interest payable at the end of each day shall not be higher than the total amount of deposits and accrued interests of the Parent Group and its subsidiaries with the Finance Company.

Regarding the loan services, the interest is calculated with reference to the benchmark interest rates for loans and the floating range set by the PBOC.

Other financial services

When the Finance Company provides other financial services (including acceptance of bills, letter of guarantee, securities underwriting, financial advisory, insurance brokerage and sale and purchase of foreign exchange) to the Parent Group and its subsidiaries, the charge shall comply with the principle of marketization and must not be lower than the fees for other financial services of similar nature and under similar terms charged on the Parent Group and its subsidiaries by other independent commercial banks or financial institutions in the PRC. In terms of other financial services as aforesaid, Parent Group and its subsidiaries shall pay the Finance Company interests and service charges for services including acceptance of bills, letter of guarantee, securities underwriting, financial advisory, insurance brokerage and sale and purchase of foreign exchange at fair and reasonable market rates, which should not be higher than RMB200,000,000 (interest payment included) per annum during the term of the Agreement.

The other financial services provided by the Finance Company are mainly bills acceptance and entrusted loans. The charges of bills acceptance are determined at 0.5% of the bills by reference to the "Price Management Measures of Services of Merchant Bank" jointly issued by CBRC and the National Development and Reform Commission, which is consistent with merchant banks. For entrusted loan service, loans will be charged at 0.1% of the loan contract amount. All of the above-mentioned charges are not lower than the minimum charges for similar services of merchant banks.

Reasons for and Benefits of The New Financial Services Agreement

Through the provision of financial services by the Finance Company to the Parent Group and its subsidiaries, the Company can utilize part of its available funds to enhance its capital utilization efficiency and benefit from the net interests and services fees received by the Finance Company. Meanwhile, according to the above transaction principles and the risk control system in relation to the connected transactions between the Finance Company and the Parent Group, such connected transactions will not cause any adverse impact to the Company. In light of the aforesaid, it will benefit the Company and its Shareholders as a whole.

Information on the Company, the Parent Company, Anhui Xinchuang and the Finance Company

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

The Parent Company is a wholly state-owned enterprise with limited liability and a 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.

Anhui Xinchuang is principally engaged in energy saving and environmental protection engineering and operation, industrial water treatment and operation, production of energy saving and environmental protection equipment, energy management under contract, environmental monitoring and comprehensive utilization of solid waste resources.

The Finance Company is a non-banking 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 loan services, discounting services and settlement services to the Parent Group and its subsidiaries and the members of the Group.

Listing Rules Implications

As at the Latest Practicable Date, the Parent Company is interested in approximately 45.54% of the Company's share capital and is a controlling shareholder and connected person of the Company. As at the Latest Practicable Date, Anhui Xinchuang is a company controlled by the Parent Company and the Company is also interested in 16.34% of Anhui Xinchuang's share capital. As an Associate of the Parent Company, Anhui Xinchuang is a connected person of the Company. The Finance Company is a 91% owned subsidiary of the Company and an indirect subsidiary of the Parent Company. Therefore, it is a connected person of the Company. Accordingly, the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environmental Protection Agreement, the New CCT Agreement, the New Financial Services Agreement constitute continuing connected transactions of the Company under Rule 14A of the Listing Rules.

As the applicable percentage ratios under the Listing Rules in respect of the respective Proposed Annual Caps for the transactions contemplated under the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environmental Protection Agreement, the New CCT Agreement, and the loan services under the New Financial Services Agreement, on an annual basis, are expected to be more than 5%, such continuing connected transactions are subject to requirements including reporting, announcement, annual review and Independent Shareholders' approval under Rule 14A of the Listing Rules.

The continuing connected transactions under the New Financial Services Agreement were entered into on normal commercial terms. In respect of deposit services provided by the Finance Company to the Parent Company and its subsidiaries, as the deposit with the Finance Company is for the benefit of the Group where no security over assets of the Group is granted, the Company is exempted from reporting, announcement and Independent Shareholders' approval requirement under Rule 14A of the Listing Rules. In addition, in respect of the service charges of the other financial services under the New Financial Services Agreement, as the applicable ratios are more than 0.1% but less than 5%, they constitute exempt continuing connected transactions of the Company under Rule 14A of the Listing Rules and are exempted from the approval of Independent Shareholders and are only subject to the reporting and announcement requirements set out in Rule 14A of the Listing Rules.

4. CONNECTED TRANSACTIONS – DISPOSAL AND DEEMED DISPOSAL OF INTEREST IN SUBSIDIARIES AND CONTINUING CONNECTED TRANSACTIONS

(1) Disposal and Deemed Disposal

(I) Scrap Steel Company Share Transfer Agreement

On 15 August 2018, the Company entered into the Scrap Steel Company Share Transfer Agreement with the Parent Company. According to this agreement, the Company agrees to sell and the Parent Company agrees to purchase 55% shareholding of Scrap Steel Company at a consideration of RMB178,381,853.68. The key terms of the Scrap Steel Company Share Transfer Agreement are set forth below:

Date:

15 August 2018

Parties:

The Company (as the transferor)

Parent Company (as the transferee)

Target assets:

55% shares of Scrap Steel Company

Prior to the Scrap Steel Company Share Transfer Agreement, the Company holds 100% shares of Scrap Steel Company. After completion of the Scrap Steel Company Share Transfer Agreement, the Parent Company and the Company hold 55% and 45% shareholding of Scrap Steel Company respectively, and Scrap Steel Company will no longer be a subsidiary of the Company.

Consideration:

The consideration was agreed by both parties after negotiation based on the principle of fairness and with reference to the valuation report of Pan-China Assets Appraisal Co., Ltd. With 28 February 2018 as the valuation reference date, the book value of net assets of Scrap Steel Company is RMB310,384,494.49; the assessed value under asset-based approach is RMB324,330,643.06, and the added value is RMB13,946,148.57, with an added value rate of 4.49%. The added value comprises of (a) the difference in book value (RMB58,557,727.88) and appraised value (RMB59,454,144.47) of the inventory of Scrap Steel Company in the sum of RMB896,416.59, and (b) the difference in book value (RMB25,267,214.02) and appraised value (RMB38,316,946.00) of the net value of fixed assets of Scrap Steel Company in the sum of RMB13,049,731.98. The consideration corresponding to the subject shareholding is RMB178,381,853.68. The final price of this share transfer shall be subject to the amount filed with the competent state-owned assets supervision authority.

The Parent Company shall, within twenty working days after satisfaction of all preconditions, make one-off payment of the consideration in cash to the Company's designated account.

The main content of the said valuation report of Pan-China Assets Appraisal Co., Ltd. is set out in Appendix I of this Circular. The major assumptions of such valuation are summarised as follows:

(i) It is assumed that the assets to be appraised are be in the process of trading;

(ii) It is assumed that the assets to be appraised can be traded openly in market;

(iii) It is assumed that the assets to be appraised are in continuous use;

(iv) It is assumed that the subject company will continue as a going concern.

The Directors opine that the above assumptions are fair and reasonable.

As required by the applicable PRC laws and regulations, the valuer adopted two approaches in conducting the valuation of Scrap Steel Company, namely the asset-based approach and the income approach. The asset-based approach is used for formulating the conclusion of the valuation, and the income approach is stated in the valuation merely as a reference for comparison purpose. Due to the inclusion of certain estimated profit and loss of the subsidiary of the Company in the valuation, the valuation may be regarded as a profit forecast within the meaning of Rules 14.61 of the Listing Rules, and the Company would then need to comply with the profit forecast requirements under the Listing Rules.

In such premises, the Company applied for the waiver of strict compliance with the profit forecast requirements under Rules 14.60(A), 14.62, 14A.68(7), 14A.70(13) and Paragraph 29(2) of Appendix 1B of the Listing Rules on the ground that, *inter alia*:

(i) The income approach is adopted as an additional valuation approach for comparison purpose in compliance with the applicable regulations in China, and is not a material factor to be taken into account by the Company and the Parent Company in determining the consideration for the Disposal.

(ii) The assumptions of the profit forecast should be provided by the valuer in the valuation. The Company was not involved in preparing the valuation or in the estimation of the appraised value, except for providing the historical financial information of Scrap Steel Company. The Directors of the Company would determine the consideration for the Disposal based on the result of the valuation instead of the financial information of Scrap Steel Company directly.

(iii) The valuer is jointly engaged by the Company and the Parent Company so as to ensure the fairness of the valuation. As the equity to be disposed of by the Company involves state-owned assets, the choice of the valuer is determined from the list of valuers designated by the State-owned Assets Supervision and Administration Commission of the PRC and through invitation of tenders. The valuation approaches are selected based on the "Assets Appraisal Standards"(《資產評估準則》) and "Guidelines for the Appraisal Reports of State-owned Assets of Enterprises"(《企業國有資產評估報告指南》) of the PRC. Therefore, the Company has limited control in selecting the valuer and the adoption of valuation approaches.

The Stock Exchange has granted waiver from the strict compliance of the requirements under Rules 14.60(A), 14.62, 14A.68(7), 14A.70(13) and Paragraph 29(2) of Appendix 1B of the Listing Rules to the Company on 26 July 2018.

Preconditions:

(i) The agreement has taken effect;

(ii) Both the Company and the Parent Company have agreed to this share transfer with relevant decisions made by the Board and/or general meeting in accordance with the provisions of respective articles of association.

Completion:

The parties agree to entrust the current management of Scrap Steel Company to handle all governmental formalities in relation to this share transfer within three working days from the date of receipt of the transaction consideration, including but not limited to filing/registration of shareholders' changes, and these formalities shall be handled after satisfaction of all the preconditions mentioned above (the completion of the transactions will not be subject to the filing/registration of the shareholder changes of the Scrap Steel Company. The filing/registration will be made after the completion). According to the Measures for the Supervision and Administration of the Transactions of State-Owned Assets of Enterprises (《企業國有資產交易監督管理辦法》) and the Measures for the Supervision and Administration of the Transactions of State-Owned Assets of Enterprises of Anhui Province (《安徽省企業國有資產交易監督管理辦法》), private share transfer for enterprises financially contributed or controlled by the state is allowed after the deliberation of such enterprise. As the Disposal is approved by the board of directors of Scrap Steel Company, the Disposal would comply with PRC laws and regulations even if the filing or registration will be done after the completion.

Impact of the Disposal on the finance of the Company

The accountant of the Company estimated that the Disposal is expected to generate unaudited profits of approximately RMB224 million but the actual amount of disposal gain/loss to be recognised will be calculated with reference to the financial position of Scrap Steel Company at the time of completion. When calculating the expected gain from the Disposal, according to the relevant accounting standards and in terms of the separated financial statement of the Company, the financial effect of losing the control over Scrap Steel Company would be calculated by subtracting the book value of the costs resulting from the long-term equity investment in such subsidiary from the consideration of the Disposal (the appraised value as at 28 February 2018). The Company intends to use proceeds therefrom for the project construction of the Company's main steel business. Based on the unaudited consolidated accounts of the Group as of 31 December 2017, it is expected that the share transfer of Scrap Steel Company will cause little impact to the Group. According to the Scrap Steel Company Share Transfer Agreement, the transferee will enjoy the rights of shareholder immediately after completion, and the Company will cease to have the control over Scrap Steel Company thereafter. Therefore, according to the relevant accounting standards, Scrap Steel Company will cease to be subsidiaries in financial statements of the Company upon completion.

Information about Scrap Steel Company

Scrap Steel Company mainly engages in recycling, processing and sale of scrap steel; sale and warehousing of pig iron; domestic trade agency service.

For the period ended 31 December 2016, audited net assets of Scrap Steel Company were RMB159,686,002.55, while audited pre-tax profits and after-tax profits were RMB26,005,470.87 and RMB19,813,339.12 respectively.

For the period ended 31 December 2017, audited net assets of Scrap Steel Company were RMB227,466,598.56, while audited pre-tax profits and after-tax profits were RMB90,416,533.78 and RMB67,780,596.01 respectively.

The significant increase of profits in Scrap Steel Company is mainly due to the increase in the price of raw material in 2017 and the increase in sales volume, resulting in an increase of operating income.

The operation of Scrap Steel Company and K. Wah Company is not related to each other.

The existing production/processing facility of Scrap Steel Company include:

The business area of Scrap Steel Company and its storage capacity:

1. Sub-division Plant 1 – approximately 70,000 square meters, with usable area of approximately 45,300 square meters. The storage capacity for different types of materials is approximately 75,000 tonnes.

2. Sub-division Plant 2 – approximately 17,300 square meters. The storage capacity for different types of materials is approximately 18,000 tonnes. The annual capacity to supply materials is 2,100,000 tonnes.

The production equipment and processing equipment:

1. Sub-division Plant 1: 10 sets of different types of lifting equipment and 9 sets of steel lifting machines. Processing equipment includes a Henschel packaging machine (model number PS360-60V), a 630-guillotine shearing machine and 3 alligator shearing machines.

2. Sub-division Plant 2: 6 sets of different types of lifting equipment and 6 sets of steel lifting machines. Processing equipment includes 5 alligator shearing machines.

The annual processing capacity of the above-mentioned equipment is approximately 190,000 tonnes. Additionally, the processing capacity with oxy-fuel welding and cutting is approximately 100,000 tonnes, totalling 290,000 tonnes.

Reason for this transaction and its benefits

The production processes of Scrap Steel Company require high standard of technology and regular modifications and improvements have to be carried out in order to maintain their competitiveness. Also, the PRC government is imposing more stringent requirements on energy saving and environmental protection especially on iron and steel industry. The Company is of the view that it will be beneficial to the Group to focus at improving the core competitiveness of its iron and steel production business, instead of spending additional resources to maintain the competitiveness of the businesses and to comply with governmental policies for the non-core businesses carried out by Scrap Steel Company.

On the contrary, the Parent Company has extensive experience and massive resources in developing the businesses carried out by Scrap Steel Company. In addition, Anhui Xinchuang, a company controlled by the Parent Company, is experienced and specialised in carrying out environmental protection projects. The Company is of the view that introducing the Parent Company as a strategic investor and major shareholder of Scrap Steel Company will help Scrap Steel Company develop its business and at the same time comply with the requirements of the tightening environmental protection policies.

After the control of Scrap Steel Company is transferred to the Parent Company, the Parent Company can fully utilize its own advantages in terms of resource and management to accelerate the development of the scrap steel business of Maanshan Iron & Steel Company Limited. At the same time, scrap steel is one of the raw materials for steelmaking. After the professional operation and management of Scrap Steel Company, the resource channels will be further expanded, the quality will be more stable and reliable, and the Company's production will be more secure.

After the transfer of control of Scrap Steel Company, the Company will still hold a part of equity of Scrap Steel Company, and will continue to enjoy the investment income brought by the subsequent rapid development of Scrap Steel Company. In addition, the transfer of control of Scrap Steel Company is achieved by equity transfer. The equity transfer price obtained by the Company will also provide necessary financial guarantee for the subsequent development of the main steel business of Maanshan Iron & Steel Company Limited.

The expected agency fee to be paid by the Company to Scrap Steel Company is as follows:

	2019	2020	2021
Fee for scrap steel agency purchase	RMB26,400,000	RMB33,600,000	RMB43,200,000

The Company has the need to purchase scrap steel from independent third parties for its production and operation. As the Company would like to focus its resources and concentrate on the business of producing iron and steel, and considering the professional service offered by Scrap Steel Company, the Company intends to entrust Scrap Steel Company to purchase scrap steel products on its behalf as agent, and pay Scrap Steel Company the agency fee at market rate. Therefore, the Disposal would still be in the interest of the Company even if the Company has to pay agency fee to Scrap Steel Company.

In the long run, the Disposal will offer the Group and the Shareholders various benefits, including, (a) reducing the need for contributing further resources by the Group to maintain the competitiveness of the business and to comply with the tightening environmental protection requirements for Scrap Steel Company, so that the Group will be able to focus on its core iron and steel industry to enhance its competitiveness and prepare for the dynamic industry environment; (b) enabling the Group to maintain an equity interests in Scrap Steel Company so as to enjoy the benefits from the future business growth of Scrap Steel Company; and (c) maintaining an influence in Scrap Steel Company so that the Group can secure the continuing connected transactions with it to support its core iron and steel production business.

The Directors consider that the Disposal is in the interest of the Company and shareholders.

(II) K. Wah Company Capital Increase Agreement

On 15 August 2018, the Company entered into the K. Wah Company Capital Increase Agreement with the Parent Company, Leader Investments and K. Wah Company. According to this agreement, K. Wah Company agrees to allot and issue and the Parent Company and Leader Investments agree to subscribe for new share capital of K. Wah Company in the sum of US$11,185,333. The key terms of the K. Wah Company Capital Increase Agreement are set forth below.

Date:

15 August 2018

Parties:

The Company;

The Parent Company;

Leader Investments;

K. Wah Company.

Subscription matter:

The current registered capital of K. Wah Company is US$8,389,000, with a proposed capital increase of US$11,185,333. After such capital increase, the registered capital will be US$19,574,333; Leader Investments intends to subscribe for US$3,355,600 among K. Wah Company's increased registered capital, such that it will hold 30% share capital of K. Wah Company after the capital increase; the Parent Company intends to subscribe for US$7,829,733 among K. Wah Company's increased registered capital, such that it will hold 40% share capital of K. Wah Company after the capital increase; the Company waives the preemptive right to subscribe for such capital increase.

As K. Wah Company allots and issues shares to the Parent Company and Leader Investments, the Group's interests in K. Wah Company will be diluted from 70% to 30% after completion.

Consideration:

The consideration was agreed by the parties after negotiation based on the principle of fairness and by reference to the valuation report of Pan-China Assets Appraisal Co., Ltd. With 31 December 2017 as the valuation reference date, the book value of the net assets of K. Wah Company is RMB210,075,881.70, the assessed value under asset-based approach is RMB213,883,634.74, and the added value is RMB3,807,753.04, with an added value rate of 1.81%. The balance of RMB115,883,634.74, which is calculated by deducting the dividend amount of RMB98,000,000 decided by the board of directors of K. Wah Company during the period of the reference date and the completion date from the assessed value of RMB213,883,634.74 as listed in the valuation report, shall be the pricing basis for this capital increase. The parties agree that the above amounts are calculated based on the central parity of RMB against US dollar ("Agreed Exchange Rate") announced by the PBOC on the completion date. The total amount payable by Leader Investments for this capital increase is RMB46,353,453.90 ("Increased Capital A"), of which US$3,355,600.00 after conversion at the Agreed Exchange Rate shall become the registered capital of K. Wah Company, and the remaining Increased Capital A shall be recorded in the capital reserves of K. Wah Company. The total amount payable by Parent Company for this capital increase is RMB108,158,059.09 ("Increased Capital B", with "Increased Capital A" collectively referred to as "Increased Capital Price"), of which US$7,829,733.00 after conversion at the agreed exchange rate shall become the registered capital of K. Wah Company, and the remaining Increased Capital B shall be recorded in capital reserves of K. Wah Company. The final price of this capital increase shall be subject to the amount filed with the competent state-owned assets supervision authority.

The Parent Company and Leader Investments shall, within twenty working days after satisfaction of all preconditions, make one-off payment of the consideration in cash to the account designated by K. Wah Company.

The main content of the said valuation report of Pan-China Assets Appraisal Co., Ltd. is set out in Appendix II of this circular. The major assumptions of such valuation are summarised as follows:

(i) It is assumed that the assets to be appraised are be in the process of trading;

(ii) It is assumed that the assets to be appraised can be traded openly in market;

(iii) It is assumed that the assets to be appraised are in continuous use;

(iv) It is assumed that the subject company will continue as a going concern.

The Directors opine that the above assumptions are fair and reasonable.

As required by the applicable PRC laws and regulations, the valuer adopted two approaches in conducting the valuation of K. Wah Company, namely the asset-based approach and the income approach. The asset-based approach is used for formulating the conclusion of the valuation, and the income approach is stated in the valuation merely as a reference for comparison purpose. Due to the inclusion of certain estimated profit and loss of the subsidiary of the Company in the valuation, the valuation may be regarded as a profit forecast within the meaning of Rules 14.61 of the Listing Rules, and the Company would then need to comply with the profit forecast requirements under the Listing Rules.

In such premises, the Company applied for the waiver of strict compliance with the profit forecast requirements under Rules 14.60(A), 14.62, 14A.68(7), 14A.70(13) and Paragraph 29(2) of Appendix 1B of the Listing Rules on the ground that, *inter alia*:

(i) The income approach is adopted as an additional valuation approach for comparison purpose in compliance with the applicable regulations in China, and is not a material factor to be taken into account by the Company and the Parent Company in determining the consideration for the Deemed Disposal in respect of K. Wah Company;

(ii) The assumptions of the profit forecast should be provided by the valuer in the valuation. The Company was not involved in preparing the valuation or in the estimation of the appraised value, except for providing the historical financial information of K. Wah Company. The Directors of the Company would determine the consideration for the Deemed Disposal in respect of K. Wah Company based on the result of the valuation instead of the financial information of K. Wah Company directly.

(iii) The valuer is jointly engaged by the Company and the Parent Company so as to ensure the fairness of the valuation. As the equity to be disposed of by the Company involves state-owned assets, the choice of the valuer is determined from the list of valuers designated by the State-owned Assets Supervision and Administration Commission of the PRC and through invitation of tenders. The valuation approaches are selected based on the "Assets Appraisal Standards"(《資產評估準則》) and "Guidelines for the Appraisal Reports of State-owned Assets of Enterprises"(《企業國有資產評估報告指南》) of the PRC. Therefore, the Company has limited control in selecting the valuer and the adoption of valuation approaches.

The Stock Exchange has granted waiver from the strict compliance of the requirements under Rules 14.60(A), 14.62, 14A.68(7), 14A.70(13) and Paragraph 29(2) of Appendix 1B of the Listing Rules to the Company on 26 July 2018.

Preconditions:

(i) The agreement has taken effect;

(ii) The parties to the agreement have agreed to this capital increase with relevant decisions made by the Board and/or general meeting in accordance with the provisions of respective articles of association.

Completion:

The parties agree to entrust the current management of K. Wah Company to handle formalities in relation to this capital increase, such as filing/registration of shareholders' changes or registered capital changes, and these formalities shall be completed within ten working days after satisfaction of all the preconditions mentioned above (the completion of the transactions will not be subject to the filing/registration of the shareholder changes of K. Wah Company. The filing/registration will be made after the completion). According to the Measures for the Supervision and Administration of the Transactions of State-Owned Assets of Enterprises (《企業國有資產交易監督管理辦法》) and the Measures for the Supervision and Administration of the Transactions of State-Owned Assets of Enterprises of Anhui Province (《安徽省企業國有資產交易監督管理辦法》), capital increase for enterprises financially contributed or controlled by the state is allowed after the deliberation of such enterprise. As the capital increase is approved by the board of directors of K. Wah Company, such Deemed Disposal would comply with PRC laws and regulations even if the filing or registration will be done after the completion.

Impact of the Deemed Disposal on the finance of the Company

The accountant of the Company estimated that the Deemed Disposal is expected to generate unaudited profits of approximately RMB105 million but the actual amount of disposal gain/loss to be recognised will be calculated with reference to the financial position of K. Wah Company at the time of completion. When calculating the expected gain from the Deemed Disposal, according to the relevant accounting standards and in terms of the separated financial statement of the Company, the financial effect of losing the control over K. Wah Company would be calculated by subtracting the book value of the costs resulting from the long-term equity investment in such subsidiary from the consideration of such Deemed Disposal (the appraised value). Based on the unaudited consolidated accounts of the Group as of 30 June 2018, it is expected that the profits generated from the Deemed Disposal will have less impact on the Group's net assets, and the Deemed Disposal has no significant impact on the Group. According to the K. Wah Company Capital Increase Agreement, the subscriber of the shares will enjoy the rights of shareholder immediately after completion, and the Company will cease to have the control over K. Wah Company thereafter. Therefore, according to the relevant accounting standards, K. Wah Company will cease to be subsidiary in financial statements of the Company upon completion.

Information about K. Wah Company

K. Wah Company mainly engages in blast furnace slag transportation and sales; steel slag transportation and sales; production, sales and transportation of grounded slag, mine filling and consolidation agent and other blast furnace slag and steel slag combined products as well as providing technical consulting and services; terminal loading and unloading and warehousing services, terminals and other port facilities service.

For the period ended 31 December 2016, the audited net assets of K. Wah Company were RMB128,355,291.85, while audited pre-tax profits and after-tax profits were RMB21,786,543.37 and RMB18,802,033.92 respectively.

For the period ended 31 December 2017, the audited net assets of K. Wah Company were RMB210,075,881.70, while audited pre-tax profits and after-tax profits were RMB120,914,887.51 and RMB90,801,689.85 respectively.

K. Wah Company has integrated its resources remarkably and the bargaining power for mineral powder in the regional market has significantly improved. Meanwhile, the recovery of the construction industry has accelerated, and the business performance of K. Wah Company has improved in 2017.

Reason for this transaction and its benefits

K. Wah Company is a subsidiary of the Company, and the Company is a subsidiary of the Parent Company, meaning that K. Wah is a third-level subsidiary in the Parent Group. Creation of a fourth-level subsidiary will be limited by the State-owned Assets Supervision and Administration Commission based on the requirements under the "Notice of the Provincial State-Owned Assets Supervision and Administration Commission in relation to Being a Better Provincial Enterprise and the Work on Clearing and Integrating Enterprise under the Third Level and of Non-core Business"(《省國資委關於做好省屬企業清理整合三級以下和非主業企業工作的通知》) (Yuan Guo Zi Ming Dian (2014) No. 68) and "Notice of the Provincial State-Owned Assets Supervision and Administration Commission in relation to Further Carrying Out the Work on Being a Better Provincial Enterprise and Clearing and Integrating Enterprise under the Third Level and of Non-core Business"(《省國資委關於進一步做好省屬企業三級以下和非主業企業清理整合工作的通知》), and therefore K. Wah Company would not create and invest in subsidiaries and its expansion of business layout by means of foreign investment is limited.

The raw materials used by K. Wah Company for production is water slag produced in the process of iron making, and it is a metallurgical solid waste. The water slag is made to be extremely small particles through electricity, coal and other power. There are different types of pollution, such as air, water, soil and noise pollution in the process of discharging, transporting, storing and producing of the water slag.

The state has put stricter environmental protection supervision in the downstream cement industry of mineral fines. The relevant policies imposed by PRC and its impact on K. Wah Company are as follows.

1. In recent years, PRC has continuously improved and revised relevant laws. The Law of the People's Republic of China on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), the Law of the People's Republic of China on Prevention and Control of Soil Pollution (《中華人民共和國土壤污染防治法), and the Law of the People's Republic of China on Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》) have been revised and promulgated. The environmental protection department has strictly implemented the policy and has imposed heavier penalties for violations.

2. Due to the recent control of solid waste in the Yangtze River Basin and the control of coal use by the local governments, K Wah. Company needs to increase the control of atmospheric pollution factors (nitrogen oxides, sulfur dioxide and soot) as well as the control of the solid waste and waste water. The construction of environmental protection facilities and sites will be further enlarged.

3. In addition, the ore powder industry belongs to an industry with low addition and high energy consumption and therefore is not encouraged by the state.

In light of the above, in order to maintain market competitiveness and make use of national policies and development opportunities, K. Wah Company needs to upgrade its technological level while actively expanding its business layout by means of industrial investment. Meanwhile, the transfer of control of K. Wah Company is achieved by capital increase from the Parent Company. After obtaining the capital increase from the Parent Company, K. Wah Company can also use it to expand production capacity, improve the technological level, enhance product quality, so as to further enhance the market competitiveness of K. Wah Company. In addition, after the capital increase, K. Wah Company will benefit from the Parent Company's advantages in terms of resources and management. After the transfer of control of K. Wah Company, the Company will still hold part of the shares of K. Wah Company and will continue to enjoy the investment profit brought about by the subsequent rapid development of K. Wah Company.

After completion of the capital increase, the Group will not continue to engage in the business similar to the Scrap Steel Company and K. Wah Company after completion. There will be no competition between the Group and the Parent Company.

(III) Chemical Energy Company Capital Increase Agreement

On 15 August 2018, the Company entered into a Chemical Energy Company Capital Increase Agreement with the Parent Company and Chemical Energy Company. According to this agreement, Chemical Energy Company agrees to allot and issue and the Parent Company agrees to subscribe for the new share capital of Chemical Energy Company in the sum of RMB733,333,333.33. Key terms of the Chemical Energy Company Capital Increase Agreement are set forth below:

Date:

15 August 2018

Parties:

The Company;

Parent Company;

Chemical Energy Company.

Subscription matter:

The current registered capital of Chemical Energy Company is RMB600,000,000, with a proposed capital increase of RMB733,333,333.33. After such capital increase, the registered capital will be RMB1,333,333,333.33; the Parent Company intends to subscribe for RMB733,333,333.33 among Chemical Energy Company's increased registered capital, such that it will hold 55% share capital of Chemical Energy Company after the capital increase; the Company waives the preemptive right to subscribe for such capital increase.

As Chemical Energy Company allots and issues shares to the Parent Company, the Group's interests in Chemical Energy Company will be diluted from 100% to 45% after completion.

Consideration:

The consideration is agreed after negotiation based on the principle of fairness and by reference to the valuation report of ZhongMing (Beijing) Assets Appraisal International Co., Ltd. With 30 June 2018 as the valuation reference date, the book value of the net assets of Chemical Energy Company under asset-based approach is RMB600,000,000.00, the assessed value is RMB598,593,860.00, the added value is RMB–1,406,140.00, with an added value rate of –0.23%. Before the capital increase, the Company will supplement the capital contribution of RMB1,406,140.00, so that the fair value of Chemical Energy Company will be restored to RMB600,000,000.00. Thereafter, the Parent Company will subscribe for new capital of RMB733,333,333.33 and will hold 55% share capital of Chemical Energy Company.

The Parent Company shall, within twenty working days after satisfaction of all preconditions, make one-off payment of the consideration in cash to the account designated by Chemical Energy Company.

The main content of the said valuation report of ZhongMing (Beijing) Assets Appraisal International Co., Ltd. is set out in Appendix III of this circular. The major assumptions of such valuation are summarised as follows:

(i) It is assumed that the assets to be appraised are be in the process of trading;

(ii) It is assumed that the assets to be appraised can be traded openly in market;

(iii) It is assumed that the business operation of the appraised entity is legal, and there will be no unpredictable factors leading to its unsustainable business operation;

(iv) It is assumed that the appraisal is specific for the purpose listed in the report;

(v) It is assumed that there will be no major changes in current laws and regulations of the country and the macro-economic situation of the country, and that the external economic environment such as interest rate, exchange rate, tax benchmark and tax rate, and policy-based fee collection will not change unpredictably.

(vi) It is assumed that no other force majeure or unforeseeable factors will have a significant adverse impact on the assets to be appraised of the appraised entity;

(vii) It is assumed that the business scope and mode of the appraised entity are consistent with the current direction on the basis of the current management mode and management level, regardless of future changes in business capability that may result from management and business strategy adjustments;

(viii) It is assumed that the accounting policies to be adopted by the appraised entity in the future are generally consistent in important respects with the accounting policies adopted in the preparation of the report;

(ix) It is assumed that the relevant basic data and financial data provided by the appraised entity and clients are true, accurate and complete.

(x) It is expected that the scope of appraisal is only based on the appraisal declaration form provided by Chemical Energy Company, without considering the contingent assets and contingent liabilities that may exist outside the list that Chemical Energy Company provided.

The Directors opine that the above assumptions are fair and reasonable.

Preconditions:

(i) The agreement has taken effect;

(ii) Both the Company and the Parent Company have agreed to this capital increase with relevant decisions made by the Board and/or general meeting in accordance with the provisions of respective articles of association.

Completion:

The parties agree to entrust the existing management of Chemical Energy Company to handle formalities in relation to this share transfer, such as filing/registration of shareholders' changes or registered capital changes, and these formalities shall be completed within ten working days after satisfaction of all the preconditions mentioned above (the completion of the transactions will not be subject to the filing/registration of the shareholder changes of Chemical Energy Company. The filing/registration will be made after the completion). According to the Measures for the Supervision and Administration of the Transactions of State-Owned Assets of Enterprises(《企業國有資產交易監督管理辦法》)and the Measures for the Supervision and Administration of the Transactions of State-Owned Assets of Enterprises of Anhui Province(《安徽省企業國有資產交易監督管理辦法》), capital increase for enterprises financially contributed or controlled by the state is allowed after the deliberation of such enterprise. As the capital increase is approved by the board of directors of Chemical Energy Company, such Deemed Disposal would comply with PRC laws and regulations even if the filing or registration will be done after the completion.

Impact of the Deemed Disposal on the finance of the Company

The accountant of the Company estimated that the Deemed Disposal is expected to generate unaudited disposal losses of approximately RMB1.4 million with reference to the financial position of Chemical Energy Company at the time of completion. When calculating the expected gain or loss from the Deemed Disposal, according to the relevant accounting standards and in terms of the separated financial statement of the Company, the financial effect of losing the control over Chemical Energy Company would be calculated by subtracting the book value of the costs resulting from the long-term equity investment in such subsidiary from the consideration of such Deemed Disposal (the appraised value). Based on the unaudited consolidated accounts of the Group as of 31 December 2017, it is expected that the Deemed Disposal will have little impact on the Group's net assets. According to the Chemical Energy Company Capital Increase Agreement, the subscriber of the shares will enjoy the rights of shareholder immediately after completion, and the Company will cease to have the control over Chemical Energy Company thereafter. Therefore, according to the relevant accounting standards, Chemical Energy Company will cease to be subsidiary in financial statements of the Company upon completion.

Information about Chemical Energy Company

Chemical Energy Company mainly engages in the research & development, production and sale of chemical products (excluding hazardous chemicals and precursor chemicals).

Chemical Energy Company was established in 2018 so there is no historical financial data for the past 2 financial years.

Reason for this transaction and its benefits

Chemical Energy Company is a newly established wholly-owned subsidiary of Parent Company, which is a third-level subsidiary of the Parent Company. The expansion of the business layout in chemical energy industry by means of external investment is limited. After the control of Chemical Energy Company is transferred to the Parent Company, it will help Chemical Energy Company accelerate industrial development and optimize business by means of industrial investment, which will help Chemical Energy Company achieve rapid, stable and sustainable development. Meanwhile, Chemical Energy Company is a newly established subsidiary of Maanshan Iron & Steel Company Limited (established in March 2018), so it is currently in the early stage of development and has relatively greater demand for funds. The control transfer of Chemical Energy Company is achieved by capital increase of Ma Steel Group. It will also provide financial support for the development of Chemical Energy Company. After the transfer of the control of Chemical Energy Company, the Company will still hold a part of shares of Chemical Energy Company, and will continue to enjoy the investment income brought by the rapid development of Chemical Energy Company.

After the capital increase of the Parent Company, the main business of the Chemical Energy Company is still processing and producing more than ten chemical products such as coal tar, benzene products, sulfur and ammonium sulfate, among which the main products are coal tar and triphenyl products. In addition, coke oven gas is output every year. After the capital increase, the Chemical Energy Company will mainly use the funds for the purchase of gas purification systems and hydrogen production system using coke oven gas, as well as for the purchase or merger of tar processing and benzene processing enterprises, so as to strengthen and extend the industrial chain of Chemical Energy Company and improve its economic efficiency.

The operation of Chemical Energy Company will not be related to Scrap Steel Company and K. Wah Company. There will be no competition between the Group and the Parent Company after the capital increase.

Information about the Company

The Company is one of China's largest steel producers and distributors, mainly engaging in the production and sale of iron and steel products.

Information about the Parent Company

The Parent Company is a wholly state-owned limited liability company and the controlling shareholder of the Company, mainly engaging in mineral product development and screening, construction, building material production, trade, warehousing and property management, as well as agriculture and forestry.

Information about Leader Investments

Leader Investments is a subsidiary of Galaxy Entertainment Group Limited (stock code: 27) which also engages in construction materials business. Leader Investments has been a substantial shareholder of K. Wah Company. Other than its interest in K. Wah Company, it does not have any relationship with the Company or its connected persons. Currently, the Company holds 70% and Leader Investment holds 30% of the interests in K. Wah Company.

Implications of the Listing Rules

As of the Latest Practicable Date, the Parent Company holds about 45.54% of the Company's issued share capital and is the controlling shareholder of the Company, while Leader Investments is the major shareholder of K. Wah Company, the Company's subsidiary, hence according to Rule 14A of the Listing Rules, the Parent Company and Leader Investments are connected parties of the Company. Therefore, the Company's entering into of the Scrap Steel Company Share Transfer Agreement, the K. Wah Company Capital Increase Agreement and the Chemical Energy Company capital increase would constitute connected transactions of the Company. According to Rule 14.22 of the Listing Rules, in relation to determining the applicable percentage ratios, the Disposal and Deemed Disposal shall be aggregated. As the applicable percentage for connected transactions is higher than 5%, the relevant Disposal and Deemed Disposal are subject to requirements including reporting, announcement, annual review and Independent Shareholders' approval under Rule 14A of the Listing Rules.

(2) CCT Agreements for Scrap Steel Company, K. Wah Company and Chemical Energy Company

(I) Scrap Steel Company Continuing Connected Transaction Agreement

Background

After completion of the Disposal, Scrap Steel Company will become a connected person of the Company. On 15 August 2018, the Company entered into a Scrap Steel Company Continuing Connected Transaction Agreement with Scrap Steel Company. According to this agreement, the parties agree that from 2019 to 2021, the Group will sell or provide products to Scrap Steel Company, and Scrap Steel Company will sell or provide products and services to the Group.

Date

15 August 2018

Parties

(i) The Company

(ii) Scrap Steel Company

Purpose

(1) The Company, with consent of itself and the Group, agrees to sell or provide the following products to Scrap Steel Company:

(i) Products, i.e. water, electricity and gas (including sale of electricity, living water, industrial clean water, steam and other gases), finished goods and other products (including scrap steel and spare parts).

(2) Scrap Steel Company agrees to sell or provide the following products and services to the Group:

(i) Products, including scrap steel products; and

(ii) Services, including scrap steel agency purchase and scrap steel processing.

The parties agree to, based on the principle of equality, and taking an appropriate, reasonable and fair valuation method, enter into the transaction under the Scrap Steel Company Continuing Connected Transaction Agreement. The terms of transaction for products that the Group provides to Scrap Steel Company (including but not limited to price and payment) shall not be more favourable to the terms of transaction for similar products that the Group sells or provides to any independent third party; and the terms of transaction for products and services that Scrap Steel Company sells or provides to the Group (including but not limited to price and payment) shall not be less favourable than the terms of transaction for similar products and services that any independent third party sells or provides to the Group.

During the performance of the Scrap Steel Company Continuing Connected Transaction Agreement, the Company has the discretion to decide whether to enter into the transaction under the Scrap Steel Company Continuing Connected Transaction Agreement with any independent third party.

Pricing

The pricing shall be based on state-prescribed price, if any. In the absence of the state-prescribed price, the pricing shall be based on the market price, determined through open tender, price comparison and arm's length negotiation under normal commercial terms. and with reference to comparable market transaction prices.

The price of products that the Group sells or provides to Scrap Steel Company shall not be lower than the price of similar products that the Group sells to any independent third party.

The price of products and services that Scrap Steel Company sells or provides to the Group shall not be higher than the price of similar products and services that any independent third party provides to the Group.

According to current pricing standards, except that electricity the Group sells or provides to Scrap Steel Company is priced as per the latest national regulations set by Anhui Price Bureau, living water is priced as per the latest national regulations set by Maanshan Development and Reform Commission and Price Bureau, industrial treated water is priced as per the latest national regulations set by Maanshan Municipal People's Government, other transactions under the Scrap Steel Company Continuing Connected Transaction Agreement are priced based on market price. The agency fee will be determined based on arm's length negotiations taking into account the procurement amount (volume of usable scrap steel procured through agency services × unit price of usable scrap steel), and comparable market prices charged to independent customers.

Payment

In regard to payment for energy medium that the Group sells to Scrap Steel Company, Scrap Steel Company shall pay the sale prices of the previous month to the Group in the first ten days of each month.

In regard to payment of products other than energy medium that the Group sells to Scrap Steel Company, Scrap Steel Company shall pay the purchase price of the products within 10 working days after Scrap Steel Company receives the relevant products and completes the financial settlement procedures.

In regard to products or services that Scrap Steel Company sells or provides to the Group, the Group shall make payment for the relevant products or services within 10 working days after the Group receives the relevant products or services and completes the financial settlement procedures.

Preconditions

The Scrap Steel Company Continuing Connected Transaction Agreement and relevant Proposed Annual Caps shall be approved by Independent Shareholders at EGM before taking effect.

Duration

On the premise of satisfying the aforesaid preconditions, the duration of the Scrap Steel Company Continuing Connected Transaction Agreement shall commence on 1 January 2019 and end on 31 December 2021.

Proposed Annual Caps

Under the Scrap Steel Company Continuing Connected Transaction Agreement, for years ending 31 December 2019, 31 December 2020 and 31 December 2021 respectively, Proposed Annual Caps (exclusive of tax) for products that the Group provides to Scrap Steel Company according to the Scrap Steel Company Continuing Connected Transaction Agreement are listed below:

RMB

		For the year ending 31 December 2019	For the year ending 31 December 2020	For the year ending 31 December 2021
1.	Proposed Annual Caps for products	28,599,800	30,699,800	32,259,800
	Total	28,599,800	30,699,800	32,259,800

Under the Scrap Steel Company Continuing Connected Transaction Agreement, for years ending 31 December 2019, 31 December 2020 and 31 December 2021 respectively, Proposed Annual Caps (exclusive of tax) for products and services that Scrap Steel Company provides to the Group according to the Scrap Steel Company Continuing Connected Transaction Agreement are listed below:

RMB

		For the year ending 31 December 2019	For the year ending 31 December 2020	For the year ending 31 December 2021
1.	Proposed Annual Caps for products	3,282,400,000	3,796,800,000	4,522,500,000
2.	Proposed Annual Caps for services	36,163,600	43,680,600	53,502,500
	Total	3,318,563,000	3,840,480,600	4,576,002,500

The Proposed Annual Caps for scrap steel agency purchase and scrap steel processing are as follows:

	2019	**2020**	**2021**
	RMB	*RMB*	*RMB*
Fee for scrap steel agency purchase	26,400,000	33,600,000	43,200,000
Scrap steel processing	9,763,600	10,080,600	10,302,500

For the period from 1 January 2019 to 31 December 2021, Proposed Annual Caps under the Scrap Steel Company Continuing Connected Transaction Agreement will make reference to (i) the state-prescribed price or market price for continuing connected transactions; (ii) the Group's expected capacity to provide products to Scrap Steel Company and the Group's expected demand for products and services of Scrap Steel Company to satisfy its production plan; and (iii) Scrap Steel Company's expected demand for products of the Group and expected capacity to provide products and services to the Group.

The expected demand for scrap steel products and scrap steel agency purchase and processing service provided by Scrap Steel Company is determined based on the following:

1. As part of the environmental protection measures, the PRC government encourages iron and steel producers to consume more usable scrap steel during their production process to reduce wastage of materials. It is expected that the Group's demand for usable scrap steel will increase from 2019 to 2021 accordingly. Hence, it is also expected that the amount of further processing services required by the Group will increase, and that the Group's demand for scrap steel during its production process for the coming three years will rise, such that the amount of scrap steel procured by Scrap Steel Company as agent for the Company would also increase. Also, the Group plans to introduce electric furnaces to replace some of the existing furnaces commencing 2020 to enhance the efficiency of the Group. As the production efficiency of electric furnaces is higher and more usable scrap steel will be consumed in the production process, it is expected that the demand for usable scrap steel will increase.

2. The Company expects that the volume of scrap steel materials generated by the Group will increase from 2019 to 2021, therefore it is also expected that the amount of further processing services required by the Group will increase.

The Company expects that the Group's demand for usable scrap steel during its production process for the coming three years ending 31 December 2019, 2020 and 2021 will increase in response to the PRC government's encouragement of the use of usable scrap steel. Scrap Steel Company will then procure more usable scrap steel for the Group from other third parties with its centralised sourcing channel and in return the Group will pay Scrap Steel Company an agency fee, as the usable scrap steel supplied by the Scrap Steel Company alone may not be sufficient for the Group's production need.

Regarding the annual caps of the scrap steel products and scrap steel agency purchase and processing service, the Company considers, among other things, the historical purchase amount and volume of usable scrap steel, the anticipated need for usable scrap steel by the Group for its production for the three years ending 31 December 2019, 2020, and 2021, and the production capacity of Scrap Steel Company. The information on the historical purchase amount of scrap steel and the anticipated need for usable scrap steel is set out below:

The historical purchase amount of and volume of scrap steel:

	2016	**2017**	**2018 (Jan to Aug)**	**2018 (predicted amount)**
Amount *(in 10,000 tonnes)*	143.3	196.2	138	206

The anticipated need for usable scrap steel for 2019 to 2021:

	2019	**2020**	**2021**
Purchase *(in 10,000 tonnes)*	149.20	158.20	167.5
Agency *(in 10,000 tonnes)*	40	46.67	53.33
Processing *(in 10,000 tonnes)*	30.8	31.8	32.50

As mentioned above, it is expected that the Group's demand for usable scrap steel will increase from 2019 to 2021 due to increasingly important need for the Group to meet the increasingly higher standard of environmental protection requirement. The Group's total demand for usable scrap steel from 2019 to 2021 is 2,200,000 tonnes, 2,366,700 tonnes and 2,533,300 tonnes respectively. First, the production output of the Group in the coming three years is expected to be relatively stable and therefore there will not be significant change to the amount of scrap steel produced. The Group would engage Scrap Steel Company to process 308,000 tonnes, 318,000 tonnes and 325,000 tonnes of scrap steel in 2019, 2020 and 2021 respectively, and the processed scrap steel will then be used in production again. Second, based on the current production capacity of Scrap Steel Company and the prospect of its business development, it is expected that 1,492,000 tonnes, 1,582,000 tonnes and 1,675,000 tonnes of scrap steel would be purchased from Scrap Steel Company from the Group in 2019, 2020 and 2021 respectively. Third, the remaining demand for scrap steel which could not be met by the production of the Company and Scrap Steel Company would have to be met by that produced by third parties. The amount of scrap steel obtained by Scrap Steel Company from third parties as agent and sold to the Group is expected to be 400,000 tonnes, 466,700 tonnes and 533,300 tonnes in 2019, 2020 and 2021 respectively.

The increase of the Proposed Annual Caps from 2019 to 2021 is based on the Directors' assumption that the amount of scrap steel to be purchased would be approximately 1,492,000 tonnes, 1,582,000 tonnes and 1,675,000 tonnes in the three years respectively, and the unit price of scrap steel would be RMB2,200, RMB2,400 and RMB2,700 in the three years respectively, such that the amount of the purchase of scrap steel from 2019 to 2021 would be RMB3,282,400,000, RMB3,796,800,000 and RMB,522,500,000.

Reason for the Scrap Steel Company Continuing Connected Transaction Agreement and its benefits

The Group's obtaining products and services that are reliable and with unique skills from Scrap Steel Company can ensure the Group's stable and continuous production. In addition to realizing profits, the Group's selling its products to Scrap Steel Company can ensure smooth and stable production of the Group. The terms of the Scrap Steel Company Continuing Connected Transaction Agreement and the pricing made thereby are fair and reasonable, and are in the interests of the Company and shareholders as a whole.

(II) K. Wah Company Continuing Connected Transaction Agreement

Background

After completion of the Deemed Disposal, K. Wah Company will become a connected party of the Company. On 15 August 2018, the Company entered into the K. Wah Company Continuing Connected Transaction Agreement with K. Wah Company. According to this agreement, the parties agree that from 2019 to 2021, the Group will sell or provide products to K. Wah Company.

Date

15 August 2018

Parties

(i) The Company; and

(ii) K. Wah Company

Purpose

The Company, with consent of itself and the Group, agrees to sell or provide the following products to K. Wah Company, i.e. electricity and water slag.

The parties agree to, on the principle of equality, and taking an appropriate, reasonable and fair valuation method, enter into the transaction under the K. Wah Company Continuing Connected Transaction Agreement. The terms of transaction for products that the Group provides to K. Wah Company (including but not limited to price and payment) shall not be more favourable to the terms of transaction for similar products that the Group sells or provides to any independent third party.

During the performance of the K. Wah Company Continuing Connected Transaction Agreement, the Company has the discretion to decide whether to enter into the transaction under the K. Wah Company Continuing Connected Transaction Agreement with any independent third party.

Pricing

The pricing shall be based on state-prescribed price, if any. In the absence of the state-prescribed price, the pricing shall be based on market price, determined through open tender, price comparison and arm's length negotiation under normal commercial terms.

The price of products and services that the Group sells or provides to K. Wah Company shall not be lower than the price of similar products and services that the Group sells to any independent third party.

According to current pricing standards, electricity that the Group sells or provides to K. Wah Company is priced as per the latest national regulations set by Anhui Price Bureau, while water slag is priced based on market price.

Payment

In regard to payment for electricity and water slag that the Group sells to K. Wah Company, K. Wah Company shall pay the sale price of previous month to the Group within the first ten days of each month.

Preconditions

The K. Wah Company Continuing Connected Transaction Agreement and relevant Proposed Annual Caps shall be approved by Independent Shareholders at EGM before taking effect.

Duration

On the premise of satisfying the aforesaid preconditions, the duration of the K. Wah Company Continuing Connected Transaction Agreement shall commence on 1 January 2019 and end on 31 December 2021.

Proposed Annual Caps

Under the K. Wah Company Continuing Connected Transaction Agreement, for years ending on 31 December 2019, 31 December 2020 and 31 December 2021 respectively, Proposed Annual Caps (exclusive of tax) for products that the Group provides to K. Wah Company according to the K. Wah Company Continuing Connected Transaction Agreement are listed below:

	For the year ending 31 December 2019	For the year ending 31 December 2020	For the year ending 31 December 2021
	RMB		
Proposed Annual Caps for products	738,012,600	921,384,600	921,384,600
Total	738,012,600	921,384,600	921,384,600

For the period from 1 January 2019 to 31 December 2021, Proposed Annual Caps under the K. Wah Company Continuing Connected Transaction Agreement will make reference to (i) the state-prescribed price or market price for continuing connected transactions; and (ii) the Group's expected capacity to provide products to K. Wah Company.

In determining the Proposed Annual Caps, the Company has taken into account the current processing capacity of ore powder and future development plan of K. Wah Company, so as to estimate the amount of electricity and water slag required, and has taken into account the future market trend.

It is expected that 6,770,000 tonnes of water slag will be consumed by K. Wah Company in 2019 – 2021, among which 5,370,000 tonnes will be purchased from the Company and 1,400,000 tonnes will be purchased from An Hui Chang Jiang Gang Tie Gu Fen You Xian Gong Si (安徽長江鋼鐵股份有限公司) ("Chang Jiang Gang Tie"), subsidiary of the Company which intends to commence selling water slag to the K. Wah from 2020. It is expected that around 60,000,000KWH of electricity will be consumed by K. Wah Company.

In regard to water slag, the amount of water slag purchased by K. Wah Company from the Group is 5,250,000 tonnes in 2016 and 5,350,000 tonnes in 2017. It is expected that the sales volume would remain relatively stable with 5,370,000 tonnes of water slag being purchased from the Group in 2019. Since Chang Jiang Gang Tie would commence selling water slag to K. Wah Company from 2020, it is expected that 1,400,000 tonnes of water slag will be added to the total sales volume of water slag in 2020 and 2021. K. Wah Company consumed 54,000,000KWH and 56,000,000KWH of electricity in 2016 and 2017 respectively, and it is expected that the amount of consumption in 2019-2021 will remain stable.

The Proposed Annual Caps for products for 2019 to 2021 were estimated on the basis of the expected consumption mentioned above and the expected selling price of water slag and electricity in 2019 to 2021.

Reason for the K. Wah Company Continuing Connected Transaction Agreement and its benefits

The Group's providing products to K. Wah Company can ensure the Group's stable and continuous production and is in line with the interests of the Group. The Company can achieve a certain profit from the sales of electricity produced by the Group's own power plant with the existing network and with a reference to sale price of the third party. The terms of the K. Wah Company Continuing Connected Transaction Agreement and the pricing made thereby are fair and reasonable, and are in the interests of the Company and shareholders as a whole.

(III) Chemical Energy Company Continuing Connected Transaction Agreement

Background

After completion of the Deemed Disposal, Chemical Energy Company will become a connected person of the Company. On 15 August 2018, the Company entered into a Chemical Energy Company Continuing Connected Transaction Agreement with Chemical Energy Company. According to this agreement, the parties agree that from 2019 to 2021, the Group will sell or provide products to Chemical Energy Company, and Chemical Energy Company will sell or provide products and services to the Group.

Date

15 August 2018

Parties

(i) The Company; and

(ii) Chemical Energy Company

Purpose

(1) The Company, with consent of itself and the Group, agrees to sell or provide products to Chemical Energy Company, including electricity, industrial treated water, coke oven gas, steam, compressed air, raw coke oven gas, other gases, scrubbing oil, spare parts and materials.

(2) Chemical Energy Company agrees to sell products (including coke oven gas and oil tar) and provide services (including waste water treatment service) to the Group.

The parties agree to, on the principle of equality, and taking an appropriate, reasonable and fair valuation method, enter into the transaction under the Chemical Energy Company Continuing Connected Transaction Agreement. The terms of transaction for products that the Group provides to Chemical Energy Company (including but not limited to, price and payment) shall not be more favourable to the terms of transaction for similar products that the Group sells or provides to any independent third party; and the terms of transaction for products and services that Chemical Energy Company sells or provides to the Group (including but not limited to price and payment) shall not be less favourable to the terms of transaction for similar products and services that any independent third party sells or provides to the Group.

During the term of the Chemical Energy Company Continuing Connected Transaction Agreement, the Company has the discretion to decide whether to enter into the transaction under the Chemical Energy Company Continuing Connected Transaction Agreement with any independent third party.

The coke oven gas purchased by the Group from Chemical Energy Company is the coke oven gas under normal pressure. The coke oven gas purchased by Chemical Energy Company from the Group is coke oven gas processed under high pressure in the duct. The two types of gas are different in terms of the processing pressure due to different process requirement, and thus there is sale of the coke oven gas from the Group to Chemical Energy Company and from Chemical Energy Company to the Group.

Pricing

The pricing shall be based on state-prescribed price. In the absence of the state-prescribed price, the pricing shall be based on market price, determined through open tender, price comparison and arm's length negotiation under normal commercial terms.

The price of products that the Group sells or provides to Chemical Energy Company shall not be lower than the price of similar products that the Group sells to any independent third party.

The price of products that Chemical Energy Company sells or provides to the Group shall not be higher than the price of similar products that any independent third party provides to the Group.

According to current pricing standards, except that electricity the Group sells or provides to Chemical Energy Company is priced as per the latest national regulations set by Anhui Price Bureau, industrial treated water is priced as per the latest national regulations set by Maanshan Municipal People's Government, other transactions under the Chemical Energy Company Continuing Connected Transaction Agreement are priced based on market price.

Payment

In regard to payment for electricity, industrial treated water, coke oven gas, steam, compressed air, raw coke oven gas, other gases, washing oil, spare parts, materials that the Group sells to Chemical Energy Company, Chemical Energy Company shall pay sale prices of the previous month to the Group within the first ten days of each month.

In regard to products that Chemical Energy Company sells or provides to the Group, the Group shall make payment for the relevant products and services within the first ten days of each month after receipt of the relevant products and services.

Preconditions

The Chemical Energy Company Continuing Connected Transaction Agreement and relevant Proposed Annual Caps shall be approved by Independent Shareholders at EGM before taking effect.

Duration

On the premise of satisfying the aforesaid preconditions, the duration of the Chemical Energy Company Continuing Connected Transaction Agreement shall commence on 1 January 2019 and end on 31 December 2021.

Proposed Annual Caps

Under the Chemical Energy Company Continuing Connected Transaction Agreement, for years ending 31 December 2019, 31 December 2020 and 31 December 2021 respectively, Proposed Annual Caps (exclusive of tax) for products that the Group provides to Chemical Energy Company according to the Chemical Energy Company Continuing Connected Transaction Agreement are listed below:

RMB

	For the year ending 31 December 2019	**For the year ending 31 December 2020**	**For the year ending 31 December 2021**
Proposed Annual Caps for products	1,788,762,800	1,818,842,800	1,849,522,800
Total	1,788,762,800	1,818,842,800	1,849,522,800

Under the Chemical Energy Company Continuing Connected Transaction Agreement, for years ending 31 December 2019, 31 December 2020 and 31 December 2021 respectively, Proposed Annual Caps (exclusive of tax) for products that Chemical Energy Company provides to the Group according to the Chemical Energy Company Continuing Connected Transaction Agreement are listed below:

RMB

	For the year ending 31 December 2019	**For the year ending 31 December 2020**	**For the year ending 31 December 2021**
Proposed Annual Caps for products	1,962,750,000	1,990,970,000	2,019,740,000
Proposed Annual Caps for services	7,190,000	8,320,000	8,910,000
Total	1,969,940,000	1,999,290,000	2,028,650,000

For the period from 1 January 2019 to 31 December 2021, the Proposed Annual Caps under the Chemical Energy Company Continuing Connected Transaction Agreement will make reference to (i) the state-prescribed price or market price for continuing connected transactions; (ii) the Group's expected capacity to provide products to Chemical Energy Company and the Group's expected demand for products of Chemical Energy Company to satisfy its production plan; and (iii) Chemical Energy Company's expected demand for products of the Group and expected capacity to provide products to the Group.

The expected demand for coke oven gas and oil tar provided by Chemical Energy Company is determined based on the following:

Coke oven gas is one of the major sources of energy used by the Group for its iron and steel production. During the process of purifying the raw coke oven gas into coke oven gas, oil tar will also be produced and sold to the Group. With reference to the actual figures of coke oven gas consumed and raw coke oven gas produced by the Group for the first five months of 2018 and the estimated increase in production volume, the Company estimated the Group's demand for coke oven gas and oil tar.

The Proposed Annual Caps for products sold by the Chemical Energy Company to the Group is RMB1,962 million, which comprises of the purchase of coke oven gas of approximately RMB1.41075 million and oil tar of approximately RMB0.552 million. Regarding the annual caps for coke oven gas and oil tar provided by Chemical Energy Company, the Company has taken into account the business and development plan of the Group, the expected production capacity of Chemical Energy Company and the estimated price of coke oven gas.

When deciding Chemical Energy Company's demand for products of the Group, the Company has considered the future processing capacity of Chemical Energy Company, and expects that there will not be substantial change to the Company's production capacity, so that the Company's production amount of coke oven gas will be relatively stable.

The Company has considered the production plan of the Group and the future processing capacity of Chemical Energy Company to determine the Proposed Annual Caps with respect to the sales of products to Chemical Energy Company. Sale of raw coke oven gas is a major item in this category. The amount of coke oven gas consumed and raw coke oven gas produced by the Group for the first five months of 2018 amounted to approximately 13,000,000 Gigajoule (GJ). With reference to the actual figures for the first five months of 2018, the Company estimated that the raw coke oven gas to be produced by the Group will be approximately 32,000,000 GJ to 33,000,000 GJ in 2019-2020. The Company also estimated that the future price of raw coke oven gas, which is determined with reference to, among others, the market price of coke oven gas (i.e. with reference to the state-prescribed price of its substitute, natural gas), will be at approximately RMB47 per GJ from 2019 to 2021. The Directors opine that the above assessment in respect of the basis of the Proposed Annual Caps of the products sold by the Group to Chemical Energy Company is fair and reasonable.

Reason for the Chemical Energy Company Continuing Connected Transaction Agreement and its benefits

The Group purchases part of natural gas to replace the power medium of internal production, in an effort to stabilize product quality and enhance the market competitiveness of the Group's strip products. As a result, the Group's power medium of internal production has a surplus. Under the premise of ensuring the internal production of the Group, the sale of surplus power medium to related units not only improves the sales profit of the shares, but also reduces the product costs of the Group. The Group's obtaining a reliable and uniquely skilled supply of products from Chemical Energy Company can also ensure the Group's stable and continuous production. The terms and pricing of Chemical Energy Company Continuing Connected Transaction Agreement are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

Information about the Company, the Parent Company, Scrap Steel Company, K. Wah Company and Chemical Energy Company

Please refer to section (1) above.

Implication of the Listing Rules

As of the Latest Practicable Date, the Parent Company holds about 45.54% of the Company's issued share capital and is the controlling shareholder of the Company, so according to Rule 14A of the Listing Rules, the Parent Company is a connected party of the Company. After completion of the Disposal and Deemed Disposal, the Parent Company will hold 55%, 40% and 55% share capital of Scrap Steel Company, K. Wah Company and Chemical Energy Company respectively, meaning that they would become subsidiaries of the Parent Company and connected persons of the Company according to Rule 14A of the Listing Rules. Therefore, transactions under the CCT Agreements for Scrap Steel Company, K. Wah Company and Chemical Energy Company would constitute the Company's continuing connected transactions as defined in Rule 14A of the Listing Rules.

As the applicable percentage ratios under the Listing Rules in respect of the respective Proposed Annual Caps for the transactions contemplated under the CCT Agreements for Scrap Steel Company, K. Wah Company and Chemical Energy Company will be more than 5%, such continuing connected transactions and Proposed Annual Caps are subject to requirements including reporting, announcement, annual review and Independent Shareholder' approval under Rule 14A of the Listing Rules.

INTERNAL CONTROL

To ensure effective execution and implementation of the pricing of the transactions under the Agreements, the Company has established "Internal Control Management Measures of Connected Transactions" to regulate the pricing management of related 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 2019-2021 CCT Agreements and the CCT Agreements for Scrap Steel Company, K. Wah Company and Chemical Energy Company. 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 finance and accounting department of the Company. The finance department of the Company will report on quarterly basis to the connected transaction management committee regarding the actual monetary 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 marketing 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.

For the purchase of Ore by the Company from the Parent Company, the continuing connected transaction management committee will ensure that the procurement department of the Company will make reference to the prevailing iron ore price as published by Platts. For determining price payable to the Parent Company for dolomite and limestone, the continuing connected transaction management committee will ensure that the Company will make reference to prices payable to independent third party suppliers for same or similar category of dolomite and limestone.

For the continuing connected transactions involving provision of services and supply of products by the Parent Group to the Group (including provision of Energy Saving and Environmental Protection Construction and Services by Anhui Xinchuang to the Group), the continuing connected transaction management committee will ensure that prices are determined based on market prices (determined through open tender/quotations, price comparison and arm's length negotiation under normal commercial terms). Where quotations are obtained from suppliers for the requested services or products, the Group will compare and negotiate the terms of quotations with suppliers and service providers, and determine the selection of suppliers and service providers by taking into account factors such as price quotations, quality of the products and services, ability of the suppliers and service providers in meeting technical specifications and delivery schedules, and qualification and relevant experiences of the suppliers and service providers. The contract will be awarded to the supplier and service provider who offers the best commercial terms and technical terms to the Company. Other than obtaining of quotations, the Group may award a contract through a tender process. For sourcing energy saving and environmental protection construction, the Group will source them through a tender process for contract with value over RMB100,000 to ensure services are obtained under a fair and competitive environment. The contract will be awarded to the supplier and service provider after assessment based on the criteria as set out above.

The Company will try to obtain as many quotations and/or tenders as possible for the Company's interest and it is the Company's practice to obtain at least three quotations and tenders. The *Law of the People's Republic of China on Bid Invitation and Bidding* and the *Regulation on the Implementation of the Law of the People's Republic of China on Bid Invitation and Bidding state*, among other things, that a minimum of three tenders are required to be received to render a tender to be valid. As a result, the Company's practice to obtain at least three quotations and/or tenders is consistent with the requirements under the *Law of the People's Republic of China on Bid Invitation and Bidding and the Regulation on the Implementation of the Law of the People's Republic of China on Bid Invitation and Bidding*. Accordingly, the Parent Group and/or Anhui Xinchuang may or may not be awarded the contracts.

For the continuing connected transactions involving provision of services and supply of products by the Group to the Parent Group, the price shall not be lower than the price of the same type of services and products provided by the Group to independent third parties.

The pricing mechanism to be adopted by the Company for each applicable continuing connected transaction as referred in the draft circular is as follows:

Continuing connected transactions	Pricing mechanism
New Sale and Purchase of Ore Agreement	The procurement department of the Company will make reference to the prevailing iron ore price as published by Platts. For determining price payable to the Parent Company for dolomite and limestone, the continuing connected transaction management committee will ensure that the Company will make reference to prices payable to independent third party suppliers for same or similar category of dolomite and limestone.
New Energy Saving and Environmental Protection Agreement	Except for the pricing of sales of energy medium that shall adopt the state-prescribed price, transactions under the New Energy Saving and Environmental Protection Agreement shall be priced based on the market price. The price regarding Energy Saving and Environmental Protection Construction and Services shall not be higher than the price of the same categories of energy saving and environmental protection construction and services provided by independent third parties to the Group. The price regarding the sales of power, energy medium, finished product shall not be lower than the price of same categories of power, energy medium, finished product sold by the Group to independent third parties.
New CCT Agreement	The price for the services and products to be provided by the Parent Group to the Group shall not be higher than the price of the same type of services and products offered by the independent third parties to the Group.

	For the provision of services and supply of products by the Parent Group to the Group, the Group will request suppliers and service providers to provide quotations in respect of the requested services or the Group may award a contract through a tender process. It is the Company's practice to obtain at least three quotations and tenders. For the provision of the services and products by the Parent Group to the Group, terms (including but not limited to pricing and payment) shall not be less favourable than those offered by independent third parties to the Group for similar categories of services and products.
New Financial Service Agreement (loan service)	The loan interests charged shall refer to the range of interest rates set by the PBOC, and according to the principle of marketization, it must not be lower than the interest rates for loans of similar nature and under similar terms charged on the Parent Group and its subsidiaries by other independent commercial banks or financial institutions in the PRC.
Scrap Steel Company Continuing Connected Transaction Agreement	Except that electricity the Group sells or provides to Scrap Steel Company is priced as per the latest national regulations set by Anhui Price Bureau, living water is priced as per the latest national regulations set by Maanshan Development and Reform Commission and Price Bureau, industrial treated water is priced as per the latest national regulations set by Maanshan Municipal People's Government, other transactions under the Scrap Steel Company Continuing Connected Transaction Agreement are priced based on market price.
K. Wah Company Continuing Connected Transaction Agreement	Electricity that the Group sells or provides to K. Wah Company is priced as per the latest national regulations set by Anhui Price Bureau, while water slag is priced based on market price.

Chemical Energy Company Continuing Connected Transaction Agreement	Except that electricity the Group sells or provides to Chemical Energy Company is priced as per the latest national regulations set by Anhui Price Bureau, industrial treated water is priced as per the latest national regulations set by Maanshan Municipal People's Government, other transactions under the Chemical Energy Company Continuing Connected Transaction Agreement are priced based on market price.

BOARD APPROVAL OF THE AGREEMENTS

At the tenth meeting of the ninth session of the Board held on 15 August 2018, the Board approved the Agreements.

Among the Directors present at the aforesaid Board meeting, Mr. Ding Yi, Mr. Qian Haifan and Mr. Ren Tianbao are considered having a material interest as they are employed by the Parent Company. They had to abstain from voting on the Board resolution for the Agreements. Other than the foregoing disclosure, none of Directors present at the aforesaid 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 Revision of Annual Cap Agreements, the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environmental Protection Agreement, the New CCT Agreement, the loan services under the New Financial Services Agreement, the Disposal and Deemed Disposal Agreements, as well as the CCT Agreements for Scrap Steel Company, K. Wah Company and Chemical Energy Company and the transactions contemplated thereunder, including the respective Proposed Annual Caps. In accordance with the Listing Rules, the vote of the Independent Shareholders taken at the EGM to approve the Revision of Annual Cap Agreements, the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environmental Protection Agreement, the New CCT Agreement, the loan services under the New Financial Services Agreement, the Disposal and Deemed Disposal Agreements, as well as the CCT Agreements for Scrap Steel Company, K. Wah Company and Chemical Energy Company and the transactions contemplated thereunder, including the respective Proposed Annual Caps, will be taken by poll. Any Shareholder with a material interest in the continuing connected transactions contemplated under the Agreements and his/her Associates will abstain from voting at the EGM. Accordingly, the Parent Company and its Associates will abstain from voting at the EGM. The result of the vote will be announced after the EGM.

The Independent Board Committee, will among others, consider and advise the Independent Shareholders in relation to the terms of the Revision of Annual Cap Agreements, the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environmental Protection Agreement, the New CCT Agreement, the loan services under the New Financial Services Agreement, the Disposal and Deemed Disposal Agreements, as well as the CCT Agreements for Scrap Steel Company, K. Wah Company and Chemical Energy Company, including the respective Proposed Annual Caps. Somerley Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

5. EGM AND PROXY ARRANGEMENT

The notice of the EGM is set out on pages 381 to 384 of this circular. At the EGM, resolutions will be proposed to approve, inter alia, the Agreements.

A form of proxy for use at the EGM has already been despatched to the Shareholders of the Company on 28 September 2018 and such form of proxy is also published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.chinacqme.com). Whether or not you intend to attend the Extraordinary General Meeting, you are requested to complete and return (i) the enclosed reply slip in accordance with the instructions printed thereon not later than 31 October 2018 and (ii) the enclosed form of proxy in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending the EGM and voting in person if you so wish.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, other than the Parent Company and its Associates who shall abstain from voting at the EGM in respect of the Agreements, none of the Directors or Shareholders has a material interest in the resolutions to be proposed at the EGM and no Shareholder is required to abstain from voting on any of the resolutions at the EGM.

6. PROCEDURES FOR VOTING AT THE EGM

According to Rule 13.39(4) of the Listing Rules, any vote at a general meeting must be taken by poll.

7. RECOMMENDATION

The Directors consider that all resolutions to be proposed for consideration and approval by the Shareholders at the EGM 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 as set out in the notice of the EGM.

By Order of the Board
Maanshan Iron & Steel Company Limited
He Hongyun
Company Secretary

23 October 2018

MA STEEL

馬鞍山鋼鐵股份有限公司

Maanshan Iron & Steel Company Limited

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

(Stock Code: 00323)

23 October 2018

To the Independent Shareholders

Dear Sir or Madam,

Reference is made to the circular issued by the Company to the Shareholders dated 23 October 2018 (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 Revision of Annual Cap Agreements, the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environmental Protection Agreement, the New CCT Agreement, the loan services under the New Financial Services Agreement, the Disposal and Deemed Disposal Agreements, as well as the CCT Agreements for Scrap Steel Company, K. Wah Company and Chemical Energy Company, including the transactions contemplated thereunder (the "Subject Transactions") and the respective Proposed Annual Caps. Somerley 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 120 to 248 of the Circular and the additional information is set out in the appendices thereto.

Having considered the Agreements, and taking into account the independent advice of Somerley Capital Limited, in particular the principal factors, reasons and recommendations set out in its letter on pages 120 to 248 of the Circular, we consider that (i) the Subject Transactions are entered into in the ordinary course of business of the Group save that the Disposal and the Deemed Disposal, though not in the ordinary and usual course of business of the Group, are in line with the business strategy 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 revised annual caps under the Revision of Annual Cap Agreements, and the Proposed Annual Caps under the 2019-2021 CCT Agreements and the CCT Agreements for Scrap Steel Company, K. Wah Company and Chemical Energy Company 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,

Zhang Chunxia, Zhu Shaofang, Wang Xianzhu

the Independent Board Committee

The following is the letter of advice from the Independent Financial Adviser, Somerley Capital Limited, to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.

SOMERLEY CAPITAL LIMITED
20th Floor
China Building
29 Queen's Road Central
Hong Kong

23 October 2018

To: the Independent Board Committee and
the Independent Shareholders

Dear Sirs,

**(1) CONTINUING CONNECTED TRANSACTIONS –
REVISION OF THE ANNUAL CAPS FOR
THE EXISTING ENERGY SAVING AND ENVIRONMENTAL
PROTECTION AGREEMENT
AND THE EXISTING CCT AGREEMENT;
(2) CONTINUING CONNECTED TRANSACTIONS –
IN RELATION TO
NEW SALE AND PURCHASE OF ORE AGREEMENT,
NEW ENERGY SAVING AND
ENVIRONMENTAL PROTECTION AGREEMENT,
NEW CCT AGREEMENT AND
NEW FINANCIAL SERVICES AGREEMENT; AND
(3) CONNECTED TRANSACTIONS –
DISPOSAL AND DEEMED DISPOSAL OF
INTEREST IN SUBSIDIARIES AND
CONTINUING CONNECTED TRANSACTIONS**

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with (i) the Disposal contemplated under the Scrap Steel Company Share Transfer Agreement (the "**Scrap Steel Disposal**"); (ii) the subscriptions contemplated under the K. Wah Company Capital Increase Agreement and the Chemical Energy Company Capital Increase Agreement (the "**K. Wah Subscription**" and the "**Chemical Energy Subscription**" respectively, together the "**Subscriptions**"); (iii) the continuing connected transactions contemplated under (a) the Supplementary Energy Saving and Environmental Protection Agreement; and (b) the Supplementary

CCT Agreement, and their respective proposed revised annual cap(s) (the "**Proposed Revised Cap(s)**") for the year ending 31 December 2018; and (iv) the continuing connected transactions contemplated under (a) the Scrap Steel Company Continuing Connected Transaction Agreement; (b) the K. Wah Company Continuing Connected Transaction Agreement; (c) the Chemical Energy Company Continuing Connected Transaction Agreement; (d) the New Sale and Purchase of Ore Agreement; (e) the New Energy Saving and Environmental Protection Agreement; (f) the New CCT Agreement; and (g) the New Financial Services Agreement regarding the loan services, and their respective Proposed Annual Caps. Details of each of the above are set out in the "Letter from the Board" contained in the circular of the Company to the Shareholders dated 23 October 2018 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

As at the Latest Practicable Date, the Parent Company is interested in approximately 45.54% of the Company's share capital and is the controlling shareholder of the Company, and Leader Investments is a substantial shareholder of K. Wah Company which is a subsidiary of the Company, therefore the Parent Company and Leader Investments are connected persons of the Company under Chapter 14A of the Listing Rules. Accordingly, the entering into of each of the Scrap Steel Company Share Transfer Agreement, the K. Wah Company Capital Increase Agreement and the Chemical Energy Company Capital Increase Agreement constitutes a connected transaction for the Company under the Listing Rules. According to Rule 14.22 of the Listing Rules, in determining the applicable percentage ratios, the Disposal and the Subscriptions shall be aggregated. As one or more of the applicable percentage ratios for the Disposal and the Subscriptions are higher than 5%, the Disposal and the Subscriptions are subject to requirements including reporting, announcement, annual review and Independent Shareholders' approval under Chapter 14A of the Listing Rules. After completion of the Disposal and the Subscriptions, the Parent Company will hold 55%, 40% and 55% share capital of Scrap Steel Company, K. Wah Company and Chemical Energy Company respectively, meaning that they would become subsidiaries of the Parent Company and connected persons of the Company according to Chapter 14A of the Listing Rules. Therefore, transactions under the CCT Agreements for Scrap Steel Company, K. Wah Company and Chemical Energy Company would constitute continuing connected transactions of the Company as defined in Chapter 14A of the Listing Rules.

As the applicable percentage ratios under the Listing Rules in respect of the respective Proposed Annual Caps for the transactions contemplated under the Revision of Annual Cap Agreements, the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environmental Protection Agreement, the New CCT Agreement, and the New Financial Services Agreement regarding the loan services, on an annual basis, are expected to be more than 5%, such continuing connected transactions are subject to requirements including reporting, announcement, annual review and Independent Shareholders' approval under Chapter 14A of the Listing Rules. The continuing connected transactions under the New Financial Services Agreement were entered into on normal commercial terms. In respect of the deposit services provided by the Finance Company to the Parent Company and its subsidiaries, as the deposit with the Finance Company constitute receipt of financial assistance by the Group where no security over assets of the Group is granted, the continuing connected transactions regarding the deposit services are exempted from reporting, announcement and Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules. In addition, in respect of the service charges of the other financial services under the New Financial Services Agreement, as the applicable ratios are more than 0.1% but less than 5%, they constitute exempt continuing connected transactions of the Company under Chapter 14A of the Listing Rules and are exempted from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising all of the three Independent Non-executive Directors, namely Ms. Zhang Chunxia, Ms. Zhu Shaofang and Mr. Wang Xianzhu, has been established to consider and make a recommendation to the Independent Shareholders on whether (1) the Disposal, the Subscriptions and the continuing connected transactions contemplated under (a) the Scrap Steel Company Continuing Connected Transaction Agreement; (b) the K. Wah Company Continuing Connected Transaction Agreement; (c) the Chemical Energy Company Continuing Connected Transaction Agreement; (d) the Supplementary Energy Saving and Environmental Protection Agreement; (e) the Supplementary CCT Agreement; (f) the New Sale and Purchase of Ore Agreement; (g) the New Energy Saving and Environmental Protection Agreement; (h) the New CCT Agreement; and (i) the New Financial Services Agreement regarding the loan services (the "**Continuing Connected Transactions**") are in the Group's ordinary and usual course of business; (2) the terms of the Disposal, the Subscriptions and the Continuing Connected Transactions are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (3) the entering into of the Disposal, the Subscriptions and the Continuing Connected Transactions is in the interests of the Company and the Shareholders as a whole; and (4) the Proposed Revised Caps for the financial year ending 31 December 2018 and the Proposed Annual Caps for the three financial years ending 31 December 2019, 2020 and 2021 are fair and reasonable so far as the Independent Shareholders are concerned. We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

During the past two years, there have been no engagements between the Company and Somerley Capital Limited. As at the Latest Practicable Date, there were no relationships or interests between (a) Somerley Capital Limited; and (b) the Group, the Parent Group, Anhui Xinchuang, Scrap Steel Company, K. Wah Company, Chemical Energy Company and Leader Investments that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Disposal, the Subscriptions, revision of annual caps and continuing connected transactions as detailed in the Circular.

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether (1) the Disposal, the Subscriptions and the Continuing Connected Transactions are in the Group's ordinary and usual course of business; (2) the terms of the Disposal, the Subscriptions and the Continuing Connected Transactions are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (3) the entering into of the Disposal, the Subscriptions and the Continuing Connected Transactions is in the interests of the Company and the Shareholders as a whole; and (4) the Proposed Revised Caps for the financial year ending 31 December 2018 and the Proposed Annual Caps for the three financial years ending 31 December 2019, 2020 and 2021 are fair and reasonable so far as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below:

I. THE DISPOSAL AND THE SUBSCRIPTIONS

1. Background to and reasons for the transactions

The Group is principally engaged in the manufacturing and sale of iron and steel products and related by-products, and is one of the largest iron and steel producers and sellers in the PRC. Following a recovery in the steel product market and the increase in steel price, the Group turned around from a net loss attributable to owners of the Company of approximately RMB4.8 billion in 2015 to a net profit attributable to owners of the Company of approximately RMB1.2 billion in 2016. In 2017, with the continuing relief of the problem of excessive capacity and increase in domestic steel price, the Group's performance continued to improve, with a net profit attributable to owners of the Company of approximately RMB4.1 billion, representing an increase of approximately 236% compared to 2016. The executive Directors are positive on the long term prospects of the Group. However, they are also aware of the changes to the economy of the PRC and the policies in relation to the iron and steel industry, and are of the view that the Group has to continue to improve its competitiveness and to stay sensitive to possible crisis.

As set out in the "Letter from the Board" contained in the Circular and as advised by the executive Directors, (i) Scrap Steel Company is principally engaged in recycling, processing and sale of scrap metal; sale and warehousing of pig iron; domestic trade agency service; (ii) K. Wah Company is principally engaged in the production and sales of new building materials; and (iii) Chemical Energy Company is principally engaged in the research and development, production and sale of chemical products (excluding hazardous chemicals and precursor chemicals). We understand from the executive Directors that Scrap Steel Company, K. Wah Company and Chemical Energy Company (collectively the "**Disposal Group**") were historically set up to process certain by-products produced by the Group during its core iron and steel production. Accordingly, each of them has been/will be carrying out transactions with, among others, the Group. Further details of such transactions are set out in the sub-section headed "Continuing connected transactions with Scrap Steel Company, K. Wah Company and Chemical Energy Company" of this letter below. Over the past years, each of Scrap Steel Company and K. Wah Company has expanded its operation and also carried out businesses with independent third parties outside the Group. As discussed in the sub-section headed "Financial information of the Disposal Group" of this letter below, although the financial performance of both Scrap Steel Company and K. Wah Company are not stable, each of them has recorded growth in net profits in 2016 and 2017 as a result of recovery of their operating industries. The executive Directors noted the development potential of the businesses of Scrap Steel Company and K. Wah Company. However, further development of such businesses will require commitment of further resources and expertise in the relevant industries which are not the core iron and steel production business of the Group. The executive Directors noted similar situation for Chemical Energy Company. They consider that further development and expansion of the businesses of the Disposal Group will require additional resources (such as financial investments and employment of expertise), which in turn will inevitably reduce the resources available for the Group's core iron and steel business.

We understand from the executive Directors that the production processes of each of Scrap Steel Company, K. Wah Company and Chemical Energy Company require high standard of technology and regular modifications and improvements have to be carried out in order to maintain their competitiveness. Also, the PRC government is imposing more stringent requirements on energy saving and environmental protection especially on iron and steel industry. Further details of these policies and measures, including the "Environmental Protection Tax Law of the People's Republic of China"《中華人民共和國環保保護稅》and "Iron and steel enterprise ultra-low emission transformation work plan (draft for comments)"《鋼鐵企業超低排放改造方案(征求意見稿)》, are set out in the sub-section headed "Procurement of Energy Saving and Environmental Protection Construction and Services and sales of power, energy medium and finished products by the Company from/to Anhui Xinchuang" under the sub-section headed "Revision of 2018 annual caps and renewal of continuing connected transactions" of this letter below. As advised by the executive Directors, the aforesaid tightening requirements cover, among other things, the products and production processes of each of Scrap Steel Company, K. Wah Company and Chemical Energy Company, in particular relating to approval and monitoring of pollutant emission and storage and disposal of wastes and hazardous wastes. Moreover, other environmental protection policies, such as "Water Pollution Prevention and Control Law"《中華人民共和國水污染防治法》, "Air Pollution Prevention and Control Law"《中華人民共和國大氣污染防治法》and "Ten Action Plans for Prevention and Treatment of Soil Pollution"《土壤污染防治行動計劃》, further tighten the requirements of environmental protection for the operations of K. Wah Company. As a result of all these measures and policies, it is expected that the Disposal Group will be required to, among other things, (i) control the pollution of soil during the production process; (ii) reduce the emission of air pollutants; (iii) improve its water treatment ability to reduce water pollution; (iv) improve its production facilities to prevent leakage of pollutants during the production process; and (v) increase the use of clean energy. The executive Directors expect that an aggregate of approximately RMB294 million will be required for enhancing the environmental protection facilities of the Disposal Group to comply with the tightening requirements from 2019 to 2021. In addition, the executive Directors consider that the requirements on environmental protection for these products and production processes may be further tightened in the future if the PRC government continues its policy to minimise pollution, and the Group would need to devote further resources on environmental protection projects regarding the Disposal Group in order to comply with the governmental policies.

As mentioned above, the executive Directors are of the view that the Group has to continue to improve its competitiveness and to stay sensitive to possible crisis. They are of the view that it will be beneficial to the Group to focus at improving the competitiveness of its core iron and steel production business, instead of spending additional resources to maintain the competitiveness of the businesses and to comply with governmental policies for the non-core businesses carried out by the Disposal Group. On the other hand, the executive Directors note that both Scrap Steel Company and K. Wah Company recorded profits in year 2016 and 2017, further details of which are set out in the sub-section headed "Financial information of the Disposal Group" of this letter below. In addition, as mentioned above, there are transactions between the Group and the Disposal Group, which also supports the Group's main iron and steel production. Considering the above, the executive Directors consider that diluting the Company's equity interests through a disposal or subscription but at the same time maintaining an appropriate level of equity interests in the Disposal Group will create more value to the Company and its Shareholders. The Parent Company is a state-owned limited liability company and mainly engaged in mineral product development and screening, construction, building material production, trade, warehousing and property management, as well as agriculture and forestry. The Parent Company has extensive experience and massive resources in developing the businesses carried out by the Disposal Group. In addition, Anhui Xinchuang, a company controlled by the Parent Company, is experienced and specialised in carrying out environmental protection projects. The executive Directors are of the view that introducing the Parent Company as a major shareholder of each of Scrap Steel Company, K. Wah Company and Chemical Energy Company will help each of them develop its business and at the same time comply with the requirements of the tightening environmental protection policies. In addition, Leader Investments has been a substantial shareholder of K. Wah Company since its establishment and is willing to increase its shareholding in K. Wah Company to support its future development. Leader Investments is a subsidiary of Galaxy Entertainment Group Limited (stock code: 27) which also engages in construction materials business. The executive Directors consider that maintaining of its equity interest in K. Wah Company by Leader Investments will help in formulating appropriate development strategy for K. Wah Company. Also, as set out in the sub-section headed "Financial effects on the Group" of this letter below, the Company will record an aggregate unaudited net gain on disposal at Company level of approximately RMB328 million from the Disposal and the Subscriptions.

As stipulated under the K. Wah Company Capital Increase Agreement (further details of which are set out in the sub-section headed "Principal terms of the Disposal and the Subscriptions" of this letter below), K. Wah Company will make a distribution to existing shareholders (i.e. the Company and Leader Investments) before the subscription. The executive Directors expect that the Company will receive an amount of RMB68.6 million from such distribution which is expected to be used for operations of the core iron and steel business, technical improvements and environmental protection related expenditure. We consider that the distribution arrangement provides the Company an opportunity to receive part of the return of its investment in K. Wah Company, and such proceeds can be used for further development of the Group's core iron and steel business. Accordingly, and given that the distribution is made on a dollar-to-dollar basis, we consider that such distribution arrangement is in the interests of the Company and the Shareholders as a whole.

The executive Directors are of the view that the Disposal and the Subscriptions will offer the Group and the Shareholders benefits, including, (a) reducing the need for contributing further resources by the Group to further develop the business, maintain the competitiveness of the business and to comply with the tightening environmental protection requirements for the Disposal Group, so that the Group will be able to focus on its core iron and steel business to enhance its competitiveness and prepare for the dynamic industry environment; (b) enabling the Group to maintain equity interests in the Disposal Group so as to enjoy the benefits from the future business growth of the Disposal Group; (c) introducing suitable shareholders to the Disposal Group for further business development; and (d) maintaining an influence in the Disposal Group so that the Group can secure the continuing connected transactions with the Disposal Group to support its core iron and steel production business. Having considered the above, the executive Directors consider, and we concur, that the Disposal and the Subscriptions are in line with the Group's development strategy and beneficial to the Group's core iron and steel production business.

2. Principal terms of the Disposal and the Subscriptions

Set out below are the principal terms of the Scrap Steel Company Share Transfer Agreement, the K. Wah Company Capital Increase Agreement and the Chemical Energy Company Capital Increase Agreement, the key terms of which are summarised in the section headed "Connected transactions – Disposal and Deemed Disposal of interest in subsidiaries and continuing connected transactions" of the "Letter from the Board" contained in the Circular.

(A) The Scrap Steel Company Share Transfer Agreement

The Scrap Steel Company Share Transfer Agreement was entered into on 15 August 2018 between the Company and the Parent Company, pursuant to which the Company has conditionally agreed to sell and the Parent Company has conditionally agreed to purchase 55% of the equity interest in Scrap Steel Company at a consideration of RMB178,381,853.68, which shall be payable by the Parent Company within 20 working days after fulfilment of the conditions precedent to the Scrap Steel Company Share Transfer Agreement. The Scrap Steel Company Share Transfer Agreement is conditional on, among other things, approval by the Independent Shareholders at the EGM.

(B) The K. Wah Company Capital Increase Agreement

The K. Wah Company Capital Increase Agreement was entered into on 15 August 2018 between the Company, the Parent Company, Leader Investments and K. Wah Company, pursuant to which the Parent Company and Lead Investments have conditionally agreed to subscribe to the equity of K. Wah Company at a consideration of RMB108,158,059.09 (of which US$7,829,733.00 will be injected into the registered capital and the remaining amount will be injected into capital reserve) and RMB46,353,453.90 (of which US$3,355,600 will be injected into the registered capital and the remaining amount will be injected into capital reserve) respectively, which shall be payable by the subscribers within 20 working days after fulfilment of the conditions precedent to the K. Wah Company Capital Increase Agreement. Pursuant to the K. Wah Company Capital Increase Agreement, K. Wah Company will make a distribution to existing shareholders of RMB98,000,000 before the subscription. The K. Wah Company Capital Increase Agreement is conditional on, among other things, approval by the Independent Shareholders at the EGM. Upon completion of the K. Wah Subscription, K. Wah Company will be held as to 30%, 40% and 30% respectively by the Company, the Parent Company and Leader Investments.

(C) The Chemical Energy Company Capital Increase Agreement

The Chemical Energy Company Capital Increase Agreement was entered into on 15 August 2018 between the Company, the Parent Company and Chemical Energy Company, pursuant to which the Parent Company has conditionally agreed to subscribe to the equity of Chemical Energy Company at a consideration of RMB733,333,333.33 (the whole amount will be injected into the registered capital), which shall be payable by the Parent Company within 20 working days after fulfilment of the conditions precedent to the Chemical Energy Company Capital Increase Agreement. Pursuant to the Chemical Energy Company Capital Increase Agreement, the Company will make an injection of RMB1,406,140 into Chemical Energy Company before the subscription. The Chemical Energy Company Capital Increase Agreement is conditional on, among other things, approval by the Independent Shareholders at the EGM. Upon completion of the Chemical Energy Subscription, Chemical Energy Company will be held as to 45% and 55% respectively by the Company and the Parent Company.

3. Financial information of the Disposal Group

(A) Scrap Steel Company

Set out below is the summary of the audited financial information of Scrap Steel Company for each of the financial years ended 31 December 2014, 2015, 2016 and 2017, and for the period from 1 January to 28 February 2018:

	For the year ended 31 December				For the period from 1 January to 28 February
	2014	**2015**	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Profit and loss					
Revenue	3,410,028	2,025,914	2,054,787	3,445,943	849,900
Cost of sales	3,318,942	2,011,784	2,013,600	3,354,871	730,110
Government grant	14,551	32,914	11,434	41,921	–
Net profit	11,319	13,828	19,813	67,781	82,918
Financial position					
Current assets	666,277	201,677	330,029	648,511	629,020
Inventories	223,748	32,069	161,940	153,983	58,558
Non-current assets	41,726	35,368	29,037	26,332	25,267
Current liabilities	581,958	97,172	199,380	447,376	343,903
Shareholders' equity	126,045	139,873	159,686	227,467	310,384

We have discussed with the executive Directors regarding the financial performance of Scrap Steel Company. Scrap Steel Company has received government grant during each of the year 2014, 2015, 2016 and 2017. Excluding the government grant, Scrap Steel Company recorded a net loss of approximately RMB3.2 million and RMB19.1 million respectively in 2014 and 2015, and a net profit of approximately RMB8.4 million and RMB25.9 million respectively in 2016 and 2017. Financial results from operations were not stable and were significantly affected by steel price. Scrap Steel Company had accumulated a considerable level of scrap steel inventories at the end of 2017 and made a significant profit by selling the scrap steel inventories during first two months of 2018 following an increase in steel price. As at 28 February 2018, major assets of Scrap Steel Company included prepayments and receivables of approximately RMB559.2 million, inventories of approximately RMB58.6 million and fixed assets of approximately RMB25.3 million, and major liabilities of Scrap Steel Company included payables of approximately RMB343.9 million.

(B) K. Wah Company

Set out below is the summary of the audited financial information of K. Wah Company for each of the financial years ended 31 December 2014, 2015, 2016 and 2017:

	For the year ended 31 December			
	2014	**2015**	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Profit and loss				
Revenue	180,396	205,441	389,404	772,964
Cost of sales	176,912	200,037	349,977	613,140
Net (loss)/profit	(6,882)	(4,814)	18,802	90,802
Financial position				
Current assets	90,018	85,700	131,380	238,731
Non-current assets	93,919	87,633	84,381	74,175
Current liabilities	61,466	55,676	87,406	102,831
Shareholders' equity	122,471	117,657	128,355	210,076

As set out in the table above and as advised by the executive Directors, K. Wah Company was loss-making in 2014 and 2015. The financial performance of K. Wah Company improved in 2016 and 2017, which was mainly due to the improvement in the building materials industry. As at 31 December 2017, major assets of K. Wah Company included prepayments and receivables of approximately RMB158.2 million, fixed assets of approximately RMB73.5 million and cash and cash equivalents of approximately RMB47.2 million, and major liabilities of K. Wah Company included payables of approximately RMB85.6 million.

(C) Chemical Energy Company

Chemical Energy Company was established in March 2018. As at 30 June 2018, major assets of Chemical Energy Company included fixed assets of approximately RMB468.7 million, land use rights classified as intangible assets of approximately RMB133.0 million and value-added-tax receivables of approximately RMB77.8 million, and major liabilities included payables of approximately RMB130.0 million.

4. Financial effects on the Group

(A) The Scrap Steel Company Share Transfer Agreement

As set out in the sub-section headed "Scrap Steel Company Share Transfer Agreement" under the sub-section headed "Disposal and Deemed Disposal" in the "Letter from the Board" contained in the Circular, upon completion of the Scrap Steel Disposal, the Company's interests in Scrap Steel Company will decrease from 100% to 45%. Scrap Steel Company will cease to be a subsidiary of the Company and become an associate of the Company. The assets, liabilities and financial results of Scrap Steel Company will not be consolidated into the financial statements of the Group. It is currently expected that the Company will record an unaudited gain on disposal at Company level of approximately RMB224 million upon completion of the Scrap Steel Disposal but the actual amount of disposal gain/loss to be recognised will be calculated with reference to the financial position of Scrap Steel Company at the time of completion. As set out in the aforesaid sub-section in the "Letter from the Board" contained in the Circular, the net proceeds from the Scrap Steel Disposal is expected to be used in construction projects of the Group's core iron and steel business, which is expected to benefit the Group's business development.

(B) The K. Wah Company Capital Increase Agreement

As set out in the sub-section headed "K. Wah Company Capital Increase Agreement" under the sub-section headed "Disposal and Deemed Disposal" in the "Letter from the Board" contained in the Circular, upon completion of the K. Wah Subscription, the Company's interests in K. Wah Company will decrease from 70% to 30%. K. Wah Company will cease to be a subsidiary of the Company and become an associate of the Company. The assets, liabilities and financial results of K. Wah Company will not be consolidated into the financial statements of the Group. It is currently expected that the Company will record an unaudited gain on disposal at Company level of approximately RMB105 million upon completion of the K. Wah Subscription but the actual amount of disposal gain/loss to be recognised will be calculated with reference to the financial position of K. Wah Company at the time of completion. We understand from the executive Directors that the Company is expected to receive a distribution of RMB68.6 million from K. Wah Company before completion of the subscription contemplated under the K. Wah Company Capital Increase Agreement, and such amount is expected to be used for operations of the core iron and steel business, technical improvements and environmental protection related expenditure.

(C) The Chemical Energy Company Capital Increase Agreement

As set out in the sub-section headed "Chemical Energy Company Capital Increase Agreement" under the sub-section headed "Disposal and Deemed Disposal" in the "Letter from the Board" contained in the Circular, upon completion of the Chemical Energy Subscription, the Company's interests in Chemical Energy Company will decrease from 100% to 45%. Chemical Energy Company will cease to be a subsidiary of the Company and become an associate of the Company. The assets, liabilities and financial results of Chemical Energy Company will not be consolidated into the financial statements of the Group. It is currently expected that the Company will record an unaudited loss on disposal at Company level of approximately RMB1.4 million upon completion of the Chemical Energy Subscription but the actual amount of disposal gain/loss to be recognised will be calculated with reference to the financial position of Chemical Energy Company at the time of completion.

5. Valuation

The respective consideration for the Scrap Steel Disposal, the K. Wah Subscription and the Chemical Energy Subscription has been determined with reference to, among other things, the respective valuation of the underlying equity interests (the "**Target Interests**") by independent valuers. Independent valuations have been performed by (a) Pan-China Assets Appraisal Co., Ltd. ("**Pan China**") for the values of the equity interests of Scrap Steel Company as at 28 February 2018 and K. Wah Company as at 31 December 2017; and (b) Zhong Ming (Beijing) Assets Appraisal International Co., Ltd. ("**Zhong Ming**") for the value of the equity interest of Chemical Energy Company as at 30 June 2018. We have reviewed the valuation report of each of Scrap Steel Company, K. Wah Company and Chemical Energy Company (the "**Valuation Reports**"), details of which are set out in Appendix I, Appendix II and Appendix III to the Circular respectively, and have discussed with both Pan China and Zhong Ming regarding the valuations of the Target Interests with details set out below.

Scope of work and qualifications of the valuers

We have complied with all the requirements under Rule 13.80(2)(b) Note (1)(d) of the Listing Rules with respect to the Valuation Reports, in particular, we have discussed with each of Pan China and Zhong Ming regarding its expertise and the experience of the responsible valuers for the valuations. We understand that both Pan China and Zhong Ming are independent firms of qualified PRC valuer (designated by the relevant governmental authorities to conduct asset valuation including state-owned assets) and is authorised by the Ministry of Finance of the PRC and China Securities Regulatory Commission to provide valuation services in the PRC. We also understand that the responsible valuers signing the valuation reports for Scrap Steel Company, K. Wah Company and Chemical Energy Company have over 8 years of experience in conducting valuation. We also reviewed the terms of engagement of each of Pan China and Zhong Ming and discussed with each of them regarding their work performed as regards the valuation.

Valuation approach

Based on our review on the Valuation Reports and our discussions with each of Pan China and Zhong Ming, both Pan China and Zhong Ming have adopted the asset-based approach when valuing the Target Interests. We understand that both Pan China and Zhong Ming have considered the three commonly used valuation approaches for valuation of a company, namely the asset-based approach, the market approach and the income approach. Each of Pan China and Zhong Ming considers that the market approach is not applicable in valuing the Target Interests as it is difficult to identify comparable companies/transactions with sufficient details needed for valuation purpose. We understand from Pan China and Zhong Ming that income approach is not considered appropriate for determining the final valuation of the Target Interests because of the considerable uncertainties in accurately predicting the future operating cash flow of the subject company involved, in particular, (i) Pan China noted that the Scrap Steel Company's key product of scrap steel was mainly sold to the Company and its financial performance would be easily affected by the Company's demand in scrap steel and financial performance; (ii) Pan China noted that there were historical fluctuations in the market prices of the key products of K. Wah Company and the customers were mainly located in a single region; and (iii) Zhong Ming noted that Chemical Energy Company was set up in first half of 2018 and have not yet commenced commercial operation as at the valuation date.

The asset-based approach is based on the judgment of the overall asset value with the amount of investment needed to re-build an enterprise identical to the valuation target on the appraisal date. In particular, the equity value of the valuation target is arrived at by summing up the appraised values of each component asset forming the enterprise and then deducting the appraised values of its liabilities. We understand from each of Pan China and Zhong Ming that the asset-based approach is considered appropriate for determining the final valuation of the Target Interests as there were reliable records of the assets and liabilities of the subject companies and sufficient information could be obtained for the purpose of performing the valuation based on asset-based approach. We have reviewed the audited financial information of each of Scrap Steel Company, K. Wah Company and Chemical Energy Company, and major assets and liabilities of the Disposal Group as at the respective valuation date are set out in the sub-section headed "Financial information of the Disposal Group" of this letter above. Valuation methodologies of different assets and liabilities of the Disposal Group under the asset-based approach are discussed below. Based on our review of the financial information and our discussions with both Pan China and Zhong Ming, we are not aware of any unusual asset or liability items which cannot be valued using the assets-based approach. Based on the above, and taking into account our discussions with Pan China and Zhong Ming regarding their selection of valuation approach as set out above, we consider that the use of assets-based approach in valuing the Target Interests to be reasonable.

Valuation assumptions

We have reviewed the Valuation Reports and discussed with both Pan China and Zhong Ming in respect of the assumptions adopted for performing the valuation under asset-based approach. We noted that certain assumptions adopted by both Pan China and Zhong Ming are similar, which include assumptions that (i) the subject assets are in a status available to be transferred; (ii) there is an open market for sale and purchase of the subject assets; and (iii) the subject companies under valuation will operate on a going concern basis. We also noted that some assumptions are either adopted by Pan China or Zhong Ming, which include assumptions that (a) the subject assets will continue to be used; (b) the valuation is made for the stated valuation purpose only; (c) there will not be material changes in environment and no adverse changes to the subject assets; (d) there will be consistent management, operation and accounting policies; and (e) the valuation is based on the information provided by the subject company and the information received by the valuer for valuation is true, accurate and complete. We understand from both Pan China and Zhong Ming that these assumptions are commonly adopted in other valuations of similar assets and there is no unusual assumption which has been adopted when valuing the Target Interests. We also consider the assumptions adopted in the Valuation Reports general in nature and are not aware of any material facts which lead us to doubt the assumptions adopted by each of Pan China and Zhong Ming.

Details of valuation

We have discussed with each of Pan China and Zhong Ming their valuation methodologies to value different assets and liabilities of the subject companies under the asset-based approach. We note that both Pan China and Zhong Ming have applied consistent methodologies when value similar assets and liabilities of the subject companies. Further details are set out below.

Current assets

For cash and bank deposits, they are valued based on the carrying value after verification procedures including (a) physical count of cash; (b) checking to underlying books and records against bank statements; and (c) obtaining bank confirmations. For bills receivables, they are valued based on the carrying value after checking to the underlying books and records (including the invoices for material items). For trade and other receivables, they are valued after taking into account their recoverability which was assessed by investigating the underlying repayment records, arranging confirmations in respect of material amounts and ageing analysis. Inventories are valued with reference to their net realisable values after verification procedures including (a) checking to underlying books and records; (b) analysis of inventory movement; and (c) inventory count.

Non-current assets

Buildings owned by each of Scrap Steel Company, K. Wah Company and Chemical Energy Company are mainly production plants for their operations. Other fixed assets include mainly machinery and equipment and motor vehicles. For buildings, machinery and equipment and motor vehicles, they are valued based on replacement costs, and adjusted for the newness rate. Replacement costs of buildings are assessed by considering construction cost, preparation costs and other expenses, cost of capital, after deduction of value-added taxes. Construction costs were estimated with reference to cost of construction of similar buildings in the region. Replacement costs of machinery and equipment include purchase prices, transportation costs, installation and testing fees, foundation costs, other expenses and cost of capital, after deduction of value-added taxes. Replacement costs of motor vehicles include purchase prices, the vehicle purchase tax and other expenses (such as testing and licensing fees), after deduction of value-added taxes. Purchase prices of the machinery and equipment and motor vehicles were obtained after procedures such as obtaining quotations and checking to latest market transactions. Newness rates were determined based on the physical conditions and estimated remaining life of the subject assets after physical inspection. Construction in progress is also valued based on replacement cost method and taking into account the degree of obsolescence. For land use rights held by the subject companies as at the valuation date, they are valued with reference to transaction prices of other similar land.

Liabilities

For liabilities, they are valued based on the carrying values of the actual liabilities payable by the subject company as at the valuation date. Valuation procedures include checking to the underlying records and documents, obtaining confirmations (where applicable), and verifying the existence of the amount of liabilities.

We understand from both Pan China and Zhong Ming that the above valuation methodologies used by each of them in valuing the Target Interests under the asset-based approach are commonly used in the industry, and are based on commonly adopted valuation basis. They have also made reference to their internal database and market data when performing the valuations. Physical inspection was carried out by both Pan China and Zhong Ming and no abnormalities were noted. Based on our discussions with both Pan China and Zhong Ming and our understanding of the work conducted by each of them, we consider that the above methodologies are reasonable approaches in establishing the appraised value of each of Scrap Steel Company, K. Wah Company and Chemical Energy Company.

Valuation results

The value of the Target Interests as set out in the Valuation Reports are compared with the book value of each of Scrap Steel Company, K. Wah Company and Chemical Energy Company as below:

(Amounts in RMB'000)	**Scrap Steel Company**	**K. Wah Company**	**Chemical Energy Company**
Value of 100% equity interest as set out in the Valuation Reports	324,330.6 (as at 28 February 2018)	213,883.7 (as at 31 December 2017)	598,593.9 (as at 30 June 2018)
Audited net assets value	310,384.5 (as at 28 February 2018)	210,075.9 (as at 31 December 2017)	600,000.0 (as at 30 June 2018)
Difference	13,946.1	3,807.8	(1,406.1)
	4.49%	1.81%	(0.23%)

Based on our review of the Valuation Reports and discussions with both Pan China and Zhong Ming, we understand that the above differences between valuations and book values were mainly due to: (a) for Scrap Steel Company, an increase in value of inventories and fixed assets; (b) for K. Wah Company, an increase in value of inventories and fixed assets; and (c) for Chemical Energy Company, a decrease in value of fixed assets and land use rights classified as intangible assets. We understand from both Pan China and Zhong Ming that the aforesaid differences were mainly contributed by the changes in the market value of the underlying assets of the subject companies or discrepancies between the actual rate of depreciation of value and rate of depreciation adopted under the accounting policies. While the valuation differences are not material, we also understand from Pan China and Zhong Ming that the reasons for such valuation differences are not uncommon in valuations of similar companies using the assets-based approach. As discussed above, we consider that the valuation methodologies adopted by Pan China and Zhong Ming are reasonable approaches in establishing the appraised value of each of Scrap Steel Company, K. Wah Company and Chemical Energy Company. Accordingly, we consider appropriate to refer to the independent valuations by Pan China and Zhong Ming when determining the considerations for the Disposal and the Subscriptions.

6. Evaluation of the considerations

The respective consideration for the Scrap Steel Disposal, the K. Wah Subscription and the Chemical Energy Subscription was arrived at after arm's length negotiations between the parties with reference to the valuations of the equity value of the subject companies. The considerations and the valuations are compared as follows:

	Scrap Steel Disposal *(RMB'000)*
Consideration for the disposal	178,381.9
Value of 100% equity interest of Scrap Steel Company as at 28 February 2018	324,330.6
Percentage of equity interest being disposed	55%
	178,381.9

	K. Wah Subscription	
	Subscription by Parent Company *(RMB'000)*	**Subscription by Leader Investments** *(RMB'000)*
Appraised value of K. Wah Company before subscription as at 31 December 2017	213,883.7	213,883.7
Distribution before subscription	(98,000.0)	(98,000.0)
Value of K. Wah Company before subscription	115,883.7	115,883.7
Subscription by Parent Company	108,158.1	108,158.1
Subscription by Leader Investments	46,353.5	46,353.5
Value after subscription	270,395.3	270,395.3
Value of K. Wah Company before subscription	115,883.7	115,883.7
Interest held before subscription	–	30%
Value of interest held before subscription	–	34,765.1
Subscription amount	108,158.1	46,353.5
Value of interest held after subscription	108,158.1	81,118.6
Interest held after subscription	40%	30%
Implied total value of K. Wah Company	270,395.3	270,395.3

	Chemical Energy Subscription *(RMB'000)*
Appraised value of Chemical Energy Company before subscription as at 30 June 2018	598,593.9
Subscription by the Company	1,406.1
Subscription by Parent Company	733,333.3
Total value after subscription	1,333,333.3
Subscription amount by Parent Company	733,333.3
Interest held after subscription	55%
Implied total value of Chemical Energy Company	1,333,333.3

In assessing the fairness of the consideration for each of the Scrap Steel Disposal, the K. Wah Subscription and the Chemical Energy Subscription, we consider it appropriate to refer to the respective independent valuations conducted by Pan China and Zhong Ming. As set out in the sub-section headed "Valuation" of this letter above, we consider that the methodologies adopted by each of Pan China and Zhong Ming for valuation of the Target Interests are reasonable. The consideration for each of the Scrap Steel Disposal, the K. Wah Subscription and the Chemical Energy Subscription is the same as the value of the relevant proportion (calculated with reference to the proportion after subscriptions where appropriative) of the equity interests being disposed/subscribed. On this basis, we are of the view that the consideration for each of the Scrap Steel Disposal, the K. Wah Subscription and the Chemical Energy Subscription is fair and reasonable.

II. CONTINUING CONNECTED TRANSACTIONS WITH SCRAP STEEL COMPANY, K. WAH COMPANY AND CHEMICAL ENERGY COMPANY

1. Background to and reasons for the transactions

As at the Latest Practicable Date, Scrap Steel Company, K. Wah Company and Chemical Energy Company are subsidiaries of the Company. After completion of the Disposal and the Subscriptions, the Parent Company will hold 55%, 40% and 55% interests in Scrap Steel Company, K. Wah Company and Chemical Energy Company respectively and therefore they will become connected persons of the Company. Chemical Energy Company was set up in first half of 2018 and its main asset component was originally a chemical product resource recycling unit within the Company. Sales and procurement of products or services have been carried out between the Group and Scrap Steel Company, K. Wah Company and the above-mentioned chemical product resource recycling unit (which forms part of Chemical Energy Company). The executive Directors are of the view that it is in the interests of the Company to continue those transactions between the Group and Scrap Steel Company, K. Wah Company and Chemical Energy Company after the completion of the Disposal and the Subscriptions to ensure the stable and continuous production of both parties.

Scrap Steel Company is mainly engaged in, among other things, scrap metal recovery, processing and sales. Scrap Steel Company sources scrap steel materials from suppliers (including the Group) to produce usable scrap steel for sales by carrying out physical processing programs such as cutting, compressing and packaging. Usable scrap steel is raw material used in iron and steel production of the Group. K. Wah Company is mainly engaged in the production and sales of new building materials. The Group sells water slag, the by-products of the iron and steel production process to K. Wah Company to produce cement raw materials and mineral powder for construction. Chemical Energy Company mainly engages in, among other things, research and development, production and sales of chemical products. Chemical Energy Company purchases raw coke oven gas from suppliers (including the Group) and turns it into coke oven gas after specialised processing. Coke oven gas is a source of energy consumed during the production of iron and steel. The Group's production stability and the reuse of resources can be assured with the continuous stable supply of the specialised products and services that are reliable and with unique skills from Scrap Steel Company and Chemical Energy Company. Sales of products to Scrap Steel Company, K. Wah Company and Chemical Energy Company provide the Group with stream of income, allow more efficient use of the Group's resources and fulfillment of the Group's social responsibility through selling of waste for recycling. The executive Directors advised us that the Group has been satisfied with the quality of the products and services sourced from Scrap Steel Company and the above-mentioned chemical product resource recycling unit.

On 15 August 2018, the Scrap Steel Company Continuing Connected Transaction Agreement, the K. Wah Company Continuing Connected Transaction Agreement and the Chemical Energy Company Continuing Connected Transaction Agreement were entered into between the Group and Scrap Steel Company, K. Wah Company and Chemical Energy Company respectively to regulate the relationship in respect of the sales and procurement of products and services among parties after the completion of the Disposal and the Subscriptions. In light of the principal activities of the Group, we consider that the continuing connected transactions contemplated under the above-mentioned agreements are entered into in the ordinary course of business of the Group. The executive Directors consider that these agreements serve to provide mutual benefits to both the Group and Scrap Steel Company, K. Wah Company and Chemical Energy Company, and we concur in this regard.

2. Sales of products and procurement of products and services by the Group to/from Scrap Steel Company

(A) Principal terms of the transactions

The Scrap Steel Company Continuing Connected Transaction Agreement was entered into on 15 August 2018. Principal terms of the Scrap Steel Company Continuing Connected Transaction Agreement are set out in the section headed "Scrap Steel Company Continuing Connected Transaction Agreement" in the "Letter from the Board" contained in the Circular. Summary of the principal terms of the Scrap Steel Company Continuing Connected Transaction Agreement is as follows:

(i) Duration

The Scrap Steel Company Continuing Connected Transaction Agreement shall have a duration for the three financial years ending 31 December 2019, 2020 and 2021. Pursuant to the Scrap Steel Company Continuing Connected Transaction Agreement, both parties have the right to terminate part or all of the transactions contemplated under the Scrap Steel Company Continuing Connected Transaction Agreement by giving at least one-month notice in writing to the other.

(ii) Products and services involved

Pursuant to the Scrap Steel Company Continuing Connected Transaction Agreement, the following continuing connected transactions will be conducted between the Group and Scrap Steel Company, including (a) sales of products by the Group to Scrap Steel Company; (b) procurement of products by the Group from Scrap Steel Company; and (c) procurement of services by the Group from Scrap Steel Company. Further details are as follows:

(a) Sales of products by the Group to Scrap Steel Company

The Group has agreed to supply water, electricity, gas (including electricity, living water, industrial clean water, steam and other gases) and finished goods and other products (including scrap steel materials and spare parts) to Scrap Steel Company.

(b) Procurement of products by the Group from Scrap Steel Company

The Group has agreed to purchase usable scrap steel from Scrap Steel Company.

(c) Procurement of services by the Group from Scrap Steel Company

Scrap Steel Company has agreed to provide scrap steel processing services and scrap steel agency purchase services to the Group.

(iii) Pricing

The Company and Scrap Steel Company agree to, based on the principle of equality, and taking an appropriate, reasonable and fair valuation method, enter into the transactions under the Scrap Steel Company Continuing Connected Transaction Agreement. The price shall be based on (1) state-prescribed price; or (2) in the absence of state-prescribed price, market price to be determined through open tenders, price comparison and arm's length negotiations under normal commercial terms, and with reference to comparable market transaction prices. The price for the products to be provided by the Group to Scrap Steel Company shall not be lower than the price of the same type of products provided by the Group to the independent third parties. The price for the products and services to be provided by Scrap Steel Company to the Group shall not be higher than the price of the same type of products and services offered by the independent third parties to the Group. As set out in the section headed "Scrap Steel Company Continuing Connected Transaction Agreement" in the "Letter from the Board" contained in the Circular, in accordance with the current pricing standards, except that (i) electricity the Group sells or provides to Scrap Steel Company is priced as per the latest national regulations set by Anhui Price Bureau; (ii) living water is priced as per the latest national regulations set by Maanshan Development and Reform Commission and Price Bureau; and (iii) industrial treated water is priced as per the latest national regulations set by Maanshan Municipal People's Government, other transactions under the Scrap Steel Company Continuing Connected Transaction Agreement are priced based on market price.

We understand from the management of the Company that currently electricity provided by the Group to Scrap Steel Company is priced based on the state-prescribed price stipulated in the "National Development and Reform Commission's Notice on the Adjustment of Industrial and Commercial Electricity Price (NDRC Price Adjustment [2018] No. 59)《安徽省物價局轉發國家發展改革委關於降低一般工商業電價有關事項的通知(皖價商[2018] 59號)》, living water are priced based on the state-prescribed price stipulated in "Notice on the Implementation of the Ladder Water Price for the Living Water Consumed by Residents Living in the Main Urban Area of Maanshan City (Price Adjustment [2015] No. 16)《關於馬鞍山市主城區居民生活用水實行階梯水價的通知》(馬發改價格文 [2015] 16號)", and industrial treated water are priced based on the state-prescribed price stipulated in the "Notice of the People's Government of Maanshan City in the PRC on the Adjustment of Water Supply Tariff and Water Resources and Sewage Treatment Tariff (Maanshan City Government Secretariat [2010] No. 65)《馬鞍山市人民政府關於調整城市供水價格和水資源費污水處理費的通知》(馬政秘[2010] 65號)". We have obtained and reviewed the above-mentioned notices on the state-prescribed prices, and we have noted that these notices provide clear pricing guidance for relevant products. The above transactions which are priced based on state-prescribed prices will be executed with the latest pricing documents issued by the PRC government (if any). As advised by the executive Directors, all other transactions under the Scrap Steel Company Continuing Connected Transaction Agreement shall be priced based on market price obtained through, among other things, recent transaction prices of the Group with independent third parties, researches on industry websites, open tender, price enquiry and comparison with industry players.

(iv) Other terms

During the term of the Scrap Steel Company Continuing Connected Transaction Agreement, the Company has the right to decide whether to enter into transactions with any independent third parties in respect of the continuing connected transactions contemplated under the Scrap Steel Company Continuing Connected Transaction Agreement. Pursuant to the Scrap Steel Company Continuing Connected Transaction Agreement, the terms (including but not limited to pricing and payment) with respect to the continuing connected transactions should be conducted, after arm's length negotiations among parties, on normal commercial terms. For the provision of products by the Group to Scrap Steel Company, terms (including but not limited to pricing and payment) shall not be more favourable than those offered to independent third parties by the Group for similar categories of products. For the provision of the products and services by Scrap Steel Company to the Group, terms (including but not limited to pricing and payment) shall not be less favourable than those offered by independent third parties to the Group for similar categories of products and services. As advised by the executive Directors, factors being considered by the Company during arm's length negotiations include pricing of the products/services, and suppliers and service providers' ability in meeting technical specifications and delivery schedule. The payment terms for the continuing connected transactions contemplated under the Scrap Steel Company Continuing Connected Transaction Agreement are (1) sales amounts of the previous month are payable in the first ten days of each month (for sales of water, electricity and gas by the Group to Scrap Steel Company); (2) sales amounts of the products are payable within 10 working days after receiving the relevant products and completes the financial settlement procedures (for sales of products other than water, electricity and gas by the Group to Scrap Steel Company); or (3) make payment for the relevant products or services within 10 working days after receiving the relevant products or services and completes the financial settlement procedures (for sales of products and provision of services by Scrap Steel Company to the Group). Further details of the payment terms are set out in the sub-section headed "Payment" under the section headed "Scrap Steel Company Continuing Connected Transaction Agreement" in the "Letter from the Board" contained in the Circular. We note from the Company's 2017 annual report that the normal credit term of the Group's trade receivables is thirty to ninety days, thus the payment term for the sales of products to Scrap Steel Company is within the range/more favourable to the Group as compared to the normal credit term of the Group's trade receivables as stated in the 2017 annual report of the Company. As stated in the Company's 2017 annual report, the normal credit term of the Group's accounts payable is within three months. The credit term for procurement of products and services from Scrap Steel Company is within the range of the normal credit term of the Group's accounts payable as stated in the 2017 annual report of the Company.

(B) The Proposed Annual Caps

(a) Sales of products by the Group to Scrap Steel Company

When determining the Proposed Annual Caps for the sales of products by the Group to Scrap Steel Company for the three years ending 31 December 2019, 2020 and 2021, the executive Directors have taken into account the anticipated production plan of the Company and the processing capacity of Scrap Steel Company. As advised by the executive Directors, sales of scrap steel materials is the major item in this category, accounting for over 91% of the anticipated total sales of products by the Group to Scrap Steel Company for each of the year from 2019 to 2021. Scrap steel materials is the leftover steel from the production process of the Group which can be used again for production of iron and steel after processing.

Based on the information obtained from the Company, the actual amount of scrap steel materials sold by the Group to Scrap Steel Company for the first five months of 2018 amounted to approximately RMB12.1 million, with the sales volume of approximately 9,600 tonnes (representing an average monthly sales volume of approximately 1,920 tonnes) and the average price of approximately RMB1,260 per tonne. For the coming three years, Scrap Steel Company has agreed to provide scrap steel processing services to the Group and under these services the scrap steel materials will not be sold to Scrap Steel Company, but will only be processed by Scrap Steel Company into usable scrap steel. In return, Scrap Steel Company will receive service fees from the Group. Further details of the provision of scrap steel processing services by Scrap Steel Company are set out in the sub-section headed "Procurement of services by the Group from Scrap Steel Company" in this letter below. Considering that some of the scrap steel materials to be produced in the future will be processed by Scrap Steel Company but not being sold to Scrap Steel Company, the executive Directors expect the amount of scrap steel materials to be sold to Scrap Steel Company will be approximately 12,200 tonnes (representing an average monthly sales volume of approximately 1,017 tonnes) in 2019, which is lower comparing to the monthly average sales volume for the first five months of 2018 of approximately 1,920 tonnes as mentioned above. Taking into account that Scrap Steel Company has agreed to provide scrap steel processing services to the Group from 2019 to 2021, we concur with the executive Directors' view that it is reasonable to estimate a lower sales volume of scrap steel materials in the future. As mentioned in the sub-section headed "Sales and procurement of goods and services by the Group to/from the Parent Group" of this letter below, a number of construction projects are expected to be carried out from 2019 to 2021 to upgrade the Group's production facilities. The executive Directors expect an increase in production volume of the Group in the coming few years. Accordingly, the estimated volume of scrap steel materials adopted in determining the proposed annual caps are approximately 13,000 tonnes and 13,600 tonnes for 2020 and 2021 respectively, showing an increasing trend from 2019 to 2021.

Considering that the current steel prices are still at a high level showing a support for the price of scrap steel, the PRC government's requirements for environmental protection are getting higher and the PRC government clearly expressed support for the development of electric furnaces in the steel industry making the demand for scrap steel from the steel mills continues to rise, the executive Directors estimate the future prices of scrap steel materials will increase moderately in the coming few years. We understand from the executive Directors that the estimated scrap steel materials prices used in determining the relevant Proposed Annual Caps for 2019 to 2021 are in a range of approximately RMB2,100 to RMB2,200 per tonne, which was made with reference to, among others, the market price of usable scrap steel of similar type of scrap steel to be procured by the Group ranged from approximately RMB2,200 per tonne to RMB2,700 (at average of approximately RMB2,400 per tonne) for the eight months ended 31 August 2018 sourced from the website of "SteelHome" (http://www.steelhome.cn) which is a commonly recognised source of data for the iron and steel industry. Further details of the website are set out in the section headed "New Sale and Purchase of Ore Agreement" in the "Letter from the Board" contained in the Circular. As advised by the executive Directors, the price of scrap steel materials varies according to different specifications such as type and thickness of the scrap steel materials. Based on the Group's past experience and pricing information provided by marketing department of the Group, it is expected that certain processing and packaging costs would be incurred to turn the scrap steel materials to be produced by the Group into usable scrap steels, therefore the selling price of scrap steel materials is estimated to be lower than the market price of usable scrap steels as set out above. We performed a search on the website of "SteelHome" and note that based on available data, the average price of similar type of scrap steel for the first eight months of 2018 in Maanshan City is in line with the price as mentioned above.

Taking into account the aforesaid factors, the Proposed Annual Caps (excluding tax) for sale of products by the Group to Scrap Steel Company are set as follows:

	Financial year ending 31 December		
	2019	**2020**	**2021**
	RMB('000)	*RMB('000)*	*RMB('000)*
Proposed Annual Caps (excluding tax) for the sale of products to Scrap Steel Company	28,599.8	30,699.8	32,259.8
Approximate increase as compared to the annual cap of previous year *(%)*		7.3%	5.1%

(b) Procurement of products by the Group from Scrap Steel Company

Scrap steel materials, which are sourced from different suppliers (including the Group) by Scrap Steel Company, will be turned into usable scrap steel for use in production of iron and steel after physical processing programs such as cutting, compressing and packaging are carried out. As advised by the executive Directors, purchase of usable scrap steel is the only item in this category. Based on the information obtained from the Company, the actual purchase amount of usable scrap steel by the Group from Scrap Steel Company for the first five months of 2018 amounted to approximately RMB1,795.4 million, with the purchase volume of approximately 830,000 tonnes (representing an average monthly purchase volume of approximately 166,000 tonnes) and the average price of approximately RMB2,163 per tonne. The executive Directors have estimated the amount for purchase of usable scrap steel with reference to, among other things, the historical purchase amount and volume of usable scrap steel, the anticipated need for usable scrap steel by the Group for its production for the three years ending 31 December 2019, 2020 and 2021, and the production capacity of Scrap Steel Company.

As advised by the executive Directors, Scrap Steel Company will also meet the Group's future demand for usable scrap steel by providing the scrap steel processing services and scrap steel agency purchase services since 2019 as described below in this letter. In view of the above, the executive Directors estimate there will be a demand of approximately 1.49 million tonnes of usable scrap steel in 2019, representing an average monthly sales volume of approximately 124,000 tonnes. Taking into account the new scrap steel processing services and scrap steel agency purchase services to be provided by Scrap Steel Company, we concur with the executive Directors' view that it is reasonable to estimate a lower purchase volume of scrap steel materials in the future. As part of the environmental protection measures, the PRC government encourages iron and steel producers to consume more usable scrap steel during their production process to reduce wastage of materials. It is expected that the Group's demand for usable scrap steel will increase from 2019 to 2021 due to the increasingly important need for the Group to meet higher standard of environmental protection requirement. Also, the Group plans to introduce electric furnaces to replace some of the existing furnaces commencing 2020 to enhance the productivity of the Group. As the production efficiency of electric furnaces is higher and more usable scrap steel will be consumed in the production process, it is expected that the demand for usable scrap steel will increase from 2019 to 2021. The executive Directors have discussed with the management of Scrap Steel Company and understand that Scrap Steel Company plans to expand its processing capacity to meet the growing demand for usable scrap steel supported by the PRC government's environmental protection measure as mentioned above. After considering the above factors, the executive directors estimate that the purchase volume of usable scrap steel products will be approximately 1.58 million tonnes and 1.68 million tonnes in 2020 and 2021 respectively.

With reference to, among others, the market prices of usable scrap steel as sourced from the website of "Steelhome" as mentioned above, the executive Directors, in determining the relevant Proposed Annual Caps, estimate that the price of usable scrap steel to be in a range of approximately RMB2,200 to RMB2,700 per tonne in 2019 to 2021 (at average of approximately RMB2,400 per tonne). The executive Directors expect an increasing trend for usable scrap steel prices from 2019 to 2021 mainly as a result of increasing demand in the iron and steel industry and the stringent monitoring of environmental protection imposed by the PRC government. As discussed above, we note from the website of "Steelhome" that, based on available data, the average price of the similar type of scrap steel for the first eight months of 2018 in Maanshan City is in line with the average price adopted in the executive Directors' estimation as mentioned above.

Taking into account the aforesaid factors, the Proposed Annual Caps (excluding tax) for the purchase of products by the Group from Scrap Steel Company are set as follows:

	Financial year ending 31 December		
	2019	**2020**	**2021**
	RMB('000)	*RMB('000)*	*RMB('000)*
Proposed Annual Caps (excluding tax) for the purchase of products from Scrap Steel Company	3,282,400.0	3,796,800.0	4,522,500.0
Approximate increase as compared to the annual cap of previous year *(%)*		15.7%	19.1%

(c) Procurement of services by the Group from Scrap Steel Company

Scrap Steel Company has agreed to provide scrap steel processing services and scrap steel agency purchase services to the Group after the Disposal. The Group did not acquire usable scrap steel through Scrap Steel Company or other third party agency in the past. Scrap Steel Company is specialised in scrap steel processing in which the scrap steel materials would be turned to usable scrap steel for production of iron and steel. As discussed in the sub-section headed "Sales of products by the Group to Scrap Steel Company" above, the executive Directors expect the volume of scrap steel materials generated by the Group will increase from 2019 to 2021, therefore it is also expected that the amount of further processing services required by the Group will increase. The executive Directors estimate that the processing fee payable to Scrap Steel Company amounted to approximately RMB9.8 million, RMB10.1 million and RMB10.3 million for 2019, 2020 and 2021 respectively. It is expected that the Group's demand for usable scrap steel will increase from 2019 to 2021 as the Group need to meet the stringent environmental protection requirement imposed by the PRC government, therefore the executive Directors estimated that the expected volume of scrap steel to be processed by the Scrap Steel Company will be approximately 0.31 million tonnes, 0.32 million tonnes and 0.33 million tonnes for the year ending 31 December 2019, 2020 and 2021 respectively. The processing fee payable to Scrap Steel Company will be at approximately RMB31.7 per tonne of scrap steel to be processed for the coming three years, which is determined with reference to the market price obtained through price comparison with industry players. We have obtained and reviewed a document provided by the Company with respect to the market price obtained by the Group's marketing department and note that the pricing is consistent with the above. In view of the above, we concur with the executive Directors that the estimation of an increasing trend of expected volume of scrap steel to be processed by Scrap Steel Company and the basis for estimating processing fee from 2019 to 2021 to be reasonable.

As further advised by the executive Directors, as the usable scrap steel supplied by the Scrap Steel Company may not be sufficient for the Group's production need, Scrap Steel Company will procure usable scrap steel for the Group from other third parties with its centralised sourcing channel and in return the Group will pay Scrap Steel Company an agency fee. As discussed above, the executive Directors expect the Group's demand for usable scrap steel for use in its production process for the coming three years ending 31 December 2019, 2020 and 2021 will increase in response to the PRC government's encouragement of the use of usable scrap steel. Besides, with the replacement of existing furnaces by electric furnaces commencing 2020, it is expected that more usable scrap steel will be required to be consumed in the production process. Taking into account the above factors, the executive Directors estimated that the expected volume of usable scrap steel to be acquired through the agency purchase services will be approximately 0.40 million tonnes, 0.47 million tonnes and 0.53 million tonnes for the year ending 31 December 2019, 2020 and 2021 respectively, and we concur with the executive Directors that the estimation of an increasing trend of expected volume of usable scrap steel to be acquired through the agency services and of the agency fee from 2019 to 2021 to be reasonable in view of the expected increase in the Group's overall demand for usable scrap steel. The executive Directors estimate that the agency fee payable to Scrap Steel Company amounted to approximately RMB26.4 million, RMB33.6 million and RMB43.2 million for 2019, 2020 and 2021 respectively. The agency fee will be determined based on arm's length negotiations taking into account the procurement amount (volume of usable scrap steel procured through agency services x unit price of usable scrap steel), and comparable market prices charged to independent customers. We have obtained and reviewed recent document provided by the Company with respect to the provision of the similar service to independent customer and note that the pricing is consistent with the estimates adopted by the executive Directors.

Taking into account the aforesaid factors, the Proposed Annual Caps (excluding tax) for the procurement of services (being processing and agency purchase services) by the Group from Scrap Steel Company are set as follows:

	Financial year ending 31 December		
	2019	**2020**	**2021**
	RMB('000)	*RMB('000)*	*RMB('000)*
Proposed Annual Caps (excluding tax) for the procurement of services from Scrap Steel Company	36,163.6	43,680.6	53,502.5
Approximate increase as compared to the annual cap of previous year *(%)*		20.8%	22.5%

3. Sales of products by the Group to K. Wah Company

(A) Principal terms of the transactions

The K. Wah Company Continuing Connected Transaction Agreement was entered into on 15 August 2018. Principal terms of the K. Wah Company Continuing Connected Transaction Agreement are set out in the section headed "K. Wah Company Continuing Connected Transaction Agreement" in the "Letter from the Board" contained in the Circular. Summary of the principal terms of the K. Wah Company Continuing Connected Transaction Agreement is as follows:

(i) Duration

The K. Wah Company Continuing Connected Transaction Agreement shall have a duration for the three financial years ending 31 December 2019, 2020 and 2021. Pursuant to the K. Wah Company Continuing Connected Transaction Agreement, both parties have the right to terminate part or all of the transactions contemplated under the K. Wah Company Continuing Connected Transaction Agreement by giving at least one-month notice in writing to the other.

(ii) Products involved

Pursuant to the K. Wah Company Continuing Connected Transaction Agreement, the Group has agreed to supply electricity and water slag to K. Wah Company.

(iii) Pricing

The Company and K. Wah Company agree to, on the principle of equality, and taking an appropriate, reasonable and fair valuation method, enter into the transaction under the K. Wah Company Continuing Connected Transaction Agreement. The price shall be based on (1) state-prescribed price; or (2) in the absence of state-prescribed price, market price to be determined through open tenders, price comparison and arm's length negotiations under normal commercial terms. The price for the products to be provided by the Group to K. Wah Company shall not be lower than the price of the same type of products provided by the Group to the independent third parties. As set out in the section headed "K. Wah Company Continuing Connected Transaction Agreement" in the "Letter from the Board" contained in the Circular, in accordance with the current pricing standards, electricity that the Group sells or provides to K. Wah Company is priced as per the latest national regulations set by Anhui Price Bureau, while water slag is priced based on market price.

We understand from the management of the Company that currently electricity provided by the Group to K. Wah Company is priced based on the state-prescribed price stipulated in the "National Development and Reform Commission's Notice on the Adjustment of Industrial and Commercial Electricity Price (NDRC Price Adjustment [2018] No. 59)《安徽省物價局轉發國家發展改革委關於降低一般工商業電價有關事項的通知(皖價商[2018]59號)》". We have obtained and reviewed the above-mentioned notice on the state-prescribed prices, and we have noted that the notice provides clear pricing guidance for related products. The above transactions which are priced based on state-prescribed prices will be executed with the latest pricing documents issued by the PRC government (if any). The price of water slag is determined based on the market price obtained through price enquiry and comparison with industry players. As advised by the executive Directors, water slag is the by-products of the iron and steel production process which is used to produce cement raw materials and mineral powder used for construction. The market price of water slag, as a type of raw materials for production of cement and mineral powder, may change according to the market price of cement and mineral powder. In determining the actual transaction price of water slag, we understand from the management of the Company that K.Wah Company performs price enquiries with various industry players about recent selling prices of water slag and the latest average market price should be adopted. We have obtained and reviewed a correspondence from an industry player in response to the price enquiry sent out by K.Wah Company, which contains the average selling price of water slag recently sold by such industry player. The Group will carry out similar procedures in future to obtain the latest average market price of water slag through price enquiry to determine the actual transaction price.

(iv) Other terms

During the term of the K. Wah Company Continuing Connected Transaction Agreement, the Company has the right to decide whether to enter into transactions with any independent third parties in respect of the continuing connected transactions contemplated under the K. Wah Company Continuing Connected Transaction Agreement. Pursuant to the K. Wah Company Continuing Connected Transaction Agreement, the terms (including but not limited to pricing and payment) with respect to the continuing connected transactions should be conducted, after arm's length negotiations among parties, on normal commercial terms. For the provision of products by the Group to K. Wah Company, terms (including but not limited to pricing and payment) shall not be more favourable than those offered to independent third parties by the Group for similar categories of products. For the continuing connected transactions contemplated under the K. Wah Company Continuing Connected Transaction Agreement, the sales amounts of previous month shall be paid within the first ten days of each month (for both the sales of electricity and water slag by the Group). Further details of the payment terms are set out in the sub-section headed "Payment" under the section headed "K. Wah Company Continuing Connected Transaction Agreement" in the "Letter from the Board" contained in the Circular. We note from the Company's 2017 annual report that the normal credit term of the Group's trade receivables is thirty to ninety days. The credit term of the above-mentioned categories of the transactions under the K. Wah Company Continuing Connected Transaction Agreement is within the range/more favourable to the Group as compared to the normal credit terms of the Group's trade receivables as stated in the 2017 annual report of the Company.

(B) The Proposed Annual Caps

When determining the Proposed Annual Caps for the sales of products (which consist of electricity and water slag) by the Group to K. Wah Company for the three years ending 31 December 2019, 2020 and 2021, the executive Directors have taken into account the production plan of the Company and the processing capacity of K. Wah Company. We noted from the executive Directors that sale of water slag is the major item in this category, accounting for over 95% of the anticipated total sale amount of products by the Group to K. Wah Company for each of the year from 2019 to 2021. As discussed above, water slag is the by-products of the iron and steel production process which is used to produce cement materials and mineral powder for construction use. We noted from the information obtained from the Company that the Group has been selling water slag to K. Wah Company and the actual sales amount of water slag by the Group to K. Wah Company for the first five months of 2018 amounted to approximately RMB265.8 million, with sales volume of approximately 2.6 million tonnes and average price of approximately RMB102.2 per tonne.

In determining the estimated amount for sales of water slag by the Group to K. Wah Company, the executive Directors considered, among others, the historical prices for the first five months of 2018 as set out above and the room for growth in the future market price of water slag. It is expected that the unit selling price of water slag will be approximately RMB131 per tonne from 2019 to 2021, representing an increase of approximately 28% over the average selling price of approximately RMB102 per tonne for the five months of 2018. We noted from an industry website called Ccement.com (http://www.ccement.com/) which shows cement price data in different region of the PRC that the market price of cement has been increasing in general since 2015. As shown in the website of Ccement.com, China's cement price index (i) increased from 79.3 points on 25 December 2015 to 102.16 points on 30 December 2016, representing an increase of approximately 28.8%; and (ii) increased from 102.16 points on 30 December 2016 to 149.9 points on 29 December 2017, representing an increase of approximately 46.7%. We understand from the management of the Company that Ccement.com is a long-established and commonly used website among the industry players in the cement market. We also noted from the documents (including annual reports and circulars related to connected transactions) published by some listed issuers on the Hong Kong Stock Exchange which engaged in the manufacturing and sales of cement that those listed issuers have referred to the data quoted from the website of Ccement.com to present certain cement industrial information. Taking into account the above, we concur with the Company that the website of Ccement.com is a market recognised source of cement market information. Given water slag is a type of raw materials for production of cement, the increase in cement price would be a relevant and appropriate proxy for an expected rising trend of the future price of water slag. In view of the above factors, as well as to cater for further price fluctuations in the coming three years, we consider that it is reasonable to estimate an increase in the unit selling price of water slag in 2019 to 2021 and the Proposed Annual Caps for the sales of products by the Group to K. Wah Company allow the Group to capture more business opportunities for the sales of water slag.

We had a discussion with the management of the Company and noted that the Group produced an average of approximately 5.3 million tonnes of water slag in the past two years and all the water slag produced were sold to K. Wah Company. With reference to this, the executive Directors estimate the sales volume of water slag to be at similar level in 2019. We concur with the executive Directors that a reasonable basis has been adopted in estimating the quantity of water slag to be sold to K. Wah Company for further processing in 2019. We also understand from the executive Directors that a major subsidiary of the Company plans to sell all the water slag generated from its production process to K. Wah Company commencing 2020 so it is expected that the sales quantity of water slag by the Group to K. Wah Company will further increase to approximately 6.8 million tonnes in 2020 and remain at similar level in 2021.

Taking into account the aforesaid factors, the Proposed Annual Caps (excluding tax) for the sales of products by the Group to K. Wah Company are set as follows:

	Financial year ending 31 December		
	2019	**2020**	**2021**
	RMB('000)	*RMB('000)*	*RMB('000)*
Proposed Annual Caps (excluding tax) for the sale of products to K. Wah Company	738,012.6	921,384.6	921,384.6
Approximate increase as compared to the annual cap of previous year *(%)*		24.8%	0.0%

4. Sale and procurement of products and services by the Group to/from Chemical Energy Company

(A) Principal terms of the transactions

The Chemical Energy Company Continuing Connected Transaction Agreement was entered into on 15 August 2018. Principal terms of the Chemical Energy Company Continuing Connected Transaction Agreement are set out in the section headed "Chemical Energy Company Continuing Connected Transaction Agreement" in the "Letter from the Board" contained in the Circular. Summary of the principal terms of the Chemical Energy Company Continuing Connected Transaction Agreement is as follows:

(i) Duration

The Chemical Energy Company Continuing Connected Transaction Agreement shall have a duration for the three financial years ending 31 December 2019, 2020 and 2021. Pursuant to the Chemical Energy Company Continuing Connected Transaction Agreement, both parties have the right to terminate part or all of the transactions contemplated under the Chemical Energy Company Continuing Connected Transaction Agreement by giving at least one-month notice in writing to the other.

(ii) Products involved

Pursuant to the Chemical Energy Company Continuing Connected Transaction Agreement, the following continuing connected transactions will be conducted between the Group and Chemical Energy Company, including (a) sale of products by the Group to Chemical Energy Company; (b) procurement of products by the Group from Chemical Energy Company; and (c) procurement of services by the Group from Chemical Energy Company. Further details are as follows:

(a) Sales of products by the Group to Chemical Energy Company

The Group has agreed to supply electricity, industrial treated water, coke oven gas, steam, compressed air, raw coke oven gas, other gases, scrubbing oil, spare parts and materials to Chemical Energy Company.

(b) Procurement of products by the Group from Chemical Energy Company

The Group has agreed to purchase coke oven gas and oil tar from Chemical Energy Company.

(c) Procurement of services by the Group from Chemical Energy Company

Chemical Energy Company has agreed to provide waste water treatment services to the Group.

(iii) Pricing

The Company and Chemical Energy Company agree to, on the principle of equality, and taking an appropriate, reasonable and fair valuation method, enter into the transaction under the Chemical Energy Company Continuing Connected Transaction Agreement. The price shall be based on (1) state-prescribed price; or (2) in the absence of state-prescribed price, market price to be determined through open tenders, price comparison and arm's length negotiation under normal commercial terms. The price for the products to be provided by the Group to Chemical Energy Company shall not be lower than the price of the same type of products provided by the Group to independent third parties. As set out in the section headed "Chemical Energy Company Continuing Connected Transaction Agreement" in the "Letter from the Board" contained in the Circular, in accordance with the current pricing standards, except that (i) electricity the Group sells or provides to Chemical Energy Company is priced as per the latest national regulations set by Anhui Price Bureau; and (ii) industrial treated water is priced as per the latest national regulations set by Maanshan Municipal People's Government, other transactions under the Chemical Energy Company Continuing Connected Transaction Agreement are priced based on market price.

We understand from the management of the Company that currently electricity provided by the Group to Chemical Energy Company is priced based on the state-prescribed price stipulated in the "National Development and Reform Commission's Notice on the Adjustment of Industrial and Commercial Electricity Price (NDRC Price Adjustment [2018] No. 59)《安徽省物價局轉發國家發展改革委關於降低一般工商業電價有關事項的通知(皖價商[2018] 59號)》" and the industrial treated water are priced based on the state-prescribed price stipulated in the "Sewage Treatment Tariff (Maanshan City Government Secretariat [2010] No. 65)"《馬鞍山市人民政府關於調整市供水價格和水資源費污水處理費的通知》(馬政秘[2010] 65號)》. As advised by the executive Directors, coke oven gas is priced based on the state-prescribed price of its substitute, natural gas, stipulated in the "Notice on Reducing the Sales Price of Natural Gas Used By Non-Residential in Maanshan City ([2017] No. 20)《關於降低我市非居民用天然氣銷售價格的通知(馬發改[2017] 20號)》". The price of raw coke oven gas, which will become coke oven gas after the purifying process, is determined with reference to the price of (a) coke oven gas (i.e. based on the state-prescribed price of its substitute, natural gas); and (b) oil tar to be produced during the process of purifying the raw coke oven gas into coke oven gas which will be sold to customers. The actual unit price of raw coke oven gas will be determined with reference to the estimated unit selling price of coke oven gas and the Group's share of the estimated profit per unit from selling oil tar. All costs incurred for the purifying of raw coke oven gas into coke oven gas will be borne by Chemical Energy Company. We have obtained and reviewed the above-mentioned notices on the state-prescribed prices, and we have noted that these notices provide clear pricing guidance for related products. The above transactions which are priced based on state-prescribed prices will be executed with the latest pricing documents issued by the PRC government (if any). All the other transactions under the Chemical Energy Company Continuing Connected Transaction Agreement shall be priced based on market price obtained through, among other things, recent transaction prices of the Group with independent third parties, tendering, and price enquiry and comparison with industry players.

(iv) Other terms

During the term of the Chemical Energy Company Continuing Connected Transaction Agreement, the Company has the right to decide whether to enter into transactions with any independent third parties in respect of the continuing connected transactions contemplated under the Chemical Energy Company Continuing Connected Transaction Agreement. Pursuant to the Chemical Energy Company Continuing Connected Transaction Agreement, the terms (including but not limited to pricing and payment) with respect to the continuing connected transactions should be conducted, after arm's length negotiations among parties, on normal commercial terms. For the provision of products by the Group to Chemical Energy Company, terms (including but not limited to pricing and payment) shall not be more favourable than those offered to independent third parties by the Group for similar categories of products. For the provision of the products and services by Chemical Energy Company to the Group, terms (including but not limited to pricing and payment) shall not be less favourable than those offered by independent third parties to the Group for similar categories of products and services. As advised by the executive Directors, factors being considered by the Company during arm's length negotiations include pricing of the products and services, and suppliers' ability in meeting technical specifications and delivery schedule. For sales of products by the Group to Chemical Energy Company, sales amounts of the previous month shall be paid within the first ten days of each month. For the procurement of products and services by the Group from Chemical Energy Company, payment shall be made within the first ten days of each month after receipt of the relevant products and services. Further details of the payment terms are set out in the sub-section headed "Payment" under the section headed "Chemical Energy Company Continuing Connected Transaction Agreement" in the "Letter from the Board" contained in the Circular. We note from the Company's 2017 annual report that the normal credit term of the Group's trade receivables is thirty to ninety days and the normal credit term of the Group's accounts payable is within three months. The credit term of the above-mentioned categories of the transactions under the Chemical Energy Company Continuing Connected Transaction Agreement is within the range/ more favourable to the Group as compared to the normal credit terms of the Group's trade receivables and account payable as stated in the 2017 annual report of the Company.

(B) The Proposed Annual Caps

(a) Sales of products by the Group to Chemical Energy Company

The executive Directors had considered the production plan of the Group and the future processing capacity of Chemical Energy Company to determine the Proposed Annual Caps with respect to the sales of products to Chemical Energy Company. As advised by the executive Directors, sale of raw coke oven gas is a major item in this category, accounting for over 84% of the total estimated sales amount in each of 2019, 2020 and 2021. Other products in this category include sales of water, electricity and gas (including electricity, industrial treated water, coke oven gas, steam, compressed air, other gases), scrubbing oil, spare parts and materials. Sales of water, electricity and gas account for approximately 14% of the total estimated sales amount in each of 2019, 2020 and 2021. Raw coke oven gas is a kind of by-products produced during the iron and steel production process, and it will be turned to coke oven gas after the pollutants are removed by the purifying process. Without sales to the Chemical Energy Company for its further processing, it will be emitted as pollutants into the environment which is undesirable to the Group in view of the more stringent environmental protection requirements imposed by the PRC government. Coke oven gas is a source of energy consumed during the production of iron and steel. We understand from the Company that the amount of coke oven gas consumed and raw coke oven gas produced by the Group for the first five months of 2018 amounted to approximately 13,000,000 Gigajoule (GJ), representing a monthly consumption/production of 2.6 million GJ. With reference to the actual figures for the first five months of 2018, the executive Directors estimated that the raw coke oven gas to be produced by the Group will be approximately 32,000,000 GJ to 33,000,000 GJ in 2019-2020, representing a monthly production of 2.67 million GJ to 2.75 million GJ. Taking into account the above and the estimated increase in production volume of the Group from 2019 to 2021, we concur with the executive Directors that the basis adopted in estimating the volume of raw coke oven gas generated by the Group for 2019 to 2021 to be reasonable. In determining the expected volume of water, electricity and gas to be provided to Chemical Energy Company from 2019 to 2021, the management of the Company discussed with relevant personnel of Chemical Energy Company regarding its future demand and at the same time considered the Group's own production plan. We understand from the Company that water, electricity and gas are generated from the production process of the Group and are consumed by the Group with remaining amount to be supplied to other parties to generate revenue of the Group. Taking into account the above and consider that the Proposed Annual Caps for the sales of products to Chemical Energy Company will allow the Group to capture more business opportunities to sell water, electricity and gas to generate revenue for the Group, we concur with the executive Directors that the basis adopted in estimating the volume of water, electricity and gas to be sold by the Group from 2019 to 2021 to be reasonable.

The executive Directors estimate that the future price of raw coke oven gas to be approximately RMB47 per GJ from 2019 to 2021, which is determined with reference to the estimated unit selling price of coke oven gas of approximately RMB45 per GJ (with reference to the state-prescribed price of its substitute, natural gas); and the Group's share of the estimated profits from selling of oil tar according to the shareholding percentages held by the Company and the Parent Company in Chemical Energy Company after the Chemical Energy Subscription. As stated in the sub-section headed "Principal terms of the transactions" of this sub-section in this letter above, the price of coke oven gas is based on the state-prescribed price of its substitute, natural gas. We further understand that the executive Directors, in estimating the price of raw coke oven gas, also made reference to, among others, the historical profit from sales of oil tar by Chemical Energy Company. The executive Directors advised us that raw coke oven gas, in its original form without further processing, would have no economic value. Taking into account the above and that the selling price of raw coke oven gas (which in turn has included a profit component arising from sales of oil tar, a by-product produced during the purifying process, with the profit sharing proportion based on the shareholding percentages in Chemical Energy Company after the Chemical Energy Subscription) is higher than the price of coke oven gas to be purchased by the Group, we concur with the executive Directors that the pricing mechanism in determining the future price of raw coke oven gas to be fair and reasonable. Water, electricity and gas are all priced based on their respective state-prescribed prices and market prices as summarised in the sub-section headed "Principal terms of the transactions" above. We have obtained and noted from the latest pricing documents issued by the PRC government that these documents provide clear pricing guidance for related products and we concur with the executive Directors that the pricing mechanism in determining the future price of water, electricity and gas to be fair and reasonable.

Taking into account the aforesaid factors, the Proposed Annual Caps (excluding tax) for sales of products by the Group to Chemical Energy Company are set as follows:

	Financial year ending 31 December		
	2019	**2020**	**2021**
	RMB('000)	*RMB('000)*	*RMB('000)*
Proposed Annual Caps (excluding tax) for the sale of products to Chemical Energy Company	1,788,762.8	1,818,842.8	1,849,522.8
Approximate increase as compared to the annual cap of previous year *(%)*		1.7%	1.7%

(b) Procurement of products by the Group from Chemical Energy Company

When estimating the Proposed Annual Caps for the purchase of products (including coke oven gas and oil tar) from Chemical Energy Company, the executive Directors have taken into account the business and development plan of the Group and discussed with the management of Chemical Energy Company regarding its expected production capacity. As advised by the executive Directors, purchases of coke oven gas account for approximately 72% to 73% and purchases of oil tar account for approximately 27% to 28% of the total estimated purchase amount respectively in each of 2019, 2020 and 2021.

Coke oven gas is one of the major sources of energy used by the Group for its iron and steel production. During the process of purifying the raw coke oven gas into coke oven gas, oil tar will also be produced. As discussed above, the amount of coke oven gas consumed and raw coke oven gas produced by the Group for the first five months of 2018 amounted to approximately 13,000,000 GJ. An increase in demand of coke oven gas of the Group from 2019 to 2021 is estimated based on the assumption of increase in production volume in the coming few years. We noted from the 2017 annual report of the Company that some upgrading and renovation projects were in progress. As mentioned in the sub-section headed "Sales and procurement of goods and services by the Group to/from the Parent Group" of this letter below, a number of construction projects are expected to be carried out from 2019 to 2021 to upgrade the Group's production facilities. In view of this, we concur with the executive Directors that it is reasonable to estimate an increase in production volume (hence the demand for coke oven gas consumption) of the Group in the coming few years. With reference to the actual figures of coke oven gas consumed and raw coke oven gas produced by the Group for the first five months of 2018 and the estimated increase in production volume as discussed above, the executive Directors estimated that the Group's demand for coke oven gas will be approximately 31,000,000 GJ to 33,000,000 GJ in 2019-2021.

The executive Directors expect the future price of coke oven gas, which is based on the state-prescribed price of its substitute, natural gas, will be at approximately RMB45 per GJ for 2019 to 2021. Both coke oven gas and natural gas are sources of energy consumed during the production of iron and steel and they are regarded as substitute for each other. The PRC government provides state-prescribed prices for natural gas, which we consider are reasonable basis for determining the price of coke oven gas. We obtained from the management of the Company a schedule showing the estimation of the Proposed Annual Caps with respect to purchase of products by the Group from Chemical Energy Company and note that it is consistent with our understanding as stated above.

As advised by the management of the Company, the Group's total demand of oil tar was approximately 97,000 tonnes (representing a monthly average of approximately 19,400 tonnes) for the first five months of 2018. As advised by the management of the Company, they discussed with the management of Chemical Energy Company and noted that the expected volume of oil tar to be produced by Chemical Energy Company will be around 200,000 tonnes each year from 2019 to 2021 and Chemical Energy Company will continue to sell all oil tar produced to the Group. Therefore, the executive Directors estimate that the volume of oil tar to be purchased from Chemical Energy Company will be approximately 200,000 tonnes each year from 2019 to 2021 years (representing a monthly average of approximately 17,000 tonnes). The average price of oil tar purchased by the Group during the first five months of 2018 was approximately RMB2,760 per tonne. The executive Directors estimate that the price of oil tar will be stable in the coming three years taken into account the expected supply and demand in the oil tar market and the Group's long term relationship with Chemical Energy Company, therefore the price of oil tar is estimated to be approximately RMB2,760 per tonne in determining the Proposed Annual Caps for purchase of products from Chemical Energy Company from 2019 to 2021. It is expected that the Group's demand and the future price of oil tar will be stable in the coming few years. We understand from the management of the Company that the Group has also purchased oil tar from independent third parties other than Chemical Energy Company to meet the Group's demand. The executive Directors consider that a reasonable basis has been adopted in estimating the purchase quantity and future price of oil tar to be purchased from Chemical Energy Company for the coming three years. As the expected purchase quantity of oil tar is determined based on the future production volume of Chemical Energy Company and the future price of oil tar is estimated with reference to the historical transaction prices, we are of the view that a reasonable basis has been adopted by the Company to estimate the purchase quantity and future price of oil tar for the coming three years ending 31 December 2019, 2020 and 2021.

Taking into account the aforesaid factors, the Proposed Annual Caps (excluding tax) for purchase of products by the Group from Chemical Energy Company are set as follows:

	Financial year ending 31 December		
	2019	**2020**	**2021**
	RMB('000)	*RMB('000)*	*RMB('000)*
Proposed Annual Caps (excluding tax) for the procurement of products from Chemical Energy Company	1,962,750.0	1,990,970.0	2,019,740.0
Approximate increase as compared to the annual cap of previous year *(%)*		1.4%	1.4%

(c) Procurement of services by the Group from Chemical Energy Company

Waste water is one of the main pollutants produced by the Group which can only be discharged after up-to-standard processing in order to comply with the environmental protection regulations imposed by the PRC government. We understand from the executive Directors that they have discussed with the management of Chemical Energy Company regarding its processing capacity for the three years ending 31 December 2019, 2020 and 2021. In addition, the executive Directors have also taken into account the Group's growing demand for waste water treatment services in the coming few years mainly due to the expected increase in production volume of the Group in the coming few years as discussed in the sub-section headed "Procurement of products by the Group from Chemical Energy Company" above, and the stringent environmental protection regulation imposed by the PRC government in determining the Proposed Annual Caps with respect to procurement of services from Chemical Energy Company. As stated in the "Amendments to the Water Pollution Control Law of the People's Republic of China (Draft)"《中華人民共和國水污染防治法修正案（草案）》published by the PRC government effective from 1 January 2018, the industrial waste water should be treated centrally and stricter emission requirements are imposed. In addition, strict legal liability is imposed for illegal acts such as non-certified and excessive discharge of water pollutants. The "Environmental Protection Tax Law of the People's Republic of China"《中華人民共和國環保保護稅法》and its implementation rules were effective since 1 January 2018. The provinces, municipalities, and autonomous regions have issued specific applicable tax amounts for taxable pollutants, including water pollutants. In view of the stringent discharge requirement imposed by the PRC government on waste water, there is a need for the Group to procure more waste water treatment services from Chemical Energy Company (with its main asset component originated from a chemical product resource recycling unit within the Group) in 2019 to 2021 to meet the government's stricter requirement and avoid heavy penalty imposed on its discharge of waste water which is not up to standard. The executive Directors further advised that based on the discussions with the management of Chemical Energy Company, the service charge of waste water treatment, which will be determined with reference to the market price obtained through price enquiry and comparison with industry players, is estimated to remain stable in the coming years.

Taking into account the aforesaid factors, the Proposed Annual Caps (excluding tax) for procurement of services from Chemical Energy Company are set as follows:

	Financial year ending 31 December		
	2019	**2020**	**2021**
	RMB('000)	*RMB('000)*	*RMB('000)*
Proposed Annual Caps (excluding tax) for the procurement of services from Chemical Energy Company	7,190.0	8,320.0	8,910.0
Approximate increase as compared to the annual cap of previous year *(%)*		15.7%	7.1%

III. REVISION OF 2018 ANNUAL CAPS AND RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

Set out below is a summary of the Proposed Revised Caps as set out in the Supplementary Energy Saving and Environmental Protection Agreement and the Supplementary CCT Agreement for the year ending 31 December 2018 and the Proposed Annual Caps for the years ending 31 December 2019, 2020 and 2021 for each of the continuing connected transactions under the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environmental Protection Agreement, the New CCT Agreement, and the loan services under the New Financial Services Agreement:

			For the year ending 31 December			
			2018	**2019**	**2020**	**2021**
			RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
(A)	**Procurement of Ore by the Company from the Parent Company**					
	Procurement of Ore		N/A	5,232,820.0	5,368,260.0	5,761,700.0
(B)	**Procurement of Energy Saving and Environmental Protection Construction and Services and sales of power, energy medium and finished products by the Group from/to Anhui Xinchuang**					
	(i)	Procurement of Energy Saving and Environmental Protection Construction and Services	837,000.0	906,100.0	916,100.0	896,100.0
	(ii)	Sales of power, energy medium and finished products	N/A	79,000.0	80,000.0	81,000.0
(C)	**Sales and procurement of goods and services by the Group to/from the Parent Group**					
	(i)	Sales of products	867,403.8	965,297.0	1,061,345.7	1,165,371.4
	(ii)	Provision of Services	19,569.0	83,874.0	83,874.0	83,874.0
	(iii)	Procurement of products	1,666,945.5	2,033,126.4	2,105,434.9	2,125,822.6
	(iv)	Procurement of services	3,847,916.8	4,094,340.8	4,002,740.1	4,010,140.3
(D)	**Provision of loan services by the Group to the Parent Group**					
	Provision of loan services		N/A	3,170,000.0*	3,170,000.0*	3,170,000.0*

* *The figures represent the maximum day-end balance of loan amount (including interest)*

Details of the Proposed Revised Caps and the Proposed Annual Caps for each of the continuing connected transactions are set out below.

(A) Procurement of Ore by the Company from the Parent Company

1. Background to and reasons for the transactions

Iron ore is a primary raw material used by the Group in iron-making, where limestone and dolomite are used in the iron and steel production process as flux, being a binding agent and impurity remover and is finally disposed with other impurities and residuals. We are advised by the executive Directors that, in order to meet its production requirements, apart from sourcing iron ore domestically, the Group also has to source iron ore produced from distant mines overseas. Certain uncontrollable factors, including weather conditions and availability of vessels, may affect the shipment of iron ore from overseas mines to the PRC and any delay of shipment may pose a risk for the production process of the Company which requires continuous supply of iron ore. The bulky nature of iron ore limits the ability of the Company to stockpile large amount of iron ore and substantial amount of working capital of the Group will be tied up if the Group does that and this is not in the interests of the Shareholders.

Accordingly, it is strategically beneficial for the Company to secure a domestic source of iron ore. The executive Directors advised us that most of large domestic iron ore mines are owned and/or operated by domestic iron and steel producers or their related companies. The iron ores from these large iron ore mines are firstly supplied to their respective related domestic iron and steel producers with limited amount of iron ores sold in the domestic market. With limited resources, small iron ore mine producers are, in general, unable to guarantee a stable supply of good grade and quality iron ores to the Company.

Apart from its business in iron and steel production through the Company, the Parent Company is principally engaged in, among other things, iron ore mining. The iron ore supplied by the Parent Company are mined from its mines which are all located in Anhui Province. The mines are close to the off loading port adjacent to the production facilities of the Company in Maanshan City, Anhui Province. Production scale of the Parent Company's iron ore mines is large and this allows the Parent Company to ensure a stable supply of good grade and quality iron ore to the Company. Considering the factors as mentioned above, the executive Directors are of the view that it is in the interests of the Company to source iron ore from the Parent Company. Due to the good quality of limestone and dolomite of the Parent Company, the Company also sources certain of limestone and dolomite from the Parent Company. We understand from the executive Directors that the Company is satisfied with the quality of Ore provided by the Parent Company and the Parent Company has in the past supplied Ore to the Company on an uninterrupted basis.

We note from the 2017 annual report of Angang Steel Company Limited (stock code: 347) ("**Angang**"), a H-share company listed on the Stock Exchange, that Angang procured iron concentrate from 鞍鋼集團, its controlling shareholder. This is also the case for Chongqing Iron & Steel Company Limited (stock code: 1053) ("**Chongqing Steel**"), a H-share company listed on the Stock Exchange. As disclosed in its 2017 annual report, Chongqing Steel sourced iron ore from its parent group. Accordingly, we consider this is a normal business practice.

The Existing Sale and Purchase of Ore Agreement will expire on 31 December 2018. The executive Directors are of the view that it is in the interests of the Company and the Shareholders as a whole to continue the transactions in respect of iron ore, limestone and dolomite with the Parent Company for the coming three years ending 31 December 2019, 2020 and 2021.

2. Principal terms of the transactions

The New Sale and Purchase of Ore Agreement was entered into on 15 August 2018, whereby the Company has agreed to purchase and the Parent Company has agreed to supply Ore for a term of three financial years ending 31 December 2019, 2020 and 2021. Both parties have the right to terminate the New Sale and Purchase of Ore Agreement by giving six-month notice in writing to the other. Principal terms of the New Sale and Purchase of Ore Agreement are set out in the sub-section headed "New Sale and Purchase of Ore Agreement" in the "Letter from the Board" contained in the Circular. Summary of the principal terms of the New Sale and Purchase of Ore Agreement is as follows:

(i) First priority to meet the Company's demand of Ore

Pursuant to the New Sale and Purchase of Ore Agreement, the Parent Company shall supply all its Ore produced to the Company with first priority to meet the Company's demand subject to the relevant Proposed Annual Caps. Such Ore is not allowed to be sold by the Parent Company to any other party unless prior written consent is given by the Company. In addition, if the Parent Company develops or acquires any new mines, whether in the PRC or overseas, during the term of the New Sale and Purchase of Ore Agreement, the first priority provision to supply Ore produced from the new mines to the Company and the restriction of selling the Ore produced from the new mines to any other party shall apply. We consider that these clauses, which enable the Company to secure a stable source of supply of Ore, are in the interests of the Company.

(ii) Terms as compared to independent third party

The Parent Company has provided an undertaking under the New Sale and Purchase of Ore Agreement that it shall supply Ore to the Company on terms no less favourable than terms agreed between the Company with any independent third party.

(iii) Pricing

Pursuant to the New Sale and Purchase of Ore Agreement, price for Iron Ore in tonne will be determined after arm's length negotiations between the Company and the Parent Company. The prices for Iron Ore in tonne will be determined based on normal commercial terms with reference to the market price and shall not be higher than the market price of the same types of iron ore provided by the independent third parties to the vicinity of the Company in Maanshan City, Anhui Province, the PRC. Based on our discussions with the executive Directors and as set out in the sub-section headed "New Sale and Purchase of Ore Agreement" in the "Letter from the Board" of the Circular, we understand that the price of iron ore is determined based on three components: (a) the base price dependent on grading (品位); plus (b) the increased or decreased price for iron powder and sinter fine ore; plus (c) the freight and miscellaneous expenses. The base price of iron ore is determined based on grading of the iron ore with reference to, among others, relevant Platts iron ore index published in the SBB Steel Markets Daily (i.e. divide the monthly average value based on the corresponding Platts index by the corresponding standard grading of iron ore and multiply by the actual product grade). Grading refers to the content of iron in the iron ore, and pricing of the iron ore will be affected by the difference in the grading. As Platts index does not provide benchmark for every grading of iron ore, in order to determine more accurate pricing, the Company refers to the corresponding Platts index as detailed in the above-mentioned sub-section in the "Letter from the Board" (i.e. closest benchmark available for the particular standard grading plus differences between two benchmarks, where applicable). The Company has subscribed to SBB Steel Markets Daily provided by S&P Global Platts to obtain daily iron ore price and such market information are being referenced by the Company to determine iron ore price prior to entering into a transaction with the Parent Company and suppliers who are independent third parties. S&P Global Platts is a leading provider of information, benchmark prices and analytics for the energy and commodities markets. As stated in S&P Global Platts' official website, S&P Global Platts serves more than 12,000 public and private sector organisations in over 190 countries. The Group makes reference to the Platts iron ore index published in the SBB Steel Markets Daily which is commonly used in the industry and internationally for the determination of iron ore prices. We note from the 2017 annual report of Angang that the pricing principle for procurement of iron concentrate by Angang group from connected party also refers to, among others, Platts prices announced daily by SBB Steel Markets Daily, with adjustments based on each iron concentration plus transportation costs. We further note from the respective 2017 annual report of BHP and

Rio Tinto (both are world-leading resources and mining corporations) that both companies referred to Platts iron ore prices in analysing the company's financial performance. In view of the above, we concur with the executive Directors that (i) the Group's pricing standards for determining iron ore base price are in line with those used in the international market and Platts is a market-recognised source of iron ore prices; (ii) it is common practice to adjust pricing of iron ore according to its grading; and (iii) given the reference to appropriate Platts index allows the Group to determine iron ore price more fairly and accurately and the Parent Company shall supply iron ore to the Company on terms (including price) no less favourable than terms agreed between the Company with independent third parties, it is reasonable to use the relevant Platts index as reference point for the respective iron ore. We further understand from the executive Directors that, the Platts index reflects pricing for fines (粉礦), which is not entirely the same as iron powder (精粉) in terms of quality. Therefore, the price of certain types of iron ore to be sourced from the Parent Company will be adjusted, by making reference to the average price of "65% relevant iron powder of Fanchang region" published on two industry websites which are common sources of such prices in the industry (i.e. average price under "65% iron powder of Fanchang region" less monthly average value based on relevant Platts index multiply by exchange rate). Further details of these websites are set out in the above-mentioned sub-section in the "Letter from the Board". We note from both websites that they contain up to date pricing information of various raw materials and products relating to the iron and steel industry including iron powder prices and steel prices. In view of the above, we consider that reasonable references are adopted by the Group in determining pricing for the purchase of iron ore from the Parent Company. Considering that (a) the base price of iron ore is determined with reference to Platts index, an international recognised source of such information; (b) the adjustments with reference to relevant iron powder would produce more accurate price assessment given the nature of certain products to be procured from the Parent Company, and such iron powder prices are sourced from regularly updated industry recognised websites; and (c) freight and other miscellaneous expenses included in the price determination formula is based on actual amount incurred, we are of the view that the basis for determining pricing for iron ore as set out above is fair.

Price for dolomite and limestone will be determined after arm's length negotiation between the Company and the Parent Company under normal commercial terms with reference to the market price and shall not be higher than the market price of the same categories of dolomite and limestone provided by independent third parties in the same area to the vicinity of the Company in Maanshan City, Anhui Province, the PRC.

(iv) Payment term

It is stipulated under the New Sale and Purchase of Ore Agreement that the Company shall settle the payment for iron ore purchased within 30 days and limestone and dolomite within 50 days after the respective iron ore, limestone and dolomite have been received by the Company and verified as to quality. As advised by the executive Directors, the Company has to make full or partial payment of iron ore to its major independent iron ore suppliers upon (or before) off loading of iron ore through letter of credit arrangement in accordance with the purchase agreements with the major independent iron ore suppliers. Accordingly, the credit term offered by the Parent Company is more favourable than those offered by major independent iron ore suppliers. We note from the Company's 2017 annual report that the normal credit term of the Group's accounts payable is within three months. The credit term for purchases of limestone and dolomite is within the range of the normal credit terms of the Group's accounts payable as stated in the 2017 annual report of the Company.

3. *The Proposed Annual Caps*

Set out below are the approximate aggregate amount (excluding tax) of purchase of iron ore, limestone and dolomite by the Group from the Parent Company for each of the two financial years ended 31 December 2016 and 2017 and the five months ended 31 May 2018:

	Financial year ended 31 December		**Five months ended 31 May**
	2016	**2017**	**2018**
	RMB('000)	*RMB('000)*	*RMB('000)*
Approximate aggregate amount (excluding tax) of purchase of Ore from the Parent Company	2,883,966.2	3,720,681.0	1,610,526.1
Approximate increase as compared to the previous year *(%)*		29.0%	

The amount of purchase of iron ore contributed to a significant aggregate amount of purchase of Ore from the Parent Company for the past two years of 2016 and 2017, and for the five months ended 31 May 2018 (2016: approximately 96.7% and 2017: approximately 98.8%, and 2018 five months: approximately 98.5%). The Company purchased slightly more iron ore from the Parent Company in 2017 compared to 2016 (2016: approximately 5.8 million tonnes and 2017: approximately 6.0 million tonnes). The increase in aggregate amount of purchase of iron ore from the Parent Company in 2017 was mainly driven by the increase in iron ore price, with the average unit price surged by approximately 30% in 2017 compared to 2016. For the five months ended 31 May 2018, the Company purchased approximately 2.5 million tonnes of iron ore from the Parent Company. The quantities of limestone and dolomite purchased from the Parent Company were approximately 1.8 million tonnes and 0.6 million tonnes for the two years ended 31 December 2016 and 2017 respectively and 0.2 million tonnes for the five months ended 31 May 2018. The total quantity of Ore purchased from the Parent Company amounted to approximately 7.7 million tonnes, 6.6 million tonnes and 2.7 million tonnes for the two years ended 31 December 2016 and 2017 and the five months ended 31 May 2018 respectively, representing approximately 33.3%, 28.7% and 25.5% of the total Ore purchased by the Group of approximately 23.1 million tonnes, 23.0 million tonnes and 10.6 million tonnes for the corresponding periods.

As stated in this sub-section above, the executive Directors consider that it is in the interest of the Company to source more iron ore from the Parent Company mainly because (a) it allows the Company to have a stable supply of good grade and quality iron ore; and (b) this can reduce the Group's reliance on suppliers for overseas iron ore so as to mitigate the risk of delay of shipments when purchasing from these suppliers. The Company plans to, with reference to its existing production plan, source more iron ores from the Parent Company for the coming three years ending 31 December 2019, 2020 and 2021. In addition to making reference to production plan of the Group for the coming three years, the executive Directors discussed with the Parent Company regarding the production and development plan of the mines. The production capacity of a mine in Anhui Province has gradually increased after completion of its construction and the Parent Company is planning to carry out modification work for other mines in the coming years to increase its production capacity. In addition, due to change in sales strategy for certain mine, more iron ore are available for domestic sales. Taking these into account, it is estimated that the Company will purchase approximately 8.5 million tonnes, 9 million tonnes and 9.5 million tonnes of iron ore from the Parent Company for the coming three years ending 31 December 2019, 2020 and 2021 respectively. Also, as stated in the aforesaid sub-section of this letter, the Parent Company provides good quality of limestone and dolomite. The executive Directors, with reference to the Company's production plan and production plan of Parent Company's mine, plan to source more limestone and dolomite from the Parent Company in 2019 and with expected quantity of approximately 1.1 million tonnes, and such quantity is expected to increase slightly in 2020 and remain stable in 2021. We have obtained the budgeted production capacity of the mines for the three years ending 31 December 2019, 2020 and 2021 issued by the Parent Company from the executive Directors and noted that the above expected purchase volume of Ore by the Company agrees to the budgeted production of the Parent Company's mines for the coming three years. Having considered the above-mentioned factors, the executive Directors estimate that the quantity of iron ore to be purchased from the Parent Company will increase by approximately 6% in 2020 as compared to 2019, and is expected to further increase by approximately 6% in 2021. Based on the above, we are of the view that a reasonable basis has been adopted by the Company to estimate the purchasing volume of Ore for the coming three years ending 31 December 2019, 2020 and 2021.

As set out in the sub-section headed "New Sale and Purchase of Ore Agreement" in the "Letter from the Board" of the Circular, when estimating future price for purchase of iron ore from the Parent Company for the coming three years, the executive Directors made reference to the iron ore price forecast made by an international investment bank as set out in a research report dated December 2017 and estimated the iron ore price to be in the region of US$62 per tonne in 2019, with estimated downward adjustment of approximately 3.2% in 2020 and adjusted upwards by approximately 2.2% in 2021. Given the international standing and research capability of such investment bank, we consider the forecast prices as quoted from such research report provides a meaningful reference. We have further searched from Bloomberg for forecast of iron ore prices as at the Latest Practicable Date made by a number of analysts. The forecast iron prices made by these analysts ranged from (i) approximately US$54 to US$64 per tonne in 2019; (ii) approximately US$52 to US$62 per tonne in 2020; and (iii) approximately US$50 to US$63 per tonne in 2021. The estimated iron ore prices adopted by the Company in estimating the relevant Proposed Annual Caps are within the ranges as set out above.

A buffer of 10% has also been incorporated in determining the estimated amount of iron ore purchase in 2019, 2020 and 2021 to cater for possible adjustments in prices and further growth in businesses of the Group. As noted from Bloomberg, after experiencing a decreasing trend from 2013 to 2015, the average iron ore price showed a rebound and went up slightly to approximately US$58.0 per tonne in 2016. In 2017, the average iron ore price further surged to approximately US$70.6 per tonne, representing an increase of approximately 22% as compared to that of 2016. We concur with the executive Directors that it is appropriate to include a buffer because it is extremely difficult to predict accurately the future price of iron ore for the coming three years and the buffer would provide flexibility for the Group to purchase more iron ore from the Parent Company should the Company consider to be in its interest. In addition, given the Parent Company's undertaking to supply Ore to the Company on terms no less favourable than terms agreed between the Company with any independent third party and in view of the historical fluctuations of iron ore prices, the executive Directors consider, and we concur, that a balanced approach (to allow flexibility while being prudent) will need to be adopted in estimating the proposed annual caps and such buffer of 10% to be acceptable. Taking into account the aforesaid factors, including, among other things, the estimated purchase volume, content of the iron ore to be purchased and the estimated purchase price of iron ore for the coming three years from 2019 to 2021 and also the buffer, the executive Directors estimate the Proposed Annual Caps (excluding tax) for the purchase of iron ore from the Parent Company to be approximately RMB5.1 billion, RMB5.2 billion and RMB5.6 billion for the three years ending 31 December 2019, 2020 and 2021 respectively.

For purchase of limestone and dolomite from the Parent Company, the executive Directors estimate that, with reference to historical prices, the purchase prices of limestone and dolomite will continue to increase in 2019 and 2020 due to expected increase in labour costs and transportation expenses and more stringent rules and regulations for environmental standards. The executive Directors estimate that the averaged purchase prices of limestone and dolomite for the year ending 31 December 2019 will increase by approximately 18.7% as compared to that of 2018 and further increase by approximately 8.2% in 2020, and remain stable in 2021. Taking into account the aforesaid factors, including, among other things, the estimated purchase volume and estimated purchase price of limestone and dolomite, the executive Directors estimate the purchase amount of limestone and dolomite from the Parent Company to be approximately RMB134.0 million, RMB152.3 million and RMB152.3 million for the three years ending 31 December 2019, 2020 and 2021 respectively.

Taking into account the aforesaid factors, the Proposed Annual Caps (excluding tax) for the purchase of Ore from the Parent Company are set as follows:

	Financial year ending 31 December		
	2019	**2020**	**2021**
	RMB('000)	*RMB('000)*	*RMB('000)*
Proposed Annual Caps (excluding tax) for the purchase of Ore from the Parent Company	5,232,820.0	5,368,260.0	5,761,700.0
Approximate increase as compared to the annual cap of previous year *(%)*		2.6%	7.3%

(B) Procurement of Energy Saving and Environmental Protection Construction and Services and sales of power, energy medium and finished products by the Group from/to Anhui Xinchuang

1. Background to and reasons for the transactions

As stated in the Company's 2017 annual report, it is necessary to vigorously improve development quality and efficiency to meet the society's increasing new demands of, among others, the quality of ecological environment. The Company kept up efforts to drive coordinated development of the Company, the society and the environment and to build a "Green Magang". Certain pollutants and wastes will be generated during the production process of iron and steel. Measures have been adopted by the Group to minimize the impact of its activities on the environment and natural resources.

The PRC government is imposing more stringent requirements on energy saving and environmental protection especially on iron and steel companies. According to the Company's 2017 social responsibilities report, the PRC government, among others, issued a number of policies on environmental protection in 2017 and continuously promoted the control of air and water pollution. The "Environmental Protection Tax Law of the People's Republic of China"《中華人民共和國環保保護稅法》 and its implementation rules were effective since 1 January 2018. The provinces, municipalities, and autonomous regions have issued specific applicable tax amounts for taxable atmospheric pollutants and water pollutants. According to the "Iron and steel enterprise ultra-low emission transformation work plan (draft for comments)"《鋼鐵企業超低排放改造方案(征求意見稿)》issued by the PRC government in early 2018, companies in the iron and steel industry are required to implement transformation on their production facilities in order to meet the standard of air pollutant emission imposed by the PRC government, and by the end of 2025, all sizeable iron and steel companies shall complete the transformation. Environmental protection pressure urges the Group to increase environmental protection investment, promote emission reduction technology applications, and continue pollution control and standard upgrading. The Company considers that it is more cost efficient to outsource certain environmental protection work and projects to professional firm while focusing its resources on its business and operations.

Anhui Xinchuang is familiar with the operation, energy saving and environmental protection work of the Group and has been engaged by the Group to provide certain energy saving and environmental protection construction and engineering work and services in respect of energy saving and environmental protection. In July 2017, the listing of Anhui Xinchuang on the National Equities Exchange and Quotations System of the PRC was approved. The executive Directors consider that Anhui Xinchuang has sufficient resources, hands-on expertise and experience in respect of energy saving and environmental protection work and services and are satisfied with the work and services provided by Anhui Xinchuang.

Water, electricity and gas are co-products of the production process of the Group or will be generated by the Group with by-products of the production process. Lime, as the products to be sold by the Group to Anhui Xinchuang under the New Energy Saving and Environmental Protection Agreement, will be produced during the iron and steel production process of the Group. The Company may choose to sell such water, electricity, gas and products to Anhui Xinchuang and/or other customers who will further process or utilize them in their production. Other than generating revenue for the Group, this will allow more efficient use of the Group's resources and fulfill the Group's social responsibility through recycling of waste. Lime were sold by the Group to Anhui Xinchuang in the past. We were informed by the executive Directors that the Group had not encountered any difficulties in collecting sales proceeds from Anhui Xinchuang.

The Existing Energy Saving and Environmental Protection Agreement will expire on 31 December 2018. The executive Directors are of the view that it is in the interests of the Company and the Shareholders as a whole to continue to engage Anhui Xinchuang to provide certain energy saving and environmental protection construction and engineering work and services, and to sell products to Anhui Xinchuang for the coming three years ending 31 December 2019, 2020 and 2021.

Based on the above and given that the continuing connected transactions will be conducted on normal commercial terms (as more particularly discussed in the sub-section headed "Principal terms of the transactions" below), we concur with the Company that the entering into of the New Energy Saving and Environmental Protection Agreement for the coming three years ending 31 December 2019, 2020 and 2021 will benefit the Group and facilitate its future business development.

As set out in the section headed "Supplementary Energy Saving and Environmental Protection Agreement" in the "Letter from the Board" contained in the Circular, the actual transaction amount of procurement of Energy Saving and Environmental Protection Construction and Services for the five months ended 31 May 2018 representing approximately 47.1% of the Existing Annual Cap in respect of this category for 2018. With the need to devote more resources to achieve the goal of mid-and-long term energy and environment control and to comply with the increasingly stringent environmental regulations imposed by the PRC government, the executive Directors expect that the Existing Annual Cap for 2018 of RMB619.5 million for the procurement of Energy Saving and Environmental Protection Construction and Services may not be sufficient and the Supplementary Energy Saving and Environmental Protection Agreement was entered into on 15 August 2018, pursuant to which the Existing Annual Cap for 2018 be increased to the Proposed Revised Cap for this category. In addition, as stated in the section headed "Supplementary Energy Saving and Environmental Protection Agreement" in the "Letter from the Board" contained in the Circular, all existing key terms and conditions under the Existing Energy Saving and Environmental Protection Agreement remain unchanged. Details of all the existing key terms and conditions under the Existing Energy Saving and Environmental Protection Agreement are set out in the section headed "Supplementary Energy Saving and Environmental Protection Agreement" in the "Letter from the Board" contained in the Circular and the Company's circular dated 19 October 2015. Further details of the Proposed Revised Cap for 2018 for the procurement of Energy Saving and Environmental Protection Construction and Services are set out in the sub-section headed "The Proposed Annual Caps" of this section below.

2. Principal terms of the transactions

The New Energy Saving and Environmental Protection Agreement was entered into on 15 August 2018 for a term of three financial years ending 31 December 2019, 2020 and 2021. Principal terms of the New Energy Saving and Environmental Protection Agreement are set out in the section headed "New Energy Saving and Environmental Protection Agreement" in the "Letter from the Board" contained in the Circular. Summary of the principal terms of the New Energy Saving and Environmental Protection Agreement is as follows:

(i) Duration

The New Energy Saving and Environmental Protection Agreement shall have a duration for the three financial years ending 31 December 2019, 2020 and 2021. Pursuant to the New Energy Saving and Environmental Protection Agreement, both parties have the right to terminate part or all of the transactions contemplated under the New Energy Saving and Environmental Protection Agreement by giving at least one-month notice in writing to the other.

(ii) Products and services involved

The New Energy Saving and Environmental Protection Agreement governs the relationship between the Group and Anhui Xinchuang in respect of the following: (a) the provision of Energy Saving and Environmental Protection Construction and Services by Anhui Xinchuang to the Group; and (b) the sales of power, energy medium and finished products to Anhui Xinchuang by the Group, including lime, energy medium, etc.

(iii) Pricing

The Group and Anhui Xinchuang agreed to adopt an appropriate, reasonable and fair pricing method in accordance with the principle of fairness in formulating the transactions under the New Energy Saving and Environmental Protection Agreement. The price shall be based on (1) state-prescribed price; or (2) in the absence of state-prescribed price, market price to be determined through open tenders, price comparison and arm's length negotiations under normal commercial terms, and with reference to comparable market transaction prices. The prices with respect to the sales of products to Anhui Xinchuang shall not be lower than the prices of the same categories of products sold to independent third parties by the Group. The prices regarding the Energy Saving and Environmental Protection Construction and Services provided by Anhui Xinchuang to the Group shall not be higher than the prices of the same categories of energy saving and environmental protection construction and services provided by the independent third parties to the Group. As set out in the section headed "New Energy Saving and Environmental Protection Agreement" in the "Letter from the Board" contained in the Circular, in accordance with the current pricing standards, except for the pricing of sales of energy medium and part of the services provided by Anhui Xinchuang to the Group, namely testing and diagnostic services and environmental testing services, that shall adopt the state-prescribed price, transactions under the New Energy Saving and Environmental Protection Agreement shall be priced based on the market price.

We understand from the management of the Company that part of the services provided by Anhui Xinchuang to the Group, namely testing and diagnostic services and environmental testing services are priced based on the relevant state-prescribed price in Anhui Province. As advised by the executive Directors, save for the above, the pricing of the transactions under the New Energy Saving and Environmental Protection Agreement shall be priced based on market price obtained through open tender for contract with value over RMB100,000 to ensure services are obtained under a fair and competitive environment and it is the Company's practice to obtain at least three tenders for each contract. Currently, electricity provided by the Group to Anhui Xinchuang is priced based on the state-prescribed price stipulated in the "National Development and Reform Commission's Notice on the Adjustment of Industrial and Commercial Electricity Price (NDRC Price Adjustment [2018] No. 59)《安徽省物價局轉發國家發展改革委關於降低一般工商業電價有關事項的通知（皖價商[2018] 59號）》". The living water and industrial treated water are currently priced based on the state-prescribed price stipulated in the "Notice on the Implementation of the Ladder Water Price for the Living Water Consumed by Residents Living in The Main Urban Area of Maanshan City (Price Adjustment [2015] No. 16)《關於馬鞍山市主城區居民生活用水實行階梯水價的通知》" and "Sewage Treatment Tariff (Maanshan City Government Secretariat [2010] No. 65)《馬鞍山市人民政府關於調整市供水價格和水資源費污水處理費的通知（馬政秘[2010] 65號）》". As advised by the executive Directors, pricing of lime shall be determined based on market price as quoted on the open market through price enquiry on products of the same category within the Anhui Province and surrounding areas. We have obtained and reviewed the above-mentioned notices on the state-prescribed prices, and we have noted that these notices provide clear pricing guidance for related products. The above transactions which are priced based on state-prescribed prices will be executed with the latest pricing documents issued by the PRC government (if any).

(iv) Other terms

During the term of the New Energy Saving and Environmental Protection Agreement, the Company has the right to decide whether to enter into transactions with any independent third parties in respect of the continuing connected transactions contemplated under the New Energy Saving and Environmental Protection Agreement. Pursuant to the New Energy Saving and Environmental Protection Agreement, the terms (including but not limited to pricing and payment) with respect to the continuing connected transactions should be conducted, after arm's length negotiations among parties, on normal commercial terms. For the provision of products by the Group to Anhui Xinchuang, terms (including but not limited to pricing and payment) shall not be more favourable than those offered to independent third parties by the Group for similar categories of products. For the provision of the products and services by Anhui Xinchuang to the Group, terms (including but not limited to pricing and payment) shall not be less favourable than those offered by independent third parties to the Group for similar categories of products and services. As set out in the New Energy Saving and Environmental Protection Agreement, for Energy Saving and Environmental Protection Construction and Services, payment shall be made by the Company to Anhui Xinchuang in accordance with progress of construction as verified by the Company's management department. We understand from the executive Directors that this is consistent with the arrangement with independent service providers. For the sales of power, energy medium and finished products to Anhui Xinchuang, Anhui Xinchuang shall settle the payment at the end of each month. We note from the Company's 2017 annual report that the normal credit term of the Group's trade receivables is thirty to ninety days, thus the payment term for the sales of power, energy medium and finished products offered by the Group to Anhui Xinchuang is less favourable than the normal credit terms of the Group's trade receivables.

3. The Proposed Annual Caps

(i) Procurement of Energy Saving and Environmental Protection Construction and Services by the Group from Anhui Xinchuang

Set out below are the approximate aggregate amounts (excluding tax) of procurement of Energy Saving and Environmental Protection Construction and Services by the Group from Anhui Xinchuang for each of the two financial years ended 31 December 2016 and 2017 and the five months ended 31 May 2018:

	Financial year ended 31 December		**Five months ended 31 May**
	2016	**2017**	**2018**
	RMB('000)	*RMB('000)*	*RMB('000)*
Approximate aggregate amount (excluding tax) of procurement of Energy Saving and Environmental Protection Construction and Services from Anhui Xinchuang	597,743.0	567,360.0	291,763.9
Approximate decrease as compared to the previous year *(%)*		(5.1)%	

Provision of Energy Saving and Environmental Protection Construction and Services by Anhui Xinchuang to the Group for the past two financial years of 2016 and 2017 and for the five months ended 31 May 2018 mainly included (i) environmental protection construction and maintenance services; (ii) management and operation of environmental protection facilities; (iii) management of water quality; and (iv) contract energy services, which in aggregate accounted for approximately 90.4%, 87.5% and 95.2% respectively of the total amounts for the two financial years ended 31 December 2016 and 2017, and the five months ended 31 May 2018.

As set out in the sub-section headed “Background to and reasons for the transactions” under the sub-section headed “Procurement of Energy Saving and Environmental Protection Construction and Services and sales of power, energy medium and finished products by the Company from/to Anhui Xinchuang” above of this letter, the Group has to continue to devote further resources for compliance with regulatory requirements on environmental protection as a result of more stringent requirements imposed by the PRC government. When determining the Proposed Revised Cap and the Proposed Annual Caps with respect to the procurement of Energy Saving and Environmental Protection Construction and Services by the Group from Anhui Xinchuang for the year ending 31 December 2018 and coming three years ending 31 December 2019, 2020 and 2021, the executive Directors made reference to (i) existing and expected demand for certain key Energy Saving and Environmental Protection Construction and Services from the Group based on past experience and future requirements; (ii) the state-prescribed price and/or market price regarding those services; and (iii) Anhui Xinchuang’s existing and anticipated capacity in providing the relevant construction and services. We have reviewed minutes of the Company’s energy and environmental protection department setting out the budget for total estimated expenditure to be incurred by the Group with respect to Energy Saving and Environmental Protection Construction and Services and the contract value which may be awarded to Anhui Xinchuang for the coming three years from 2019 to 2021. In determining the contract value which may be awarded to Anhui Xinchuang in relation to the Energy Saving and Environmental Protection Construction and Services, the executive Directors have taken into account the anticipated capacity of Anhui Xinchuang in providing such services. Therefore, with reference to the Company’s total budgeted expenditure relating to these areas, only part of the total budgeted expenditure have been included in the proposed value of contracts which may be awarded to Anhui Xinchuang. As advised by the executive Directors, key Energy Saving and Environmental Protection Construction and Services which have been or maybe awarded to Anhui Xinchuang for the year ending 31 December 2018 and coming three financial years from 2019 to 2021 include (i) environmental protection construction and maintenance services; (ii) management and operation of environmental protection facilities; and (iii) management of water quality. Further details of the above-mentioned key Energy Saving and Environmental Protection Construction and Services are set out in this letter below.

As stated in the sub-section headed "Background to and reasons for the transactions" in this letter above, the PRC government issued the "Iron and steel enterprise ultra-low emission transformation work plan (draft for comments)"《鋼鐵企業超低排放改造方案（征求意見稿）》in early 2018 in which companies in the iron and steel industry are required to implement transformation on their production facilities in order to meet the standard of air pollutant emission imposed by the PRC government, and by the end of 2025, all sizeable iron and steel companies shall complete the transformation. To meet the standard of air pollutant emission imposed by the PRC government, there is a need for the Group to engage Anhui Xinchuang, which possess relevant hands-on expertise and experience, to provide the environmental protection construction and maintenance services as described in this letter below.

We understand from the executive Directors that environmental protection construction and maintenance services which may be awarded to Anhui Xinchuang include (i) flue gas denitration, which aims to reduce emission of nitrate or other nitrogen compounds during the production process; (ii) sewage plant project, which aims to enable sewage to be discharged to meet the standard imposed by the PRC government; and (iii) dust removal system, which aims to lower the emission of dust amount during the production process. When determining the Proposed Revised Cap with respect to the procurement of Energy Saving and Environmental Protection Construction and Services from Anhui Xinchuang for the year ending 31 December 2018, the executive Directors have taken into account (i) all existing Energy Saving and Environmental Protection Construction and Services carrying out by Anhui Xinchuang; (ii) those construction and services agreed to be carried out by Anhui Xinchuang; and (iii) the expected construction and services which may awarded to Anhui Xinchuang for the rest of 2018.

The executive Directors made reference to the anticipated timing for the need of different construction and services based on the Group's past experience and future operation plan when determining the expected construction and services to be provided by Anhui Xinchuang for the rest of 2018 and for the coming three financial years ending 31 December 2019, 2020 and 2021. We are informed by the executive Directors that the Company has discussed with management of Anhui Xinchuang regarding (i) the production/operation plan of Anhui Xinchuang in the second half of 2018 and the three financial years ending 31 December 2019, 2020 and 2021; and (ii) Anhui Xinchuang's anticipated capacity in providing the Energy Saving and Environmental Protection Construction and Services. Anhui Xinchuang showed interest in certain of the construction and service projects, and thus only these construction and service projects may be awarded to Anhui Xinchuang for the rest of 2018 and for the three financial years ending 31 December 2019, 2020 and 2021. Accordingly, the executive Directors estimate that contracts of flue gas denitration of approximately RMB130 million may be awarded to Anhui Xinchuang for the year ending 31 December 2018. This amount is attributable to two flue gas denitration projects amounted to approximately RMB65 million each, commenced in 2018 and expected to be completed at the beginning of 2019. For the financial years ending 31 December 2019, 2020 and 2021, the Company has adopted the same basis as set out above to determine the Proposed Annual Caps for the procurement of Energy Saving and Environmental Protection Construction and Services for the respective year. For the year ending 31 December 2019, the executive Directors estimate that Anhui Xinchuang may be awarded contracts of flue gas denitration of approximately RMB220 million and dust removal system of approximately RMB60 million. Contract amount of flue gas denitration of approximately RMB220 million is attributable to four projects with the amounts of approximately RMB50 million to RMB60 million each, expected to commence in the first half of 2019 and to be completed in the second half of 2019. The project on dust removal system of approximately RMB60 million is also expected to commence in the first half of 2019 and to be completed in the second half of 2019. For the year ending 31 December 2020, contracts of flue gas denitration of approximately RMB230 million are expected to be awarded to Anhui Xinchuang. Contract amount of flue gas denitration of approximately RMB230 million is attributable to four projects with the amount of approximately RMB40 million to RMB70 million each, expected to commence in the first half of 2020, and to be completed in the second half of 2020 and at the beginning of 2021. For the year ending 31 December 2021, the executive Directors estimate that contracts of (i) flue gas denitration of approximately RMB80 million; and (ii) sewage plant project of approximately RMB70 million may be awarded to Anhui Xinchuang. These two contracts are expected to commence in April and May of 2021 and to be completed at the end of 2021.

The PRC government published the "Opinions of the Ministry of Environmental Protection on promoting the third party governance of environmental pollution《環境保護部關於推進環境污染協力廠商治理的實施意見》" in 2017. We performed a search on the official website of the PRC government (www.gov.cn) and noted from the press release (published in September 2017) that the entity which discharge the pollutants shall bear the main responsibility for pollution control, and it may entrust a third party to carry out the governance services according to the law. The pollutant discharge entity and the third-party management unit shall ensure the normal operation of the environmental protection facilities and shall not stop the operation of those facilities without cause. Engaging Anhui Xinchuang, which possesses relevant hands-on expertise and experience, as the third-party management unit to provide management and operation of environmental protection facilities and management of water quality services help to ensure normal operation of the Group's environmental protection facilities as required under the above-mentioned regulation.

As Anhui Xinchuang has hands-on expertise and experience in respect of energy saving and environmental protection work and services and has been providing such services to the Group, the executive Directors are of the view that it is more cost efficient to engage Anhui Xinchuang for subcontracting of operation of certain environmental protection facilities. With the increasingly stringent requirements imposed by the PRC government as set out above, the executive Directors estimate that more environmental protection facilities will be constructed and sub-contracted to Anhui Xinchuang for operation for the rest of 2018 and in the coming three years ending 2021. As advised by the management of the Company, there are mainly 16 contracts with Anhui Xinchuang regarding the provision of management and operation of environmental protection facilities with a total amount of approximately RMB390 million for 2018. All contracts have a duration of one year in general. As it is expected that the Group will carry out large-scale environmental protection projects and maintenance in 2019, including flue gas denitration and dust removal project, etc, which will result in the suspension of certain sub-contracted facilities, therefore it is expected that estimated transaction amount with respect to the management and operation of environmental protection facility in 2019 will be lower than that in 2018. The executive Directors estimate that more environmental protection facilities will be constructed and sub-contracted to Anhui Xinchuang for operation in 2020 and 2021. Taking into account the factors above, the executive Directors estimate that Anhui Xinchuang may be engaged for management and operation of environmental protection facilities for an amount of approximately RMB390 million, RMB290 million, RMB350 million and RMB410 million for the year ending 31 December 2018 and the coming three years ending 31 December 2021 respectively.

As Anhui Xinchuang possesses high quality technical team specialising in water treatment, the Group has engaged Anhui Xinchuang for water quality management services during the two years of 2016 and 2017, and the five months ended 31 May 2018. The executive Directors consider that similar services are required for the rest of 2018 and coming three years from 2019 to 2021. Together with the increasingly stringent requirements imposed by the PRC government regarding water pollution, water quality management contracts of approximately RMB160 million have been awarded to Anhui Xinchuang for the year ending 31 December 2018. The total value of water quality management contracts of approximately RMB160 million for 2018 is attributable to four major contracts, in which the contract with the highest value amounted to approximately RMB105 million. Water quality management services are provided by Anhui Xinchuang to the Group's facilities located in Anhui Province under the above-mentioned four major contracts. All major contracts last for one year and the Group should settle the related service fees monthly or at the end of the contract period. For the year ending 31 December 2019, it is expected that similar value of water quality management contracts of approximately RMB166.1 million may be awarded to Anhui Xinchuang. The executive Directors also estimate that other services (including mainly contract energy services and maintenance services) of approximately RMB157 million and RMB170 million have been or may be obtained from Anhui Xinchuang for the year ending 31 December 2018 and 2019. We understand from the management of the Company that the Proposed Annual Cap regarding the contract energy services for 2018 includes mainly 7 contracts between the Group and the Anhui Xinchuang group, and for maintenance services, according to the Group's past experience, there are over 100 contracts in total each year. For 2020 and 2021, the executive Directors are of the view that Anhui Xinchuang may be awarded similar amount and number of contracts for the above categories. With the gradual completion of various environmental protection projects, it is estimated that the overall amount of environmental protection works will be slightly reduced in 2021.

A table is set out below summarises the contracts which have been or may be awarded to Anhui Xinchuang under each category:

	Financial year ending 31 December			
	2018	2019	2020	2021
	RMB('000)	*RMB('000)*	*RMB('000)*	*RMB('000)*
Environmental protection construction and maintenance services				
– Flue gas denitration	130,000	220,000	230,000	80,000
– Dust removal system	–	60,000	–	–
– Sewage plant project	–	–	–	70,000
	130,000	280,000	230,000	150,000
Management and operation of environmental protection facilities	390,000	290,000	350,000	410,000
Management of water quality	160,000	166,100	166,100	166,100
Other services (including mainly contract energy services and maintenance services)	157,000	170,000	170,000	170,000
Proposed Revised Cap/ Proposed Annual Caps	**837,000**	**906,100**	**916,100**	**896,100**

Taking into account the aforesaid factors, including, among other things, the expected contract values which may be awarded to Anhui Xinchuang, the Proposed Revised Cap (excluding tax) and the Proposed Annual Caps (excluding tax) for the provision of Energy Saving and Environmental Protection Construction and Services by Anhui Xinchuang to the Group are set as follows:

	Financial year ending 31 December			
	2018	2019	2020	2021
	RMB('000)	*RMB('000)*	*RMB('000)*	*RMB('000)*
Proposed Revised Cap (excluding tax)/Proposed Annual Caps (excluding tax) for the procurement of Energy Saving and Environmental Protection Construction and Services from Anhui Xinchuang	837,000.0	906,100.0	916,100.0	896,100.0
Approximate increase/ (decrease) as compared to the annual cap of previous year *(%)*		8.3%	1.1%	(2.2)%

(ii) Sales of power, energy medium and finished products to Anhui Xinchuang by the Group

Set out below are the approximate aggregate amounts (excluding tax) of the sales of waste materials (including lime) by the Group to Anhui Xinchuang for each of the two financial years ended 31 December 2016 and 2017 and the five months ended 31 May 2018:

	Financial year ended 31 December		**Five months ended 31 May**
	2016	**2017**	**2018**
	RMB('000)	*RMB('000)*	*RMB('000)*
Approximate aggregate amount (excluding tax) of the sales of waste materials to Anhui Xinchuang	4,577.0	15,912.0	4,332.8
Approximate increase as compared to the previous year *(%)*		247.7%	

As set out in the sub-section headed "Background to and reasons for the transactions" under the sub-section headed "Procurement of Energy Saving and Environmental Protection Construction and Services and sales of power, energy medium and finished products by the Company from/to Anhui Xinchuang" above of this letter, water, electricity, gas and lime are generated during the production process or are generated with by-products of the production process. The Company may choose to sell such water, electricity, gas and products to Anhui Xinchuang who will further use these in its production. As advised by the executive Directors, the increase in sales of waste materials by the Group to Anhui Xinchuang of approximately 2.5 times from 2016 to 2017 was mainly the result of increase in the volume of the waste materials produced by the Group during its production process during the recovery of iron and steel industry in 2017. For the five months ended 31 May 2018, sales of waste materials by the Group to Anhui Xinchuang amounted to approximately RMB4.3 million.

When determining the Proposed Annual Caps for the three years ending 31 December 2019, 2010 and 2021 with respect to the sales of power, energy medium and finished products to Anhui Xinchuang, the executive Directors have taken into account the anticipated volume of water, electricity, gas and lime produced by the Group, and the anticipated processing capacity and demand of Anhui Xinchuang for the coming few years. The executive Directors have discussed with the management of Anhui Xinchuang regarding its demand of water, electricity and gas from the Group in the coming few years and it is expected that the transaction amount for 2019 to be approximately RMB64 million and remain at similar level for 2020 and 2021. As some types of waste products (excluding lime) will be sold to other third parties from 2019, the executive Directors estimate the sales amount for products in 2019 will only consist of sales of lime amounted to approximately RMB15 million based on past experience and future production plan of the Group, and will remain stable for 2020 and 2021.

Taking into account the aforesaid factors, the Proposed Annual Caps (excluding tax) for the sales of power, energy medium and finished products by the Group to Anhui Xinchuang are set as follows:

	Financial year ending 31 December		
	2019	**2020**	**2021**
	RMB('000)	*RMB('000)*	*RMB('000)*
Proposed Annual Caps (excluding tax) for the sales of power, energy medium and finished products to Anhui Xinchuang	79,000.0	80,000.0	81,000.0
Approximate increase as compared to the annual cap of previous year *(%)*		1.3%	1.3%

(C) Sales and procurement of goods and services by the Group to/from the Parent Group

1. Background to and reasons for the transactions

In late October 2013, the Company disposed certain companies and assets to the Parent Company. The Company and the Parent Company entered into the continuing connected transactions agreement dated 22 August 2013 and the Existing CCT Agreement in October 2015 with respect to the continuing connected transactions contemplated thereunder which have been carried out to serve both parties' internal needs. The Services and Products, and the Services, Products and Construction Engineering specified in the above-mentioned continuing connected transactions agreements are principally day-to-day production and services relating to the respective businesses of the Group and the Parent Group.

The executive Directors consider that the New CCT Agreement serves to provide mutual benefits to both the Group and the Parent Group. From the Group's point of view, the stable supply of products and provision of services by the Parent Group allow the Group to have an assured level of quantity in the product supply and the provision of services for its daily production, while the sale of products and provision of services to the Parent Group contributes to the Group's turnover. The executive Directors advised us that they are satisfied with the quality of products, services, and construction and engineering work provided by the Parent Group and that the Group had not encountered any difficulties in collecting sales proceeds from the Parent Group.

The Existing CCT Agreement will expire on 31 December 2018. The executive Directors are of the view that it is in the interests of the Company and the Shareholders as a whole to continue to carry out the continuing connected transactions contemplated under the New CCT Agreement for the coming three years ending 31 December 2019, 2020 and 2021.

As disclosed in the Company's 2017 annual report, it is expected from 2018 to 2020, there will be higher requirements on capacity, quality and performance of steel and high-grade demands still have great potential of increase. To enhance the competitiveness of the Group, the Company is proceeding with the restructuring of production lines to quicken the pace of upgrading of products, improve product quality and develop high-end customers. It is therefore expected that more services, products and construction engineering are required for the construction of new production lines and upgrading of the existing production facilities. As set out in the sub-section headed under "Background to and reasons for the transactions" under the sub-section headed "Procurement of Energy Saving and Environmental Protection Construction and Services and sales of power, energy medium and finished products by the Company from/to Anhui Xinchuang" above of this letter, the PRC government is imposing more stringent requirements on energy saving and environmental protection. The executive Directors expect more services, products and construction engineering are required to upgrade the existing production facilities of the Group in order to meet the regulatory requirements on environmental protection imposed by the PRC government. In addition, the costs incurred by the Parent Group in providing services to the Group, such as transportation and integrated port services, is increasing as the Parent Group needs to comply with the higher environmental protection standards as mentioned above. As advised by the executive Directors, with the improvement of the Group's overall production efficiency, it is expected that the Group will be able to provide more services and products to the Parent Group in order to contribute to the Group's turnover.

As set out in the section headed "Supplementary CCT Agreement" in the "Letter from the Board" contained in the Circular, the actual transaction amount of sales of Services and Products to the Parent Group and the procurement of Services, Products and Construction Engineering from the Parent Group for the five months ended 31 May 2018 representing approximately 40.8% and 50.8% of the Existing Annual Caps for 2018 respectively. Taking into account the factors above, the executive Directors expected that the Existing Annual Caps for 2018 for the continuing connected transactions between the Group and the Parent Group may not be sufficient. Consequently, it is proposed that the Existing Annual Caps for 2018 be increased to the Proposed Revised Caps in accordance with the Supplementary CCT Agreement entered into between the Group and the Parent Group on 15 August 2018. In addition, as stated in the section headed "Supplementary CCT Agreement" in the "Letter from the Board" contained in the Circular, all existing key terms and conditions under the Existing CCT Agreement remain unchanged. Details of all the existing key terms and conditions under the Existing CCT Agreement are set out in the section headed "Supplementary CCT Agreement" in the "Letter from the Board" contained in the Circular and the Company's circular dated 19 October 2015. Further details of the Proposed Revised Cap with respect to the sales and procurement of goods and services by the Group to/from the Parent Group are set out in the sub-section headed "The Proposed Annual Caps" of this letter below.

2. Principal terms of the transactions

The New CCT Agreement was entered into on 15 August 2018. Principal terms of the New CCT Agreement are set out in the section headed "New CCT Agreement" in the "Letter from the Board" in the Circular. Summary of the principal terms of the New CCT Agreement is as follows:

(i) Duration

The New CCT Agreement shall have a duration for the three financial years ending 31 December 2019, 2020 and 2021. Pursuant to the New CCT Agreement, both parties have the right to terminate part or all of the transactions contemplated under the New CCT Agreement by giving at least one-month notice in writing to the other.

(ii) Products and services involved

Pursuant to the New CCT Agreement, the following continuing connected transactions will be conducted between the Group and the Parent Group, namely (a) sale of products by the Group to the Parent Group; (b) provision of services by the Group to the Parent Group; (c) procurement of products by the Group from the Parent Group; and (d) procurement of services by the Group from the Parent Group. Further details of the services and products are as follows:

(a) Sale of products by the Group to the Parent Group

The Group has agreed to supply electricity, living water, industrial treated water, blast furnace gas, coke oven gas, converter gas, steam, compressed air, other gases, steel, steel ingot, accessories, materials (stainless steel band, cable, tool, etc.), coke powder, iron scales and other products (labour protection and office supplies, etc.) to the Parent Group.

(b) Provision of services by the Group to the Parent Group

The Group has agreed to provide services, including providing entrusted steel billets processing, metering services, inspection services and other services to the Parent Group.

(c) Procurement of products by the Group from the Parent Group

The Group has agreed to purchase refractory materials, spare-parts and complete equipment, non-standard spare-parts and other products (coke, pig iron, coal, etc.) from the Parent Group.

(d) Procurement of services by the Group from the Parent Group

The Parent Group has agreed to provide infrastructure technical and renovation engineering services, water and land transportation and related services, including highway transport, waterway transport, integrated port services (including cargo loading and unloading, storage, lump ore screening, transfer and short-distance handling, weighing, pickup and delivery, etc.), storage and delivery services, equipment (facility) maintenance services for production support, overhaul and medium maintenance of equipment, project and maintenance services for electrical, motor and transformer, operation and maintenance service and modification regarding automation and informatization, wheel processing services, agency services and automobile repair, monitoring and diagnostic services and related services to the Group.

(iii) Pricing

The Company and the Parent Company agreed to adopt an appropriate, reasonable and fair pricing method in accordance with the principle of fairness in formulating the transactions under the New CCT Agreement. The price shall be based on (1) state-prescribed price; or (2) in the absence of state-prescribed price, market price to be determined through open tenders, price comparison, arm's length negotiations between the parties, and based on normal commercial terms. The price for the services and products to be provided by the Group to the Parent Group shall not be lower than the price of the same type of services and products provided by the Group to the independent third parties. The price for the services, products and construction engineering to be provided by the Parent Group to the Group shall not be higher than the price of the same type of services, products and construction engineering offered by the independent third parties to the Group. As set out in the section headed "New CCT Agreement" in the "Letter from the Board" contained in the Circular, in accordance with the current pricing standards, except that electricity, domestic water and industrial treated water the Group sells or provides to the Parent Group is priced as per the latest government price, other transactions under the New CCT Agreement are priced based on market price.

We understand from the management of the Company that currently electricity provided by the Group to the Parent Company is priced based on the state-prescribed price stipulated in the "National Development and Reform Commission's Notice on the Adjustment of Industrial and Commercial Electricity Price (NDRC Price Adjustment [2018] No. 59)《安徽省物價局轉發國家發展改革委關於降低一般工商業電價有關事項的通知(皖價商[2018] 59號)》", the living water are priced based on the state-prescribed price stipulated in "Notice on the Implementation of the Ladder Water Price for the Living Water Consumed by Residents Living in the Main Urban Area of Maanshan City (Price Adjustment [2015] No. 16)《關於馬鞍山市主城區居民生活用水實行階梯水價的通知》(馬發改價格文[2015] 16號)", and the industrial treated water are priced based on the state-prescribed price stipulated in the "Notice of the People's Government of Maanshan City in the PRC on the Adjustment of Water Supply Tariff and Water Resources and Sewage Treatment Tariff (Maanshan City Government Secretariat [2010] No. 65)《馬鞍山市人民政府關於調整城市供水價格和水資源費污水處理費的通知》(馬政秘[2010] 65號)". We have obtained and reviewed the above-mentioned notices on the state-prescribed prices, and we have noted that these notices provide clear pricing guidance for related products. The above transactions which are priced based on state-prescribed prices will be executed with the latest pricing documents issued by the PRC government (if any). As advised by the executive Directors, all the other transactions under the New CCT Agreement shall be priced based on market price obtained through, among other things, quotations from independent third party suppliers and service providers, recent transaction prices of the Group with independent third parties, price enquiry and comparison with industry players, researches on industry websites and attending events and gatherings organised by industrial associations. For the provision of services and supply of products by the Parent Group to the Group, the Group will request suppliers and service providers to provide quotations in respect of the requested services or the Group may award a contract through a tender process. It is the Company's practice to obtain at least three quotations and tenders.

Further details of the pricing mechanism on each major category of products and services which are priced based on market price, as advised by the executive Directors, are as follows:

(a) Sales of products by the Group to the Parent Group

The selling price of steel products (including steel and steel ingots) are priced with reference to the recent transaction prices of the Group with independent third parties which make reference to different commonly recognised industrial websites as described below. The Group makes reference to the recent selling prices of similar products to independent third parties when determining the actual transaction price. We understand from the management of the Company that in determining the selling prices of steel products (including steel and steel ingots), the Company also refers to the market prices of steel products sourced from different commonly recognised industrial websites such as the website of "SteelHome" (http://www.steelhome.cn) and makes adjustment according to different specifications such as type and quality of steel products. As stated in the sub-section headed "Internal control measures and review of continuing connected transactions" of this letter below, the marketing department will coordinate with other departments to conduct research on market prices for the continuing connected transactions. In view of the above, we consider that the pricing policy for determining the selling prices of steel products to be fair and reasonable.

(b) Provision of services by the Group to the Parent Group

The provision of entrusted steel billets processing services is priced based on recent market price obtained through price enquiry and price comparisons with industry players whom have the capability to provide similar processing services as the Group. Price enquiry and price comparisons will be conducted through, among others, conducting telephone calls and requesting price information by letters. The Company will also take into account the nature of actual services to be provided when determining the services fees. As recent market price will be adopted and the same pricing policy will be adopted in transactions with the Parent Group and independent third parties, we consider that the pricing policy for determining the fees of steel billets processing services to be fair and reasonable.

(c) Procurement of products by the Group from the Parent Group

The prices of refractory materials, and spare parts and complete equipment purchased from the Parent Group are determined through obtaining quotations from potential suppliers. The marketing department of the Group invites quotations from various suppliers (including the Parent Group and independent third parties) and compare the terms. The suppliers are selected by considering various factors after receiving the quotations. Further details of factors to be considered by the Group during the selection of suppliers are set out in the sub-section headed "Internal control measures and review of continuing connected transactions" of this letter below. We understand that the actual transaction price is based on the price stated on the quotation submitted by the selected supplier.

(d) Procurement of services by the Group from the Parent Group

For the procurement of infrastructure technical and renovation engineering services, and highway and waterway transport services, the Group awards a contract through tender process. The marketing department of the Group obtains tenders from various potential suppliers (including the Parent Group and independent third parties) and performs assessment based on a list of criteria. Further details of the tender process and the criteria to be considered by the Group are set out in the sub-section headed "Internal control measures and review of continuing connected transactions" of this letter below. We understand that the actual transaction price is based on the price stated on tender obtained from the selected supplier.

The procurement of overhaul and medium maintenance of equipment services are priced based on the recent transaction prices of the Group with independent third parties. The Group makes reference to the fees paid to independent third party services providers for providing similar services when determining the actual transaction price.

(iv) Other terms

During the term of the New CCT Agreement, the Company has the right to decide whether to enter into transactions with any independent third parties in respect of the transactions contemplated under the New CCT Agreement. Pursuant to the New CCT Agreement, the terms (including but not limited to pricing and payment) with respect to the continuing connected transactions should be conducted, after arm's length negotiations among parties, on normal commercial terms. For the provision of the services and products by the Group to the Parent Group, all terms shall not be more favourable than those offered to independent third parties by the Group for similar categories of services and products. For the provision of the services, products and construction engineering by the Parent Group to the Group, all terms shall not be less favourable than those offered by independent third parties to the Group for similar categories of services, products and construction engineering. As advised by the executive Directors, factors being considered by the Company during arm's length negotiations include pricing of the products/services, and suppliers and service providers' ability in meeting technical specifications and delivery schedule. The payments for the continuing connected transactions contemplated under the New CCT Agreement will be made (where applicable) (1) at the beginning of each month and settlement will be done on a monthly basis (regarding the sales of electricity, domestic water, industrial treated water, blast furnace gas, coke oven gas, converter gas, steam, compressed air, other gases, etc. by the Group to the Parent Group); (2) at the end of each month the estimated sum in advance for the sales with respect to the following month and settlement will be done on a monthly basis (regarding the sales of steel, ingot, coke, iron oxide and other products (labour insurance, office supplies, etc.) by the Group to the Parent Group); (3) for the sum for the sales with respect to the previous month and settlement will be done on a monthly basis (regarding the provision of further processing of steel billets, metering and detection services and related services by the Group to the Parent Group); (4) within thirty business days after receiving and verifying the quality of the goods (regarding the procurement of products by the Group from the Parent Group); (5) within 30 business days in accordance with the construction progress after confirmation by the Company's management department (regarding the procurement of infrastructure technical and renovation engineering services by the Group from the Parent Group); or (6) in accordance with the service progress and pay the Parent Group within 30 business days after the quality shall have been verified (regarding the procurement of water and land transportation and related services by the Group from the Parent Group). Further details of the payment terms are set out in the sub-section headed

"Payment" under the section headed "New CCT Agreement" in the "Letter from the Board" contained in the Circular. We understand from the executive Directors that, dependent on the item/service within a particular category, the Group/Parent Group provided similar services to independent third parties. We have reviewed sample documents obtained from the Company in relation to transactions covering the above six categories, and where applicable, sample documents of comparable transactions conducted with independent third parties, and note that in such circumstances (involving sales of electricity), the payment terms offered to the Parent Group by the Group are no more favourable than that offered to independent customers. Further, we note from the Company's 2017 annual report that the normal credit term of the Group's trade receivables is thirty to ninety days. Accordingly, the credit term offered to the Parent Company for sales of products and provision of services is within the range/more favourable to the Group as compared with the normal credit terms of the Group's trade receivables as stated in the 2017 annual report of the Company. As stated in the 2017 annual report of the Company, the normal credit term of the Group's accounts payable is within three months. The credit term for procurement of products and services from the Parent Group is within the range of the normal credit terms of the Group's accounts payable as stated in the 2017 annual report of the Company.

3. *The Proposed Annual Caps*

(i) Sale of products by the Group to the Parent Group

Products sold by the Group to the Parent Group include water, electricity and gas, and other products.

Sales of water, electricity and gas

Set out below are the approximate aggregate amounts (excluding tax) of sale of water, electricity and gas by the Group to the Parent Group for the two financial years ended 31 December 2016 and 2017 and the five months ended 31 May 2018:

	Financial year ended 31 December		**Five month ended 31 May**
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Approximate aggregate amount (excluding tax) of sales of water, electricity and gas	80,231.3	90,800.7	39,508.8
Approximate increase as compared to the previous year *(%)*		13.2%	

As discussed in the sub-section headed "Background to and reasons for the transactions" under the sub-section headed "Sales and procurement of goods and services by the Group to/from the Parent Group" above, the Group has been supplying water, electricity and gas to the Parent Group. The two major items in this category are electricity and coke oven gas with a total amount contributing to approximately 59%, 62% and 75% respectively of the aggregate amount of sale of water, electricity and gas for the two financial years ended 31 December 2016 and 2017 and the five months ended 31 May 2018. Vapour produced during the iron and steel production process is used to generate electricity in the Group's power plant. This is one of the measures adopted by the Group for environmental protection. Coke oven gas is a co-product during the production process of the Group. Electricity and coke oven gas will be consumed by the Group with remaining amount to be supplied to other parties to generate revenue of the Group. The monthly average amount of the sale of water, electricity and gas by the Group to the Parent Group increased from 2017 as the Company could generate more water, electricity and gas with its increase in production volume.

When estimating the Proposed Revised Caps and the Proposed Annual Caps for the sale of water, electricity and gas by the Group to the Parent Group, in addition to considering its own production plan, the Company discussed with the management of the Parent Group regarding its business and development plan. The executive Directors understand from the management of the Parent Group that it has plan for further business development following the steady rising trend in steel industry since 2017. Accordingly, the executive Directors estimate that more water, electricity and gas will be consumed by the Parent Group in terms of volume for the rest of 2018 and the three financial years ending 31 December 2019, 2020 and 2021, comparing to that for the financial year ending 31 December 2017. As mentioned in the sub-section headed "Principal terms of the transactions" under the sub-section headed "Sales and procurement of goods and services by the Group to/from the Parent Group" of this letter above, the price for the electricity, domestic water and industrial treated water provided by the Group to the Parent Company is based on the state-prescribed price and gas provided by the Group to the Parent Company is based on market price. It is estimated by the executive Directors that the unit price of water, electricity and gas will be generally stable. The executive Directors understand from the management of the Parent Group that the demand for water, electricity and gas from the Parent Group will be of similar level for the two financial years ending 31 December 2020 and 2021.

Sales of other products

Set out below are the approximate aggregate amounts (excluding tax) of sale of other products by the Group to the Parent Group for the two financial years ended 31 December 2016 and 2017 and the five months ended 31 May 2018:

	Financial year ended 31 December		Five months ended 31 May
	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*
Approximate aggregate amount (excluding tax) of sales of other products to the Parent Group	154,715.8	372,982.1	253,682.4
Approximate increase as compared to the previous year *(%)*		141.1%	

Sale of steel products (including steel and steel ingots) contributed to a major portion of sale of other products, with amounts of approximately RMB127.0 million, RMB301.8 million and RMB228.1 million for the for two financial years ended 31 December 2016 and 2017 and the five months ended 31 May 2018 respectively. The monthly average amount of sale of steel products (including steel and steel ingots) increased from approximately RMB10.6 million for the year ended 31 December 2016 to approximately RMB25.2 million for the year ended 31 December 2017, and further increased to approximately RMB45.6 million for the five months ended 31 May 2018. As advised by the executive Directors, with the significant improvement of profitability in the iron and steel industry in 2017, demand of steel products from some entities controlled by the Parent Group, such as Masteel Engineering Technology (Group) Co., Ltd. and Masteel Heavy Machinery Manufacturing Co., Ltd., increased in 2017 compared to that in 2016. In addition, the consolidated steel price index, which reflects the domestic steel prices, increased by approximately 22% from the beginning of 2017 to the end of 2017 as stated in the Company's 2017 annual report. The steel industry continued to show an upward trend in the first five months of 2018. Based on the figures obtained from the Company which are sourced from the official website of China Iron and Steel Association (中國鋼鐵工業協會), a nation-wide iron and steel industry association, the consolidated steel price index as at the end of May 2018 increased by about 14.2% compared with the same period in 2017 and the monthly average amount of sale of steel products (including steel and steel ingots) further increased in the first five months of 2018.

It is expected that steel products (including steel and steel ingots) will be the major type of product with its estimated sales amounts account for approximately 81.6%, 82.2% and 83.0% of the Proposed Annual Caps with respect to the sales of products by the Group to the Parent Group for the three years ending 31 December 2019, 2020 and 2021 respectively. The estimated sales of coke powder and iron scales account for approximately 10% of this Proposed Annual Caps for each of the year 2019, 2020 and 2021. The remaining sales items are various accessories, materials, office supplies etc.. When determining the Proposed Revised Cap and the Proposed Annual Caps for the sale of other products by the Group to the Parent Group for 2018 and the coming three years from 2019 to 2021, the executive Directors have taken into account the anticipated production capacity of the Group and the production plan of the Parent Group.

It is expected that the estimated volume of steel products (including steel and steel ingots) to be sold by the Group to the Parent Group is approximately 178,500 tonnes, 201,000 tonnes and 226,600 tonnes for 2019, 2020 and 2021 respectively. As advised by the executive Directors, they have discussed with the management of the Parent Group regarding their business and development plan. In view of the 13th Five-Year Plan, the Parent Group has plans to expand its businesses such as engineering contracting, heavy machine manufacturing and logistic equipment manufacturing, etc. in the next few years. The executive Directors expect the above initiatives will lead to an increase in the Parent Group's demand for steel products (including steel and steel ingots). We noted from a report compiled by an international accounting firm regarding the business opportunities analysis for Chinese and foreign businesses under the 13th Five-Year Plan dated October 2016 that the development of iron and steel industry is one of the major focuses of the PRC government from 2016 to 2020. As stated in the above-mentioned report, the PRC government carries out a number of measures to promote the transformation and upgrading of the iron and steel industry, including encouraging intelligent manufacturing, research and development of high-end products and promoting market consumption. We consider the basis adopted by the executive Directors in estimating an increase in the Parent Group's demand for steel products (including steel and steel ingots) in 2019 to 2021, with the expected growth of the Parent Group's businesses under the 13th Five-Year Plan to be reasonable.

As set out in the sub-section headed "Background to and reasons for the transactions" under the sub-section headed "Sales and procurement of goods and services by the Group to/from the Parent Group" of this letter above, the Company is proceeding with the restructuring and upgrading of the production facilities so the executive Directors expect the number of contracts awarded to the Parent Group in relation to, among other things, infrastructure and equipment engineering and maintenance services will increase. As a result, it is expected that the demand for steel and steel ingots (an intermediate steel products) from the Parent Group to carry out the above-mentioned infrastructure and equipment engineering and maintenance services will increase since 2018. As disclosed in the sub-section headed "Procurement of infrastructure technical and renovation engineering services" under the sub-section headed "Sales and procurement of goods and services by the Group to/from the Parent Group" of this letter below, we noted from the calculation provided by the management of the Group that the average monthly procurement amount of infrastructure technical and renovation engineering services for the year ended 31 December 2017 was approximately RMB55.8 million, and the estimated average monthly procurement amounts for the year ending 31 December 2018 and 2019 are both approximately RMB112.5 million. In view of the above, as more of these contracts may be awarded to the Parent Group, the demand for steel products from the Parent Group is expected to increase. We consider that the Proposed Annual Caps will allow the Group to capture more business opportunities with the Parent Group during the growth of the Parent Group's businesses under the 13th Five Year Plan initiatives which are in the interest of the Group. As advised by the executive Directors, the production volume of the Group increased in 2017 and they are of the view that the Group will be able to provide a larger amount of steel products to the Parent Group in the rest of 2018 and for the coming three years from 2019 to 2021.

Recent selling prices have also been used by the executive Directors to estimate the amount of sales for 2018 and the three years ending 31 December 2021. As mentioned in this sub-section above, the consolidated steel price index, which reflects the domestic steel prices, continued to show an upward trend from the beginning of 2017 to the end of May 2018. Since the beginning of June and up to mid-September 2018, the consolidated steel price index further surged by approximately 6%. As steel price experienced a recovery since 2017, the executive Directors estimate the selling price of steel and steel ingots (an intermediate steel products) will be at a similar level ranging from approximately RMB3,500 per tonne to RMB4,900 per tonne from 2019 to 2021. We performed a search on Bloomberg on the future forecasts on general steel price made by a number of analysts and noted that the average of their forecasts shows a slight decreasing trend of price from 2019 to 2022. Despite this, in order to allow for flexibility for future price fluctuations and to capture business opportunities for the Group, we concur with the executive Directors that the basis adopted in estimating future selling prices of steel and steel ingots when determining the relevant Proposed Annual Caps to be reasonable.

When determining the Revised Proposed Cap and the Proposed Annual Caps regarding the sales of coke powder and iron scales, and also the remaining items including various accessories, materials, and office supplies, the management of the Company has taken into account the historical sales figures of relevant transactions. Taken into account the sales amount of coke powder and iron scales of approximately RMB28.4 million during the first five months of 2018 (representing a monthly average of approximately RMB5.7 million), and the expected increase in the sales amount of coke powder and iron scales due to the stringent environmental regulation requirement imposed by the PRC government, the executive Directors estimate that the Revised Proposed Cap and the Proposed Annual Caps regarding the sales of coke powder and iron scales will be in a monthly average of approximately RMB5.8 million to RMB8.3 million for 2018 to 2021. The executive Directors consider that a reasonable basis had been adopted in estimating the Revised Proposed Cap and the Proposed Annual Caps and we concur in this regard.

Taking into account the aforesaid factors, including, among other things, the estimated quantity of water, electricity, gas and other products to be sold and estimated state-prescribed price/future selling price, the Proposed Revised Caps (excluding tax) and the Proposed Annual Caps (excluding tax) for the sale of products by the Group to the Parent Group are set as follows:

	Financial year ending 31 December			
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Sales of water, electricity and gas	160,000.0	165,000.0	170,000.0	175,000.0
Sales of other products	707,403.8	800,297.0	891,345.7	990,371.4
Proposed Revised Cap (excluding tax)/Proposed Annual Caps (excluding tax) for sales of products to the Parent Group	867,403.8	965,297.0	1,061,345.7	1,165,371.4
Approximate increase as compared to the annual cap of previous year *(%)*		11.3%	10.0%	9.8%

(ii) Provision of services by the Group to the Parent Group

Set out below are the approximate aggregate amounts (excluding tax) of provision of services by the Group to the Parent Group for the two financial years ended 31 December 2016 and 2017 and the five months ended 31 May 2018:

	Financial year ended 31 December		Five months ended 31 May
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Provision of services to the Parent Group	3,065.4	360.0	540.0
Approximate (decrease) as compared to the previous year *(%)*		(88.3)%	

Provision of entrusted steel billets processing contributed over 88% of the total amounts for provision of Services for the year ended 31 December 2016. For the year ended 31 December 2017 and the five months ended 31 May 2018, the Group provided metering services and other services to the Parent Group. The Company has its own metering facilities which meet the standard of the PRC authorities for contract and agreement use. Metering service is provided to the Parent Group for measuring the weight and the amounts of usage of materials or products. As advised by the executive Directors, the Company commenced the restructuring and upgrading of the Group's production facilities in 2017 and in response to the government's policy to cut overcapacity in the iron and steel industry, the Group shut off one blast furnace and one converter in 2017. Therefore, the Group temporarily suspended to provide entrusted steel billets processing services as less idle capacity was available in 2017 compared to the previous years.

When estimating the Proposed Revised Cap and the Proposed Annual Caps for the provision of services, the Company discussed with the management of the Parent Group regarding their demand for services, including entrusted steel billets processing services for the rest of 2018 and from 2019 to 2021. We understand from the management of the Company that the expected demand of steel billets processing services from the Parent Group is approximately 60,000, 500,000, 550,000 and 600,000 tonnes for 2018, 2019, 2020 and 2021 respectively based on the assumption that the business of the Parent Group will be expanded in the coming few years in view of the 13th Five-Year Plan as discussed above. As advised by the executive Directors, with the restructuring and upgrading of the Group's production facilities being carried out, the production efficiency of the Group is expected to increase. Also, the Group plan to introduce electric furnaces to replace some of the existing furnaces commencing 2020, which will further enhance the productivity of the Group, it is expected that continuous capacity will be available for the provision of entrusted steel billets processing services to the Parent Group. Taking into account the above and the steady rising trend in steel industry since 2017, the executive Directors estimate that the Group will provide more entrusted steel billets processing services to the Parent Group again commencing in the second half of 2018 and through to 2019. We noted from the 2017 annual report of the Company that the Group's utilisation rates of production capacity for different product types range from 87% to 94% in 2017. We also understand from the management of the Company that they estimated the capacity required to meet the Parent Group's demand of steel billets processing services as mentioned above will employ approximately 2% to 3% of the Group's total production capacity in the years from 2019 to 2021. Considering the above, it is expected that the Group will have sufficient production capacity to provide the entrusted steel billets processing services to the Parent Group given provision of such services is expected to occupy only a small portion of the Group's total production capacity from 2019 to 2021.

Taking into account the aforesaid factors, including, among other things, the estimated amount of services to be provided and the estimated service charge, the Proposed Revised Cap (excluding tax) and the Proposed Annual Caps (excluding tax) for the provision of services by the Group to the Parent Group are set as follows:

	Financial year ending 31 December			
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Proposed Revised Cap/ Proposed Annual Caps (excluding tax) for provision of services	19,569.0	83,874.0	83,874.0	83,874.0
Approximate increase as compared to the annual cap of previous year *(%)*		328.6%	0.0%	0.0%

(iii) Procurement of products by the Group from the Parent Group

Set out below are the approximate aggregate amounts (excluding tax) of purchase of Spare-parts, Fittings and Related Products by the Group from the Parent Group for the two financial years ended 31 December 2016 and 2017 and the five months ended 31 May 2018:

	Financial year ended 31 December		Five months ended 31 May
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Approximate aggregate amount (excluding tax) of purchase of Spare-parts, Fittings and Related Products from the Parent Group	1,075,434.5	1,419,553.6	985,574.0
Approximate increase as compared to the previous year *(%)*		32.0%	

Spare-parts, Fittings and Related Products include refractory materials, spare-parts and complete equipment, non-standard spare-parts and other products. Refractory materials, and spare-parts and complete equipment are the two major items in this category, with a total amount contributing to approximately 94.7%, 90.7% and 83.6% of the aggregate amount of purchase of Spare-parts, Fittings and Related Products for each of the year ended 31 December 2016 and 2017, and the five months ended 31 May 2018. The Group purchases refractory materials which are fire-resistant materials to protect the production facilities from damages and melting under high temperature during the production process of iron and steel. The Group also purchases spare-parts for repair and maintenance of the production equipment and complete equipment to be used in the production process.

The total purchase amount of Spare-parts, Fittings and Related Products for the year ended 31 December 2017 was approximately 32.0% higher than that of the year ended 31 December 2016. For the five months ended 31 May 2018, the monthly average purchase of Spare-parts, Fittings and Related Products increased by approximately 66.6% compared to the year ended 31 December 2017. Such increases were the result of the increase in purchase of refractory materials and spare-parts and complete equipment during 2017 and the first five months of 2018. As advised by the executive Directors, environmental protection pressure imposed by the PRC government urged the Company to use a larger volume and higher quality of refractory materials to protect the production facilities such as blast furnace. Also more spare-parts and complete equipment are required to repair and maintain the existing production equipment. The production of refractory materials requires substantial amounts of energy and resources. Some refractory materials emit poisonous pollutants during the production of iron and steel which are harmful to people's health. Under the PRC's government promotion of environmental protection, we understand that the Group should buy refractory materials with higher quality, which are produced with more environmental friendly materials and procedures, and discharge less pollutants during the production process. From an environmental perspective, we consider that it is reasonable to use more high quality refractory materials to protect the production facilities so that less materials will be required to maintain and repair the production facilities and less poisonous pollutants will be discharged. We are advised by the executive Directors that the prices of refractory materials and spare-parts and complete equipment increased in general since 2016 with growing demand in the iron and steel industry.

For the Proposed Revised Cap with respect to the procurement of products by the Group form the Parent Group of 2018, the expected procurement amounts of (i) refractory materials; and (ii) spare-parts and complete equipment account for approximately 56.0%, and 33.7% respectively, and the remaining amount is attributable to non-standard spare-parts and other products. The expected procurement amounts of (i) refractory materials; and (ii) spare-parts and complete equipment account for approximately 60% to 62%, and 28% to 30% respectively for each of 2019 to 2021, and the remaining amount is attributable to non-standard spare-parts and other products.

The executive Directors have estimated the Proposed Revised Cap and the Proposed Annual Caps for the purchase of products based on the business and development plan of the Group, especially the plan for production, repair and maintenance. The executive Directors advised us that the Group plans to carry out a number of construction and upgrading projects in 2018 and from 2019 to 2021 to improve the production efficiency of the Group and to meet the increasing stringent environmental protection requirement imposed by the PRC government. As a result, the executive Directors expect more products (such as refractory materials) will be required for the projects commencing the second half of 2018. We have obtained and reviewed the "Iron and steel enterprise ultra-low emission transformation work plan (draft for comments)"《鋼鐵企業超低排放改造方案(征求意見稿)》which is effective since 2018, and noted that all sizeable iron and steel companies are required to complete the transformation by the end of 2025 in order to meet the standard of air pollutant emission imposed by the PRC government. Accordingly, we concur with the executive Directors that it is necessary for the Group to continue using more high-quality refractory materials to offer more protection to the production facilities and discharge less pollutants during the production process in 2019, especially after a number of environmental protection policies (details of which are discussed in the sub-section headed "Background to and reasons for the transactions" under the sub-section headed "Procurement of Energy Saving and Environmental Protection Construction and Services and sales of power, energy medium and finished products by the Company from/to Anhui Xinchuang" above of this letter) became effective since 2018. With the estimated growing demand of high-quality refractory materials for the iron and steel industry, the executive Directors estimated that the price of refractory materials will increase in the future, especially in 2019 for the reasons as stated above. We consider that the executive Directors have a reasonable basis in deriving such estimation. For the two years ending 31 December 2020 and 2021, the executive Directors estimate that the purchase amount of products will not have significant increase comparing to that of 2019.

When determining the estimated amount regarding the procurement of spare-parts and complete equipment, non-standard spare-parts and other products, the management of the Company has taken into account the historical procurement figures of relevant transactions and the forecast of the Group's demand. We understand from the management of the Company that a stable volume of spare-parts and complete equipment are required each year (including 2018 to 2021) to repair and maintain the existing production facilities and equipment. Taking into account the actual total procurement amount of spare-parts and complete equipment amounted to approximately RMB249 million (representing a monthly average of approximately RMB50 million) for the first five months of 2018, and the expected increase in production facilities and equipment following the Group's restructuring and upgrading of production lines, it is estimated that the demand of spare-parts and complete equipment will be approximately RMB561 million to RMB612 million from 2018 to 2021 (representing a monthly average of approximately RMB47 million to RMB51 million). The average monthly procurement amount of non-standard spare-parts and other products is approximately RMB9.2 million during the first five months of 2018. Based on the historical transaction amount and the expected increase in the demand of non-standard spare-parts following the upgrade of the Group's production lines, the executive Directors estimate that the estimated amount regarding the procurement of non-standard spare-parts and other products to be approximately RMB172.4 million to RMB195.6 million (representing a monthly average of approximately RMB14.4 million to RMB16.3 million) from 2018 to 2021. The executive Directors consider that a reasonable basis has been adopted in estimating the above and we concur in this regard.

Taking into account the aforesaid factors, including, among other things, the estimated amount of products needed and estimated price trend, the Proposed Revised Cap (excluding tax) and the Proposed Annual Caps (excluding tax) for procurement of products by the Group from the Parent Group are set as follows:

	Financial year ending 31 December			
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Proposed Revised Cap (excluding tax) and Proposed Annual Caps (excluding tax) for procurement of products from the Parent Group	1,666,945.5	2,033,126.4	2,105,434.9	2,125,822.6
Approximate increase as compared to the annual cap of previous year *(%)*		22.0%	3.6%	1.0%

(iv) Procurement of services by the Group from the Parent Group

Services procured by the Group from the Parent Group include infrastructure technical and renovation engineering services and water and land transportation and related services.

Procurement of infrastructure technical and renovation engineering services

Set out below are the approximate aggregate amounts (excluding tax) of procurement of Infrastructure Technical and Renovation Engineering Services by the Group from the Parent Group for the two financial years ended 31 December 2016 and 2017 and the five months ended 31 May 2018:

	Financial year ended 31 December		**Five months ended 31 May**
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Approximate aggregate amount (excluding tax) of procurement of Infrastructure Technical and Renovation Engineering Services from the Parent Group	422,916.6	669,481.5	283,099.0
Approximate increase as compared to the previous year *(%)*		58.3%	

The amount of Infrastructure Technical and Renovation Engineering Services provided by the Parent Group to the Group during the relevant years and period depends on, among other things, the number and size of contracts carried out, the number and size of new contracts awarded, and the progress of the construction and engineering work. As discussed in the sub-section headed "Background to and reasons for the transactions" under the sub-section headed "Sales and procurement of goods and services by the Group to/from the Parent Group" above of this letter, the Company is undergoing a restructuring and upgrading of production facilities to enhance the competitiveness of the Group. As stated in the Company's 2017 annual report, a number of construction projects were completed and put into use, while some other projects such as heavy-duty H beam and medium section steel upgrading renovation were in progress. Accordingly, the amount of Infrastructure Technical and Renovation Engineering Services needed by the Group increased in 2017. The average monthly procurement amount of Infrastructure Technical and Renovation Engineering Services for the 5 months ended 31 May 2018 remained stable compared to that of 2017.

When estimating the Proposed Revised Cap and the Proposed Annual Caps for infrastructure technical and renovation engineering services provided by the Parent Group for the year ending 31 December 2018 and the three years ending 31 December 2019, 2020 and 2021, the executive Directors have taken into account, among other things, the business plan of the Group, the anticipated need for technical and renovation services by the Group for different projects and the anticipated capacity of the Parent Group in providing such technical and renovation services. We have reviewed a summary of the Group's plan of infrastructure technical and renovation engineering services for the three years from 2019 to 2021. We understand from the executive Directors that they have discussed with the management of the Parent Group regarding its business plan and understand that the Parent Group will only be interested in certain of the technical and renovation projects of the Group for the rest of 2018 to 2021 taking into account the Parent Group's own capacity and business plans. Therefore, we note from the aforesaid summary that only parts of the total budgeted expenditure have been included in the proposed value of service contracts which may be awarded to the Parent Group from 2019 to 2021. We have reviewed a minute of a meeting between the Company and the Parent Group which summarises the key infrastructure technical and renovating engineering services and the contract value which may be awarded to the Parent Group from 2018 to 2021. According to the meeting minute, the Parent Group is capable and interested in providing the key infrastructure technical and renovating engineering services stated in the minute. We note that the above-mentioned key contracts value forms the basis of estimating the Proposed Revised Cap and the Proposed Annual Caps for this category for 2018 and the three years ending 31 December 2021. We understand from the Company that the key infrastructure technical and renovating engineering services referred to in the minute include construction projects (including, among others, (i) construction of production line for steel rolling of heavy H-shaped steel, beam blank continuous casting machine in production line of heavy H-shaped steel and other supporting facilities and infrastructure upgrading projects; (ii) construction of square billet continuous casting machine for newly-built six machines and six production lines in No. 1 Steel Rolling Factory; and (iii) construction of galvanization lines as mentioned in this section below) and infrastructure upgrading projects (including, among others, (i) upgrading of long products manufacturing and other supporting facilities; (ii) flue gas desulfurization and/or denitration; (iii) construction of dust-proof and wind-proof shed; and (iv) change of converters into electric furnaces as mentioned in this section below). Contract value to be awarded to the Parent Group for each major type of infrastructure technical and renovating engineering services was also discussed among the Group and the Parent Group with the amount recorded in the minute. Taken into account that the management of the Company considered, among other things, the commencement date and estimated contract value of the expected projects in estimating the Proposed Annual Caps with respect to the infrastructure technical and renovating engineering services to be provided by the Parent Group in each of the coming three years (the commencement date and estimated contract value of the major projects are stated in this section below), we consider that the Company has adopted a reasonable basis in estimating the Proposed Annual Caps.

As stated in the Company's 2017 annual report, some projects were in progress during the year of 2017. As advised by the executive Directors, some of those projects, namely upgrading of products manufacturing and other supporting facilities (including medium section steel upgrading renovation as stated in the Company's 2017 annual report), dry quenching project and construction of square billet continuous casting machine are expected to be completed by 2019. The respective expected contract values of those projects are considered as part of the Proposed Annual Caps for infrastructure technical and renovation engineering services provided by the Parent Group for the years ending 31 December 2018 and/or 2019 as disclosed in this section below.

For 2018, the executive Directors advised us that infrastructure technical and renovation engineering services that have been awarded to the Parent Group will include mainly (i) construction of production line for steel rolling of heavy H-shaped steel, beam blank continuous casting machine in production line of heavy H-shaped steel and other supporting facilities of approximately RMB650 million; (ii) upgrading of long products manufacturing and other supporting facilities of approximately RMB300 million; and (iii) construction of square billet continuous casting machine for newly-built six machines and six production lines in No. 1 Steel Rolling Factory of approximately RMB100 million. As an overall strategy to improve its competitiveness, the Group has been in the process of carrying out modification and upgrading of its production facilities. It is expected that the construction of heavy H-shaped steel production line and continuous casting machine and the upgrading of manufacturing and other supporting facilities (including heavy-duty H beam project as stated in the Company's 2017 annual report) will help the Group to improve the product quality and production efficiency. The construction of heavy H-shaped steel production line, the continuous casting machine and other supporting facilities commenced in 2018 and is expected to be the major project of the Group in both 2018 and 2019, and it is estimated that the transaction amount relating to this project will decrease in 2020 and 2021.

For the year ending 31 December 2019, the executive Directors estimate that the key infrastructure technical and renovation engineering services that may be awarded to the Parent Group will include (i) construction of production line for steel rolling of heavy H-shaped steel, beam blank continuous casting machine in production line of heavy H-shaped steel and other supporting facilities of approximately RMB670 million; (ii) construction of galvanization lines of approximately RMB250 million; and (iii) construction of dust-proof and wind-proof shed of approximately RMB100 million. As advised by the executive Directors, the galvanization lines are constructed for production of galvanized steel products, which is one of the steps for broadening the products range of the Group. In order to comply with the increasingly stringent requirements imposed by the PRC government on environmental protection, the executive Directors expected that the construction of dust-proof and wind-proof shed to start in 2019 and more resources will be diverted in the same construction project for 2020 and 2021.

For the year ending 31 December 2020, the executive Directors estimate that the key infrastructure technical and renovation engineering services that may be awarded to the Parent Group will include (i) construction of dust-proof and wind-proof shed of approximately RMB370 million; (ii) change of converters into electric furnaces of approximately RMB300 million; (iii) construction of production line for steel rolling of heavy H-shaped steel, beam blank continuous casting machine in production line of heavy H-shaped steel and other supporting facilities of approximately RMB130 million; and (iv) flue gas desulfurization and/or denitration of approximately RMB100 million. It is expected that the introduction of electric furnaces to replace converters will increase the production efficiency and at the same time enhance the environmental protection ability of the production plant. The executive Directors estimated that the replacement of converters by electric furnaces will be a major project of the Group for both 2020 and 2021. Flue gas desulfurization and/or denitration will be carried out by the Group to meet the increasing stringent regulation imposed by the PRC government on the emission of air pollutants.

For the year ending 31 December 2021, the executive Directors estimate that the key infrastructure technical and renovation engineering services that may be awarded to the Parent Group will include (i) construction of dust-proof and wind-proof shed of approximately RMB450 million; (ii) change of converters into electric furnaces of approximately RMB300 million; and (iii) renovation of 3rd iron plant's blast furnace of approximately RMB100 million. It is expected that the renovation of blast furnace will improve the production efficiency of existing production facilities.

A table is set out below which summarises the expected contract values which have been/may be awarded to the Parent Group under each category:

	Financial year ending 31 December			
	2018	**2019**	**2020**	**2021**
	RMB('000)	*RMB('000)*	*RMB('000)*	*RMB('000)*
Construction of production line for steel rolling of heavy H-shaped steel, beam blank continuous casting machine in production line of heavy H-shaped steel and other supporting facilities	650,000	670,000	130,000	50,000
Upgrading of long products manufacturing and other supporting facilities	300,000	50,000	–	–
Construction of square billet continuous casting machine for newly-built six machines and six production lines in No. 1 Steel Rolling Factory	100,000	10,000	–	–
Flue gas desulfurization and/or denitration	10,000	50,000	100,000	–
Construction of galvanization lines	–	250,000	–	–
Construction of dust-proof and wind-proof shed	–	100,000	370,000	450,000
Dry quenching project	–	80,000	–	–
Change of converters into electric furnaces	–	–	300,000	300,000
Renovation of 3rd iron plant's blast furnace	–	–	–	100,000
Other services and miscellaneous projects	290,000	140,000	200,000	100,000
Proposed Revised Cap/ Proposed Annual Caps	**1,350,000**	**1,350,000**	**1,100,000**	**1,000,000**

Procurement of water and land transportation and related services

Set out below are the approximate aggregate amounts (excluding tax) of procurement of Water and Land Transportation and Related Services by the Group from the Parent Group for the two financial years ended 31 December 2016 and 2017 and the five months ended 31 May 2018:

	Financial year ended 31 December		Five months ended 31 May
	2016	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Approximate aggregate amount (excluding tax) of procurement of Water and Land Transportation and Related Services from the Parent Group	902,244.2	1,854,430.7	880,739.3
Approximate increase as compared to the previous year *(%)*		105.5%	

Water and Land Transportation and Related Services provided by the Parent Group to the Group include highway transport, waterway transport, integrated port services, equipment (facility) maintenance services for production support, overhaul and medium maintenance of equipment, operation and maintenance service and modification regarding automation and informatization (together as the "**Key Items**"), project and maintenance services for electrical, motor and transformer, lifting logistics services, agency services and related services. Among those services mentioned above, the Key Items accounted for approximately 77.4%, 77.2% and 82.8% respectively of the aggregate amount of procurement of Water and Land Transportation and Related Services for the two years ended 31 December 2016 and 2017 and the five months ended 31 May 2018.

Highway transport refers principally to transportation services of materials and products between the port/train station and the production plant of the Group. Waterway transport is mainly used by the Group to transfer raw materials, semi-products and other products by waterway transportation means. Integrated port services are mainly provided to the Group at the port in Maanshan City for handling the raw materials purchased by the Group through waterway, and the iron and steel products delivered through waterway. Overhaul and medium maintenance of equipment is the scheduled overhaul services for the production equipment and facilities while equipment (facility) maintenance services for production support are the daily maintenance services for the production equipment and facilities. Operation and maintenance service and modification regarding automation and informatization relates to information technology services provided by the Parent Group to the Group for system maintenance and development.

For the year ended 31 December 2017, the total procurement amount of Water and Land Transportation and Related Services by the Group amounted to approximately RMB1,854.4 million, representing an increase of approximately 105.5% from the total procurement amount of RMB902.2 million in 2016. As advised by the executive Directors, the increase in the total procurement amount in 2017 was mainly contributed by the increase in highway transport, waterway transport and logistics, integrated port services, equipment (facility) maintenance services for production support, and overhaul and medium maintenance of equipment. As stated in the Company's 2017 annual report, a number of construction projects, such as the high-speed shaft production line, the comprehensive use project of the steel slag and the galvanization line regarding the steel sheet, were completed and put into use in 2017. Therefore there was higher demand for daily maintenance services for the production equipment and facilities in 2017. More transportation and logistics services are also required by the Group for delivery of raw materials, semi-products and the iron and steel products as a result of the increase in the Group's production volume in 2017 and during the restructuring and upgrading of the Group's production facilities since 2017. Following the completion of more construction and renovation projects, the monthly average amount of procurement of Water and Land Transportation and Related Services by the Group for the five months ended 31 May 2018 increased by approximately 14.0% compared to that of 2017.

When estimating the Proposed Revised Cap and the Proposed Annual Caps for Water and Land Transportation and Related Services for the year ending 2018 and for the three years ending 2019 to 2021, the executive Directors made reference to the business and development plan of the Group and the Parent Group. As discussed above, the Group is now in the process of constructing a heavy H-shaped steel production line and upgrading of long products manufacturing and other supporting facilities. We have reviewed a summary of the Group's plan of infrastructure technical and renovation engineering services for the three years from 2019 to 2021 and noted that it is also expected the construction of galvanization lines will commence in 2019. The executive Directors expected that more facility maintenance services are required for the rest of 2018 and the coming three years from 2019 to 2021. In addition, the executive Directors anticipated that the labour costs to be incurred in the equipment (facility) maintenance services for production support and overhaul and medium maintenance of equipment will increase in the coming few years. We noted from the website of the Statistics Department of Anhui Province that the average annual salary of employees in non-private units in Anhui Province increased year on year by approximately 7% in 2016 and approximately 10% in 2017, and we consider that the Company has a reasonable basis for estimating an increasing trend of labour costs in Anhui Province in the coming few years. Also, in order to meet the increasingly stringent requirements on energy saving and environmental protection imposed by the PRC government, it is necessary for the Parent Group to upgrade the equipment and facilities used to provide transportation and integrated port services therefore the costs to be incurred by the Parent Group in providing such services to the Group are expected to increase for coming years. Accordingly, the executive Directors expect a higher service fee will be charged by the Parent Group for the provision of highway transport, waterway transport and integrated port services to the Group in the coming few years. For the two years ending 31 December 2020 and 2021, the executive Directors adopt the same basis in estimating the amount with respect to procurement of water and land transportation and related services by the Group from the Parent Group and estimate that such amount for each of 2020 and 2021 will be at a level similar to that of 2019. Taking into account factors summarised above, we consider the basis for determining the estimated amount for procurement of water and land transportation and related services to be fair and reasonable.

Taking into account the aforesaid factors, including, among other things, the expected contract values which have been and may be awarded to the Parent Group, the estimated amount of services and the estimated service charge, the Proposed Revised Cap (excluding tax) and the Proposed Annual Caps (excluding tax) for procurement of services by the Group from the Parent Group are set as follows:

	Financial year ending 31 December			
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Procurement of infrastructure technical and renovation engineering services	1,350,000.0	1,350,000.0	1,100,000.0	1,000,000.0
Procurement of water and land transportation and related services	2,497,916.8	2,744,340.8	2,902,740.1	3,010,140.3
Proposed Revised Cap (excluding tax)/Proposed Annual Caps (excluding tax) for procurement of services from the Parent Group	3,847,916.8	4,094,340.8	4,002,740.1	4,010,140.3
Approximate increase/ (decrease) as compared to the annual cap of previous year *(%)*		6.4%	(2.2)%	0.2%

(D) Provision of loan services by the Group to the Parent Group

1. Background to and reasons for the transactions

The Finance Company is owned as to 91% by the Company and is a non-banking 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 loan services, discounting services and settlement services to the Parent Group. Further details of the services provided by the Finance Company are set out in the section headed "New Financial Services Agreement" in the "Letter from the Board" contained in the Circular. As the applicable percentage ratios in respect of the provision of loan services under the Financial Services Agreement, on annual basis, is expected to exceed 5%, the continuing connected transactions and Proposed Annual Caps in respect of the provision of loan services by the Finance Company to the Parent Group are subject to, among other things, independent shareholders' approval under the Listing Rules.

On 27 December 2017, the Finance Company and the Parent Group entered into the existing financial services agreement for the year of 2018 and such agreement will expire on 31 December 2018. The Group intends to enter into the New Financial Services Agreement with the Parent Group to continue to govern and regulate the financial services to be provided by the Finance Company to the Parent Group. The funds from the Parent Group deposited with the Finance Company are financial assistance provided by the Parent Group at normal commercial terms or better for the interests of the Group, and are not secured by the assets of the Group. On the other hand, through providing loans and other financial services to the Parent Group, the Group can benefit from the net interests and service fees received by the Finance Company. For the year ended 31 December 2017, the Finance Company recorded audited net profit of approximately RMB200 million, representing an increase of approximately 84.2% compared to 2016. As at 31 December 2017, the audited net assets of the Finance Company amounted to approximately RMB2,769 million. In view of (i) more available surplus funds and funding needs are anticipated from the Parent Group as a result of future business demand; (ii) increase in net interests and service fees received by the Finance Company will contribute to the Group's revenue; and (iii) terms under the New Financial Services Agreement and internal control measures are in place to safeguard the interest of the Group (as discussed in this letter below), the executive Directors consider that it is in the interests of the Company and the Shareholders as a whole to continue the transactions contemplated under the New Financial Services Agreement with the Parent Group for the coming three years ending 31 December 2019, 2020 and 2021.

2. Principal terms of the transactions

The New Financial Services Agreement was entered into on 15 August 2018, whereby the Finance Company agreed to provide the Parent Group with deposit services, loan services and other financial services for a term commencing 1 January 2019 to 31 December 2021. Pursuant to the New Financial Services Agreement, the Finance Company has the right to decide whether or not to provide all or certain financial services to the Parent Group and the Parent Group has no obligations to retain the Finance Company as its sole provider of financial services. Further details of the Financial Services Agreement are set out in the section headed "New Financial Services Agreement" in the "Letter from the Board" in the Circular. A summary of the principal terms is set out below:

(i) Pricing and payment terms

Pursuant to the New Financial Services Agreement, for the provision of loan services to the Parent Group, the loan interests and fees charged are determined with reference to the base interest rates quoted by the PBOC; and not lower than interest rates for loans of similar nature under similar term charged to the Parent Group by other independent commercial banks or financial institutions in the PRC. The Parent Group must provide pledge or other guarantee to the Finance Company upon request. Specific terms (including repayment terms) of the loans to be provided will be set out in individual loan agreements entered between the Finance Company and the borrower. As advised by the executive Directors, under general circumstances, the Parent Group shall pay interest on the loans on a monthly basis or such other interval as provided in separate agreements. Principal amounts of the loans shall be repaid with outstanding interests upon maturity of the loans.

(ii) Other terms

Set out below are other key terms in relation to the provision of loan services under the New Financial Services Agreement:

- The balance of the total amount of loans provided by the Finance Company to the Parent Group and accrued interests receivable at the end of each day shall not be higher than the total amount of deposits placed by the Parent Group and accrued interests payable;

- In the event that the Parent Company or its subsidiaries are in breach of the New Financial Services Agreement or its credit rating is downgraded, the Finance Company has the right to request the deposited funds to be increased or demand early loan repayment, or cease to payout any unutilized loan facility, and can utilise the deposited funds maintained with it to offset the outstanding loan amount due from the borrower;

- If the withdrawal of funds of the Parent Group will result in the loan balance being higher than the deposited funds, the Finance Company has the right to limit its withdrawal until the completion of the early repayment; and

- The Parent Company undertakes that it shall repay any outstanding loan amount owed to the Finance Company in the event that its wholly-owned subsidiaries fail to make its repayment obligations. The Finance Company undertakes that the loan amount to be provided to any non-wholly owned subsidiaries of the Parent Company shall not exceed RMB500 million.

Having considered that (i) the loan interests charged are determined with reference to the base interest rates quoted by the PBOC and not lower than interest rates for loans of similar nature under similar term charged to the Parent Group by other independent commercial banks or financial institutions in the PRC; and (ii) other key terms contained in the New Financial Services Agreement which offers protection to the Finance Company as lender as set out above, we are of the view that the terms as regards the provision of loan services under the New Financial Services Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

3. Internal control procedures

The Parent Group can apply for the provision of loan services from the Finance Company anytime when necessary, and the Finance Company shall provide such loan services in accordance to the terms and amounts of the applications and in accordance with applicable laws. We have obtained and reviewed the risk management policy for transactions between the Finance Company and the Parent Group provided by the management of the Company. According to the policy, the Finance Company's board of directors and the Company's board of directors will review and approve credit facility to be granted to each potential borrower. Before providing loan services to the Parent Group, due diligence works should be conducted to understand the potential borrower's background information, operating and financial status. Further assessments on the potential borrower's financials should be carried out in order to assess the loan applicant's credit risk and repayment ability. An internal rating system is used to reflect each potential loan's risk profile. The Finance Company will only accept the loan application if the loan's risk rating is within an acceptable level. After the credit facility is approved, details of the credit facility and the borrower will be inputted into a credit risk prediction model. Based on financial statements provided by the borrower on a monthly basis and other industry specific indicators, the credit risk prediction model will provide ongoing risk assessment on the borrower. In addition, the Finance Company will perform assessment on credit risk of each borrower and report to the board of directors of the Finance Company on a yearly basis. The Finance Company will provide monthly reports (or upon request) to the Company on (i) the total amount of loans provided by the Finance Company to the Parent Group and accrued interests receivable and (ii) the total amount of deposits placed by the Parent Group and accrued interests payable. Details of further internal control procedures regarding continuing connected transactions (including those contemplated under the New Financial Services Agreement) are set out in the section headed "Internal control" in the "Letter from the Board" contained in the Circular and the section headed "Internal control measures and review of continuing connected transactions" of this letter below. Having considered the above, as well as the outcome of sample reviewing in relation to the provision of loan services to the Parent Group as set out in the sub-section headed "Internal control measures and review of continuing connected transactions" of this letter below, we consider sufficient measures are in place to safeguard the credit risk level of the Finance Company.

4. The Proposed Annual Caps

When determining the Proposed Annual Caps with respect to the provision of loan services by the Finance Company to the Parent Group for the three years ending 31 December 2021, which represent a maximum day-end balance of loan amount together with associated interests, the executive Directors have taken into account the funding capacity of the Finance Company and the possible demand for loan services from the Parent Group. As advised by the executive Directors, the Parent Group's cash balance amounted to approximately RMB4.3 billion as at 30 June 2018. According to the information provided by the management of the Company, the average daily deposit amount from the Parent Group maintained with the Finance Company was approximately RMB2.018 billion, RMB3.235 billion and RMB2.604 billion for the two years ended 31 December 2016 and 2017, and the five months ended 31 May 2018 respectively. The executive Directors understand from the management of the Parent Group that other than the business of iron and steel production conducted through the Group, the Parent Group will continue to develop and expand other operating segments such as mining and sorting of mineral products, technical and engineering services, and trading and logistic services. It is expected that more cash will be generated from the future operation of companies of the Parent Group. Having considered the growth in the actual deposit amount from the Parent Group in the past few years and the expected increase in cash balances generated from the future operation of the Parent Group, the executive Directors estimated that the maximum daily deposit amount to be placed by the Parent Group for the three years ending 31 December 2021 to be approximately RMB3.7 billion. We have obtained the "Central management policy for funds" of the Group from the management of the Company and note that surplus cash of the Parent Group must be deposited in the Finance Company according to the policy. Accordingly, the executive Directors are of the view that the Finance Company will have sufficient funding capacity to cover the proposed loans to be provided to the Parent Group.

The executive Directors advised us that as at 30 June 2018, the total loan amount borrowed by the Parent Group from banks and other financial institutions amounted to approximately RMB11.8 billion. The executive Directors discussed with the management of the Parent Group and understand that the borrowing needs of the Parent Group will persist in the coming few years in view of continuous business development. According to the New Financial Services Agreement, the balance of the total amount of loans provided by the Finance Company to the Parent Group at the end of each day shall not be higher than the total amount of deposits (and accrued interests) of the Parent Group placed with the Finance Company. With reference to the estimated maximum daily deposit amount to be placed by the Parent Group for the three years ending 31 December 2021 of approximately RMB3.7 billion as mentioned above, the executive Directors estimated the maximum day-end balance of loan amount (and interest) to be provided to the Parent Group to be approximately RMB3.17 billion. The estimated interest component represents approximately 5.70% of the maximum day-end balance of loan amount for the three years ending 31 December 2021. When estimating such figure for the coming three years, the executive Directors have taken into account, among other things, the current base interest rates quoted by PBOC for various term of loans, and buffer to allow for flexibility for future movement in interest rate. We noted from the official website of PBOC that the existing interest rates for RMB-denominated loans range from 4.35% to 4.90% depending on the term of loans which is consistent with the interest rates referenced by the executive Directors as set out above. The executive Directors further advised us that the existing interest rates for loan services provided by the Finance Company to the Parent Group during the first five months of 2018 ranged from 4.35% to 5.70%. Based on the above, we consider that the basis adopted by the executive Directors in estimating the Proposed Annual Caps for the provision of loan services (which represent a maximum day-end balance of loan amount together with associated interests) by the Finance Company to the Parent Group for the three years ending 31 December 2021 is reasonable.

Taking into account the aforesaid factors, including, the funding capacity of the Finance Company, the expected demand for loan services by the Parent Group and the estimated interest rates, the Proposed Annual Caps (excluding tax) for the provision of loan services by the Finance Company to the Parent Group are set as follows:

	Financial year ending 31 December		
	2019	**2020**	**2021**
	RMB('000)	*RMB('000)*	*RMB('000)*
Maximum day-end balance of loan amount (including interest)	3,170,000	3,170,000	3,170,000
Approximate increase as compared to the annual cap of previous year *(%)*		0.0%	0.0%

IV. INTERNAL CONTROL MEASURES AND REVIEW OF CONTINUING CONNECTED TRANSACTIONS

1. Internal control measures regarding continuing connected transactions

An "Internal Control Management Measures of Connected Transactions" has been implemented by the Company to regulate the pricing management of connected transactions. As confirmed by the executive Directors, the scope of the "Internal Control Management Measures of Connected Transactions" covers all the transactions contemplated under (i) the New Sale and Purchase of Ore Agreement; (ii) the New Energy Saving and Environmental Protection Agreement and the Supplementary Energy Saving and Environmental Protection Agreement; (iii) the New CCT Agreement and the Supplementary CCT Agreement; (iv) the New Financial Services Agreement; (v) the Scrap Steel Company Continuing Connected Transaction Agreement; (vi) the K. Wah Company Continuing Connected Transaction Agreement; and (vii) the Chemical Energy Company Continuing Connected Transaction Agreement. A connected transaction management committee, led by the chairman of the Company, is responsible for the on-going monitoring of all the continuing connected transactions of the Company. The connected transaction management committee reports directly to the Board. We understand from the executive Directors that the connected transaction management committee involves managers and staff from working levels of different departments including, among others, the legal department, finance department and marketing department. The connected transaction management committee is responsible for, among other things, approval 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 prices to be determined on normal commercial terms. In order 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 finance department of the Company will report on quarterly basis to the connected transaction management committee regarding, among other things, implementation of the continuing connected transactions and the actual monetary amount of the continuing connected transactions conducted during each quarter. The connected transaction management committee will then report to the Board on quarterly basis.

In the event where state-prescribed prices are not available, a pricing management process will be carried out centrally by the marketing department. The marketing department will coordinate with other departments to conduct research on market prices for the continuing connected transactions. Market prices will be obtained through, among other things, (i) open tenders/quotations from suppliers and service providers who are independent third parties; (ii) recent transaction prices of the Group with independent third parties; (iii) pricing information obtained through subscription service; (iv) price enquiry and comparison with industry players; (v) researches on industry websites; and (vi) attending events and gatherings organised by industrial associations. The marketing department will circulate the market price information to other departments and companies of the Group to facilitate them to determine prices for the continuing connected transactions. Further details of the internal control measures regarding the New Financial Services Agreement are set out in the sub-section headed "Provision of loans to the Parent Group" in this letter above.

As regards the purchase of Ore by the Company from the Parent Company, the procurement department of the Company will make reference to, among others, the prevailing iron ore price as published by S&P Global Platts, a leading provider of information, benchmark prices and analytics for the energy and commodities markets. As stated in S&P Global Platts' official website, S&P Global Platts serves more than 12,000 public and private sector organisations in over 190 countries. The Company has subscribed services provided by S&P Global Platts to obtain daily report on iron ore price and such market information are being used by the Company to determine iron ore price prior to entering into a transaction with the Parent Company and suppliers who are independent third parties. For determining price payable to the Parent Company for limestone and dolomite, the Company will make reference to the market price of the same categories of dolomite and limestone provided by independent third parties in the same area to the vicinity of the Company in Maanshan City, Anhui Province, the PRC.

As regards the continuing connected transactions involving provision of services and supply of products by the Parent Group to the Group (including provision of Energy Saving and Environmental Protection Construction and Services by Anhui Xinchuang to the Group), prices are determined based on market prices, which are ascertained through open tender/quotations, pricing report prepared by the marketing/manufacturing/engineering and equipment management department, price comparison and arm's length negotiation under normal commercial terms. Where quotations are obtained from suppliers for the requested services or products, the Group will compare and negotiate the terms of quotations with suppliers and service providers, and determine the selection of suppliers and service providers by considering various factors. These factors include, among others, price quotations, quality of the products and services, ability of the suppliers and service providers in meeting technical specifications and delivery schedules, and qualification and relevant experiences of the suppliers and service providers. The contract will be awarded to the supplier and service provider who offers the best commercial and technical terms to the Company. Other than obtaining of quotations, the Group may award a contract through a tender process. For sourcing energy saving and environmental protection construction, the Group will source them through a tender process for contract with value over RMB100,000 to ensure services are obtained under a fair and competitive environment. The contract will be awarded to the supplier and service provider after assessment based on the criteria as set out above.

We were advised by the executive Directors that it is the Company's practice to obtain at least three quotations and tenders. We understand from the executive Directors that, while the Company does not have a formal policy regarding the number of quotations and/or tenders to be obtained, the Company will try to obtain as many quotations and/or tenders as possible for the Company's interest. We note that the Company's practice to obtain at least three quotations and/or tenders is consistent with the requirements under "中華人民共和國招標投標法" ("**Law of the People's Republic of China on Bid Invitation and Bidding**") and "中華人民共和國招標投標法實施條例" ("**Regulation on the Implementation of the Law of the People's Republic of China on Bid Invitation and Bidding**"), which state, among other things, that a minimum of three tenders are required to be received to render a tender to be valid. Accordingly, the Parent Group and/or Anhui Xinchuang may or may not be awarded the contracts.

As regards the continuing connected transactions involving provision of services and supply of products by the Group to the Parent Group, the price shall not be lower than the price of the same type of services and products provided by the Group to independent third parties.

We have discussed with, and reviewed sample documents obtained from the Company (including, among other things, invoices, contracts, tender documents, loan agreement and other related documents) with respect to transactions (the "**Sample Transactions**") under each of (i) the Existing Sale and Purchase of Ore Agreement; (ii) the Existing Energy Saving and Environmental Protection Agreement; (iii) the Existing CCT Agreement and (iv) the Financial Services Agreement for the five months ended 31 May 2018 (i.e. the "**Review Period**") conducted with the Parent Group, and where applicable, sample documents (including, among other things, invoices, contracts, tender documents, loan agreement and other related documents) of comparable transactions conducted with independent third parties. Based on the review of sample document(s) of those Sample Transactions in which pricing and payment terms details are shown and as confirmed by the Company, except for one as disclosed below in relation to payment terms, we note that the prices and payment terms of those Sample Transactions are no less favourable than those offered by independent third parties. We note from a Sample Transaction in relation to purchase of iron ore that a longer payment period was offered by one of the independent suppliers (i.e. 50 days compared to 30 days offered by the Parent Group). However, the prices offered by the Parent Group to the Group are more favourable in relation to that Sample Transaction. As confirmed by the executive Directors, although credit terms offered by the Parent Group to the Group are less favourable in relation to that particular transaction, the Group concluded the purchases from the Parent Group mainly because of the favourable prices offered by the Parent Group, and that the Parent Group has been providing stable supply of iron ore to the Group and the Group is satisfied with the products procured from the Parent Group in the past. In view of the above, on balance, we consider a shorter credit term offered by the Parent Group in relation to the Sample Transaction to be acceptable.

For certain categories of the Transactions, namely Energy Saving and Environmental Protection Construction and Services provided by Anhui Xinchuang to the Group; the sale of Waste Materials by the Group to Anhui Xinchuang; the provision of Services by the Group to the Parent Group, procurement of products by the Group from the Parent Group; procurement of Services by the Group from the Parent Group; and sale of products by the Group to the Parent Group, there was no comparable independent third party transaction available for comparison with the Sample Transactions with respect to that particular category.

As set out in this section above, for sourcing energy saving and environmental protection construction and procurement of Services from the Parent Group, pricing should be based on market price, which shall be determined through a tender process or pricing report prepared by the marketing/manufacturing/engineering and equipment management department. The Group will source them through a tender process for contract with value over RMB100,000 and it is the Company's practice to obtain at least three quotations and tenders. The contract will be awarded to the supplier and service provider after assessment based on the criteria as set out above. As advised by the executive Directors, in the case where there is no tender process, pricing should be based on the pricing report circulated by the marketing/manufacturing/engineering and equipment management department. We have obtained and reviewed the pricing report and underlying supporting documents for the relevant Sample Transactions which involves management and operation of environmental protection facilities. We note that the pricing report for the relevant Sample Transactions covers various aspects such as labour costs, energy costs, maintenance costs and management fees with respect to management and operation of environmental protection facilities. We further understand from the executive Directors that these price components were prepared with reference to, among others, market price comparison, and these price components will then be used to determine the indicative transaction price after taking into account the scale of specific project/service. As regards the sales of Waste Materials to Anhui Xinchuang, we understand from the executive Directors that, the marketing department prepares pricing report on monthly basis based on research on market prices for determining the pricing.

As regards provision of Services by the Group to the Parent Group, pricing shall be based on market price, which shall be determined through arm's length negotiations between the parties based on normal commercial terms. For the Sample Transactions relating to the provision of Services to the Parent Group (which involves provision of inspection services and other services such as rental of laboratory equipment and leasing of industrial buildings), the executive Directors advised us that, when determining the pricing, the Group make references to, among other things, price comparisons, historical amounts and benchmark pricing as set by industry association. As regards the procurement of products by the Group from the Parent Group, pricing shall be based on market price, which shall be determined through price comparison and arm's length negotiations between the parties based on normal commercial terms. For the Sample Transactions relating to the procurement of products by the Group from the Parent Group (which involves refractory materials), the executive Directors advised us that during arm's length negotiations with the Parent Group, the Group makes reference to the market price obtained through price enquiry by way of benchmarking and price comparison with other players in the steel industry in the PRC for purchase of similar products and price index published by relevant industry association. For the Sample Transactions relating to the sale of products by the Group to the Parent Group (which involves other products being MAC fines, a type of raw material with iron content), the executive Directors advise us that the pricing was determined based on the then market price of the subject products involved taking into account factors such as future price trend and prospect of such products. We have discussed with the Company, obtained from the Company and reviewed relevant documents in relation to the Sample Transactions for each of the above-mentioned categories (including, where applicable, invoices, contracts, pricing report, internal minutes in relation to price determination and industry association standards) and note that they are consistent with the pricing determination procedures as described above.

We note from the Company's 2017 annual report that the normal credit term of the Group's trade receivables is thirty to ninety days and the normal credit term of the Group's accounts payable is within three months. The credit term of the above-mentioned categories of the Transactions is within the range of the normal credit terms of the Group's trade receivables and accounts payable as stated in the 2017 annual report of the Company.

We consider that the above-mentioned measures are in the interests of the Independent Shareholders as their interests are safeguarded by (a) obtaining and comparing independent third party quotations and market prices; (b) awarding contracts by tendering process; (c) the set up of connected transactions management committee; and (d) on-going monitoring on credit facility provided to the Parent Group.

2. Review of the continuing connected transactions by auditors

The auditors of the Company were engaged to report on the Group's continuing connected transactions as set out in the 2016 and 2017 annual report (the "**Past Transactions**") in accordance with *Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*" (a revised standard was adopted as set out in the 2017 annual report) 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 executive Directors that the auditors were of the conclusion that (a) nothing had come to their attention that caused them to believe that the Past Transactions had not been approved by the Board; (b) for the Past Transactions involving the provision of goods or services by the Group, nothing had come to their attention that caused them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company; (c) nothing had come to their attention that caused them to believe that the Past Transactions were 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 Past Transactions, nothing had come to their attention that caused them to believe that the Past Transactions had exceeded the annual cap as set by the Company/the maximum aggregate annual value disclosed in the previous announcements.

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. CONDITIONS OF THE CONTINUING CONNECTED TRANSACTIONS

In compliance with the Listing Rules, the continuing connected transactions contemplated under (i) the New Sale and Purchase of Ore Agreement; (ii) the New Energy Saving and Environmental Protection Agreement and the Supplementary Energy Saving and Environmental Protection Agreement; (iii) the New CCT Agreement and the Supplementary CCT Agreement; (iv) the New Financial Services Agreement; (v) the Scrap Steel Company Continuing Connected Transaction Agreement; (vi) the K. Wah Company Continuing Connected Transaction Agreement; and the (vii) the Chemical Energy Company Continuing Connected Transaction Agreement are subject to a number of conditions which include, among other things:

(i) the Proposed Revised Caps for the year ending 31 December 2018 for relevant continuing connected transactions and the Proposed Annual Caps for the relevant continuing connected transactions for each of the three financial years ending 31 December 2019, 2020 and 2021 will not be exceeded;

(ii) the independent non-executive Directors must, in accordance with the Listing Rules, review annually the continuing connected transactions and confirm in the Company's annual report whether the continuing connected transactions have been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;

(iii) the auditors of the Company must, in accordance with the Listing Rules, review annually the continuing connected transactions and they must confirm in a letter to the Board (a copy of which letter will be provided to the Stock Exchange at least ten business days prior to the bulk printing of the annual report of the Company) whether anything has come to their attention that causes them to believe that the continuing connected transactions:

  (a) have not been approved by the Board;

  (b) were not, in all material respects, in accordance with the pricing policies of the Group if the continuing connected transactions involve the provision of goods or services by the Group;

(c) were not entered into, in all material respects, in accordance with the relevant agreement(s) governing the continuing connected transactions; and

(d) have exceeded the Proposed Revised Caps/Proposed Annual Caps with respect to the continuing connected transactions;

(iv) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or the auditors cannot confirm the matters as required;

(v) the Company must allow, and ensure that (i) the Parent Company; (ii) Anhui Xinchuang; (iii) Finance Company; (iv) Scrap Steel Company; (v) K. Wah Company and (vi) Chemical Energy Company allow, the auditors of the Company sufficient access to their records of the continuing connected transactions for the purpose of the auditors' reporting on the continuing connected transactions. The Board must state in the annual report whether the auditors of the Company have confirmed the matters set out in Rule 14A.56 of the Listing Rules; and

(vi) the Company must comply with the applicable provisions of the Listing Rules governing continuing connected transactions in the event that the total amount of the continuing connected transactions exceeds the relevant Proposed Revised Caps/Proposed Annual Caps, or that there is any material amendment to the terms of (i) the New Sale and Purchase of Ore Agreement; (ii) the New Energy Saving and Environmental Protection Agreement and the Supplementary Energy Saving and Environmental Protection Agreement; (iii) the New CCT Agreement and the Supplementary CCT Agreement; (iv) the New Financial Services Agreement; (v) the Scrap Steel Company Continuing Connected Transaction Agreement; (vi) the K. Wah Company Continuing Connected Transaction Agreement; and (vii) the Chemical Energy Company Continuing Connected Transaction Agreement.

In light of the conditions imposed on the continuing connected transactions, in particular, (1) the limit of the value of the continuing connected transactions by way of the relevant Proposed Revised Caps/Proposed Annual Caps; (2) the on-going review by the independent non-executive Directors and auditors of the Company regarding the terms of the continuing connected transactions; and (3) the on-going review by the auditors of the Company confirming the relevant Proposed Revised Caps/Proposed Annual Caps not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the continuing connected transactions and safeguard the interests of the Independent Shareholders.

DISCUSSION

The Disposal and the Subscriptions

The Group is principally engaged in the manufacturing and sale of iron and steel products and related by-products, and is one of the largest iron and steel producers and sellers in the PRC. The financial performance of the Group in recent years have improved significantly following a recovery in the steel product market and the increase in steel price. The executive Directors are positive on the long term prospects of the Group but also consider that the Group has to stay sensitive to any possible crisis.

Currently, Scrap Steel Company, K. Wah Company and Chemical Energy Company are principally engaged in different non-core businesses of the Group. Having considered the required expertise for further development, the need for regular improvements and tightening environmental protection policies, the executive Directors are of the view that further resources will have to be devoted into the Disposal Group. On the other hand, as both Scrap Steel Company and K. Wah Company recorded profits in recent financial years and the Group has been/will be carrying out transactions with the Disposal Group to support its main iron and steel production, the executive Directors consider it beneficial to the Group to maintain certain equity interests in the Disposal Group. The Disposal and the Subscriptions will benefit the Group and its shareholders by (a) reducing the need for contributing further resources by the Group to further develop the business, maintain the competitiveness of the business and to comply with the tightening environmental protection requirements for the Disposal Group, so that the Group will be able to focus on its core iron and steel business to enhance its competitiveness and prepare for the dynamic industry environment; (b) enabling the Group to maintain equity interests in the Disposal Group so as to enjoy the benefits from the future business growth of the Disposal Group; (c) introducing suitable shareholders to the Disposal Group for further business development; and (d) maintaining an influence in the Disposal Group so that the Group can secure the continuing connected transactions with the Disposal Group to support its core iron and steel production business.

Upon completion of the Disposal and the Subscriptions, each of Scrap Steel Company, K. Wah Company and Chemical Energy Company will cease to be a subsidiary of the Company. It is expected that the Company will recognise an aggregate unaudited net gain on disposal at Company level of approximately RMB328 million form the Disposal and the Subscriptions. The consideration for each of the Scrap Steel Disposal, the K. Wah Subscription and the Chemical Energy Subscription was determined with reference to the respective valuation of the underlying Target Interests performed by Pan China and Zhong Ming, both an independent valuer. We have discussed with both Pan China and Zhong Ming regarding their valuations, including the scope of work, qualifications of valuers, valuation approach, valuation assumptions and details of the valuation, and are of the view that the methodologies adopted by each of Pan China and Zhong Ming are reasonable. The consideration for each of the Scrap Steel Disposal, the K. Wah Subscription and the Chemical Energy Subscription is the same as the value of the relevant proportion (calculated with reference to the proportion after subscriptions where appropriate) of the equity interests being disposed/subscribed. On this basis, we consider such considerations to be fair and reasonable.

The continuing connected transactions

The Disposal Group are subsidiaries of the Company as at the Latest Practicable Date. The continuing connected transactions have been carried out between the Group and (i) Scrap Steel Company; (ii) K. Wah Company; and (iii) the business unit of the Company (which subsequently form part of Chemical Energy Company) to serve their respective internal needs. The products and services specified in the continuing connected transaction agreements entered into between the Group and the Disposal Group are principally day-to-day production and services relating to the respective businesses of the Group and the Disposal Group. Accordingly, the continuing connected transactions are entered into in the respective ordinary courses of business of the Group and the Disposal Group.

Taking into account the factors as mentioned in the sub-section headed "Procurement of Energy Saving and Environmental Protection Construction and Services and sales of power, energy medium and finished products by the Group from/to Anhui Xinchuang" and "Sales and procurement of goods and services by the Group to/from the Parent Group" in this letter above, the executive Directors expected that the Existing Annual Caps for 2018 for procurement of Energy Saving and Environmental Protection Construction and Services from Anhui Xinchuang and the continuing connected transactions between the Group and the Parent Group may not be sufficient. Consequently, it is proposed that the Existing Annual Caps for 2018 be increased to the Proposed Revised Caps in accordance to the Supplementary Energy Saving and Environmental Protection Agreement and the Supplementary CCT Agreement. The Existing Sale and Purchase of Ore Agreement, the Existing Energy Saving and Environmental Protection Agreement, the Existing CCT Agreement and the existing financial services agreement will expire on 31 December 2018. The executive Directors are of the view that it is in the interests of the Company and the Shareholders as a whole to continue the sales and procurement of goods and services with the Parent Group and Anhui Xinchuang for the coming three years ending 31 December 2019, 2020 and 2021.

The continuing connected transactions agreements serve to provide mutual benefits to both the Group, the Parent Group, Anhui Xinchuang and the Disposal Group. From the Group's point of view, the stable supply of products and provision of services by the Parent Group, Anhui Xinchuang and the Disposal Group to the Group allows the Group to have an assured level of quantity in the product supply and the provision of services for its daily production, while the sale of products to the Parent Group, Anhui Xinchuang and the Disposal Group contributes to the Group's turnover. We consider that it is in the interests of the Company and the Shareholders as a whole to continue the sales and procurement of goods and services with the Parent Group, Anhui Xinchuang and the Disposal Group for the coming three years ending 31 December 2019, 2020 and 2021.

Moreover, we consider a fair and reasonable basis for the pricing principles and other terms of the continuing connected transactions agreements has been established, as discussed above. Whilst the approval of the Proposed Annual Caps for the continuing connected transactions gives the Company the flexibility to conduct the continuing connected transactions, the Company is not committed to do so. We understand from the executive Directors that the Company will proceed with the continuing connected transactions only if (a) the executive Directors consider that the continuing connected transactions are in the interests of the Company and the Shareholders as a whole; and (b) terms offered by the Parent Group, Anhui Xinchuang and the Disposal Group must be no less favourable than those offered by independent third party suppliers and customers of the Company. The Proposed Annual Caps have been established for the continuing connected transactions which allow the Group a degree of flexibility in managing its businesses. We consider the continuing connected transactions themselves will be conducted on normal commercial terms and the interests of the Independent Shareholders are safeguarded by the internal control measures as detailed in the sub-section headed "Internal control measures regarding continuing connected transactions" of this letter above.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons which are summarised in the section above headed "Discussion" of this letter, we consider that (1) the Disposal and the Subscriptions, though not in the ordinary and usual course of business of the Group, are in line with the business strategy of the Group; (2) the Continuing Connected Transactions are in the Group's ordinary and usual course of business; (3) the terms of the Disposal, the Subscriptions and the Continuing Connected Transactions are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (4) the entering into of the Disposal, the Subscriptions and the Continuing Connected Transactions is in the interests of the Company and the Shareholders as a whole; and (5) the Proposed Revised Caps for the financial year ending 31 December 2018 and the Proposed Annual Caps for the three financial years ending 31 December 2019, 2020 and 2021 are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Stephanie Chow
Director

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

The English translations of the Chinese names are included in this letter for identification purpose only and should not be regarded as their official English translations. In the event of any inconsistency, the Chinese names prevail.

The following is the valuation report received from Pan-China Assets Appraisal Co., Ltd. in relation to Scrap Steel Company as at 18 April 2018, which is prepared in Chinese. Should there be any inconsistency between the Chinese and the English version, the Chinese version shall prevail.

Maanshan Iron & Steel Company Limited
Asset Appraisal Report
of the Company's Proposed Transfer of
Part of its Equity Interest in Ma Steel Scrap Steel Co., Ltd.

Tianxing Commentary Report (2018) No. 0306

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

Pan-China Assets Appraisal Co., Ltd. accepted the mutual entrustment of both parties, adhered to the principles of independence, objectivity and impartiality in accordance with the relevant laws, administrative regulations and asset appraisal criteria, adopted the asset-based approach and the income approach, and assessed the market value of Maanshan Iron & Steel Company Limited on 28 February 2018 for the transfer of part of its stake in Ma Steel Scrap Steel Co., Ltd. involving all shareholders' rights and interests of Ma Steel Scrap Steel Co., Ltd. The asset appraisal results are presented as follows.

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

(1) Client Profile

The project is jointly commissioned by Magang (Group) Holding Company Limited and Maanshan Iron & Steel Company Limited

1. Magang (Group) Holding Company Limited (hereinafter referred to as "the Group")

Unified Social Credit Code: 91340500150509144U

Registered address: No. 8, Jiuhua West Road, Yushan District, Maanshan City

Legal Representative: Wei Yao

Registered Capital:	RMB6.29829 billion
Nature of Entity:	Limited liability company (Wholly state-owned)
Date of establishment:	18 September, 1998
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)

2. Maanshan Iron & Steel Company Limited (hereinafter referred to as "the Company")

Unified Social Credit Code:	91340000610400837Y
Registered address:	No. 8, Jiuhua West Road, Maanshan City, Anhui Province
Legal Representative:	Ding Yi
Registered Capital:	RMB7.700681186 billion
Nature of Entity:	Company limited by shares (joint venture and listing between Taiwan, Hong Kong and Macao and Mainland China)

Date of establishment:	1 September 1993
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.

(2) Overview of the unit being assessed

1. Basic information

Name of Entity:	Ma Steel Scrap Steel Co., Ltd. (馬鞍山馬鋼廢鋼有限責任公司) (hereinafter referred to as "Scrap Steel Company")
Unified Social Credit Code:	913405005744O2383D
Registered address:	Southeast corner of Yucui Road and Jiuhua Road, Yushan Economic Development Zone, Maanshan City, Anhui Province
Legal Representative:	Ju Zelong
Registered Capital:	RMB100 million
Nature of Entity:	Limited liability company (sole proprietorship by a legal person invested or controlled by a natural person)

Date of establishment:	29 April 2011
Scope of Activities:	Recycling, processing and marketing of waste metals; Pig iron sales, storage; Domestic trade agency service.

2. Historical evolution, shareholding structure and changes of the company

Ma Steel Scrap Steel Co., Ltd. (馬鞍山馬鋼廢鋼有限責任公司) was formerly Masteel Renewable Resources Co., Ltd. On 14 September 2012, the board of directors of Maanshan Iron & Steel Company Limited decided to increase the registered capital of Maanshan Masteel Recycling Resources Co., Ltd. by RMB50 million in cash, with the registered capital of RMB100 million after the capital increase. Meanwhile, it was renamed Ma Steel Scrap Steel Co., Ltd. (馬鞍山馬鋼廢鋼有限責任公司) on 15 October 2012.

As of the benchmark date, the shareholding structure of Scrap Steel Company is shown in the following table:

Amount in: RMB

Seq. No.	Name of Shareholder	Subscribed capital contribution	Proportion of shareholding
1	Magang (Group) Holding Co., Ltd	100,000,000.00	100.00%
	Total	**100,000,000.00**	**100.00%**

3. Overview of the company's main business and assets

On the basis of the original Maanshan Renewable Resources Company, Scrap Steel Company has integrated the purchasing department of Scrap Steel Company's crude fuel purchasing center and the steel scrap storage, processing and distribution system of Maanshan steel distribution center, thus forming a specialized steel scrap management company integrating steel scrap purchasing, inspection, receiving, storage, processing and distribution, which is currently mainly serving the steel scrap needs of Maanshan steel production units. The main assets of the company include monetary capital, notes receivable, accounts receivable, prepaid accounts, inventory and fixed assets. The main assets are as follows:

(1) The book value of money capital is RMB11.2135 million, consisting of cash on hand and bank deposits. The book value of the bank deposits is RMB11.2106 million, divided into two accounts, all of which are RMB deposits.

(2) The book value of bills receivable is RMB100 million, a total of 25 bills, all of which are non-interest bearing bank acceptance bills.

(3) The book value of accounts receivable is RMB423,4373 million, mainly the sales amount of scrap steel receivable from the Company

(4) The book value of the advance payment is RMB35.702 million, mainly for the purchase of scrap steel in advance.

(5) The book value of the inventory is RMB58.5577 million, mainly for scrap steel available for sale

(6) The original book value of fixed assets is RMB45.7814 million and the net book value is RMB25.2672 million, including building (structure) and equipment assets. Housing buildings (structures) are divided into housing buildings and structures, among which housing buildings mainly include workshops, canteens, bathrooms, restrooms, etc. of the evaluated units. The structure mainly includes auxiliary facilities for the building and auxiliary facilities for the yard floor, roads, walls and other plant areas. The above-mentioned buildings (structures) were mainly built between 1994 and 2015 and are now in normal use. Equipment assets are divided into machine equipment and vehicles, among which the machine equipment mainly includes cranes, steel grabbing machines, baling machines and shearing machines, totaling 65 sets. The total number of vehicles is 7, including Buick, Trumpchi, two office vehicles and five light ordinary goods vehicles such as Jiangling. The above-mentioned equipment assets were mainly purchased from 1996 to 2017, and all the equipment under evaluation can be used normally.

4. The company's organizational structure and human resources

Scrap Steel Company has a total of 166 employees and has five management departments, namely, operation department, production safety & environment department (including equipment management and recycling business), quality management department, comprehensive management department and financial management department, with two scrap steel storage and distribution branches.

5. *Statement of Financial Status and Operating Results*

Financial Position Statement

Unit: RMB0,000

Items	2018.2.28	2017.12.31	2016.12.31
Current assets	62,902.05	64,851.15	33,002.90
Non-current assets	2,526.72	2,633.15	2,903.68
Of which: Long-term equity investments			
Investment properties			
Fixed assets	2,526.72	2,633.15	2,903.68
Construction in Progress			
Intangible assets			
Of which: Land use right			
Others			
Total assets	65,428.77	67,484.30	35,906.58
Current liabilities	34,390.32	44,737.64	19,937.98
Non-current liabilities			
Total liabilities	34,390.32	44,737.64	19,937.98
Owner's equity	31,038.45	22,746.66	15,968.60

Results of Operation Statement

Unit: RMB0,000

Items	January – February 2018	2017	2016
I. Business income	84,989.98	344,594.26	205,478.70
Less: Operating costs	73,011.04	335,487.09	201,359.97
Business tax and surcharges	60.54	1,274.26	632.06
Selling expenses	399.44	1,843.64	1,181.22
G&A expenses	234.53	994.59	936.72
Financial expenses	202.85	148.09	–89.42
Asset impairment loss			
Plus: Income from investment			
II. Operating profit	11,081.57	4,846.59	1,458.16
Plus: Non-operating income	0.21	4,195.33	1,143.42
Less: Non-operating expenditure	26.06	0.27	1.03
III. Total profits	11,055.72	9,041.65	2,600.55
Less: Income tax expenses	2,763.93	2,263.59	619.21
IV. Net profit	8,291.79	6,778.06	1,981.33

The financial data listed in the above table have been audited by Zhongxinghua Certified Public Accountants (Special General Partnership) and ZXH Zhuanzi (2018) No. 450062 Special Audit Report was issued by the same.

(3) Users of other appraisal reports agreed in the asset appraisal entrustment contract

As stipulated in the asset appraisal engagement contract, the report has no other users.

(4) The relationship between the client and the unit being evaluated

The parent company of Ma Steel Scrap Steel Co., Ltd.（馬鞍山馬鋼廢鋼有限責任公司）is Maanshan Iron & Steel Company Limited, and its group headquarters is Magang (Group) Holding Company Limited.

II. PURPOSE OF APPRAISAL

According to Maanshan Iron & Steel Company Limited's Decision on the Sale of Shares in Scrap Steel Company, Maanshan Iron & Steel Company Limited intends to transfer some of its shares in Ma Steel Scrap Steel Co., Ltd.（馬鞍山馬鋼廢鋼有限責任公司）, it is necessary to evaluate all shareholders' rights and interests of Ma Steel Scrap Steel Co., Ltd.（馬鞍山馬鋼廢鋼有限責任公司）, so as to provide a value reference for this economic behavior.

III. SUBJECT AND SCOPE OF APPRAISAL

(i) Subject of appraisal

The appraisal object is all shareholders' rights and interests of Ma Steel Scrap Steel Co., Ltd.（馬鞍山馬鋼廢鋼有限責任公司）.

(ii) Scope of appraisal

The appraisal scope covers all assets and liabilities of Ma Steel Scrap Steel Co., Ltd. (馬鞍山馬鋼廢鋼有限責任公司) on the appraisal benchmark date, of which the book value of total assets is RMB654.2877 million, the book value of liabilities is RMB343.9032 million and the book value of net assets is RMB310.3845 million. For details on the carrying amount of each asset and liability item, please see the table below:

Asset Appraisal and Declaration Summary Table

Unit: RMB0,000

Item	Carrying amount
Current assets	62,902.05
Non-current assets	2,526.72
Of which: Long-term equity investments	
Investment properties	
Fixed assets	2,526.72
Construction in Progress	
Intangible assets	
Land use right	
Others	
Total assets	**65,428.77**
Current liabilities	34,390.32
Non-current liabilities	
Total liabilities	**34,390.32**
Net assets	**31,038.45**

The entrusting party and the evaluated unit have promised that the entrusted evaluation object and scope are consistent with those involved in economic behavior, and have been audited by Zhongxinghua Certified Public Accountants (Special General Partnership) and ZXH Zhuanzi (2018) No. 450062 Special Audit Report was issued by the same.

IV. TYPE OF VALUE

Market value is assessed this time. The market value referred to in this report is the estimated value of the assessed subject on the reference date in an arm's length transaction between a willing buyer and seller who act in a sensible manner without being forced in any form or by any means.

V. REFERENCE DATE OF APPRAISAL

The benchmark date is 28 February 2018.

The reference date was determined by the principal and consistent with the reference date specified in the asset appraisal engagement contract.

VI. BASIS OF APPRAISAL

The appraisal work was carried out on the basis of the economic action, laws and regulations, appraisal standards, asset ownership and pricing as follows:

(i) Basis of economic behaviour

Maanshan Iron & Steel Company Limited's Decision on Selling Shares of Scrap Steel Company.

(ii) Laws and regulations

1. The Law of State-owned Assets of the PRC (No. 5 Decree issued by Chairman of the PRC);

2. The Company Law of the People's Republic of China (revised on 28 December 2013 and implemented on 1 March 2014);

3. The Property Law of the People's Republic of China (No. 62 Decree issued by Chairman of the People's Republic of China);

4. Law of the People's Republic of China on Urban Real Estate Management (Order No. 72 of the Chairman of the People's Republic of China);

5. Law of the People's Republic of China on Enterprise Income Tax (Order No. 64 of the Chairman of the People's Republic of China);

6. The Asset Appraisal Law of the PRC (No. 46 Decree issued by Chairman of the People's Republic of China);

7. Administrative Measures for Appraisal of State-owned Assets (No. 91 Decree issued by the State Council in 1991);

8. Implementation Rules for Administrative Measures for Appraisal of State-owned Assets (Circular [1992] No. 36 released by the former State Administration for State-owned Assets);

9. The Circular on Reforming the Administration of Appraisal of State-owned Assets and Tightening Supervision over Asset appraisal (Circular [2001] No. 102);

10. Provisions for Several Matters Concerning the Appraisal and Management of State-owned Assets (MOF Decree No. 14);

11. Notice of the Ministry of Finance on printing and distributing the measures for the administration of state-owned assets appraisal project filing (Enterprise [2001] No. 802);

12. Interim Provisions for Supervision and Management of State-owned Assets of Enterprises (State Council Decree No. 378 in 2003);

13. Administration Measures for Supervision over Trading of State-owned Assets by Enterprises (SASAC and MOF Decree No. 32);

14. Interim Measures for Appraisal and Management of State-owned Assets by Enterprises (SASAC Decree No. 12 in 2005);

15. The Circular on Strengthening Appraisal and Management of State-owned Assets by Enterprises (SASAC [2006] No. 274);

16. The Circular on Matters Related to Review of State-owned Assets Appraisal Reports of Enterprises (SASAC [2009] No. 941);

17. Guidelines on Filing Work of State-owned Assets Appraisal Projects of Enterprises (State-owned Assets Development Property [2013] No. 64);

18. Regulations of the People's Republic of China on the Implementation of the Enterprise Income Tax Law (Order No. 512 of the State Council of the People's Republic of China);

19. Provisional Regulations of the People's Republic of China on Value Added Tax (2017 Edition, Order No. 691 of the State Council);

20. Rules for the Implementation of the Provisional Regulations of the People's Republic of China on Value Added Tax (Order No. 65 of the Ministry of Finance of the People's Republic of China);

21. Other relevant laws and regulations.

(iii) Appraisal standards

1. Asset Appraisal Basic Standards (The Asset [2017] No. 43);

2. Asset Appraisal Code of Professional Ethics (CAS [2017] No. 30);

3. Asset Appraisal Practicing Standards – Asset Appraisal Procedures (CAS [2017] No. 31);

4. Asset Appraisal Practicing Standards – Asset Appraisal Report (CAS [2017] No. 32);

5. Asset Appraisal Practicing Standards – Asset Appraisal Engagement Contract (CAS [2017] No. 33);

6. Asset Appraisal Practicing Standards – Asset Appraisal Archives (CAS [2017] No. 34);

7. Asset Appraisal Practicing Standards – Business Value (CAS [2017] No. 36);

8. Asset Appraisal Practicing Standards – Immovable Properties (CAS [2017] No. 38);

9. Asset Appraisal Practicing Standards – Machinery and Equipment (CAS [2017] No. 39);

10. A Guide for State-owned Assets Appraisal Report by Enterprises (CAS [2017] No. 42);

11. A Guide for Quality Control by Asset Appraisal Agencies (CAS [2017] No. 46);

12. Guidelines for Value Types in Asset Appraisal (CAS [2017] No. 47);

13. Guiding Opinions on Legal Ownership of Assets Appraisal Objects (CAS [2017] No. 48).

(iv) Ownership of assets

1. Business License, Article of Association of corporations;

2. Fixed assets transfer agreement;

3. Motor vehicle driving license and registration certificate;

4. Purchase contracts, invoices, and relevant agreements and contracts of main machinery;

5. Other documents evidencing ownership.

(v) Pricing basis

1. Asset Appraisal Declaration Form and Profit Forecast Form provided by the assessed entity;

2. Provisions on Construction Cost Management of Capital Construction Projects (Cai Jian [2016] No. 504);

3. Standards for Compulsory Scrapping of Motor Vehicles (the Ministry of Commerce, NDRC, the Ministry of Public Security and State Administration for Environmental Protection Decree No. 12 in 2012);

4. Bank deposit and loan benchmark interest rate on the benchmark date of assessment;

5. House Intactness Class and Rating Standards (Cheng Zhu Zi [1984] No. 678);

6. Anhui Province Construction Project Bill of Quantities Valuation Approach (2018 Edition);

7. Anhui Province Construction Cost Quota (2018 Edition);

8. Anhui Province Construction Machinery Team Cost Compilation Rules (2018 Edition);

9. Anhui Province Construction Project Pricing Quota (Shared Book) (2018 Edition);

10. Quota for Valuation of Construction Projects in Anhui Province (2018 Edition);

11. Quota for Valuation of Decoration Projects in Anhui Province (2018 Edition);

12. Anhui Province Installation Project Valuation Quota (2018 edition);

13. Cost information of Maanshan City Project (February 2018);

14. 2018 Mechanical and Electrical Products Quotation Manual;

15. Relevant final accounting materials provided by the assessed entity;

16. Auditor's Reports in prior years, Business Plans and Profit Forecasts for future years provided by the assessed entity;

17. Raw materials purchase contracts concluded by the assessed entity with other parties;

18. The project contract signed by the evaluated unit and the relevant unit;

19. On-site survey records and other appraisal information collected by the appraisers;

20. Other materials related to this asset appraisal;

21. Accounting statements, financial accounting materials, relevant agreements, contracts, invoices and other financial data provided by the assessed entity;

22. Statistical data, technical standard data and price information released by relevant state departments, as well as relevant inquiry data and pricing parameter data collected by our company, etc.

VII. APPRAISAL APPROACHES

(i) Introduction of appraisal approaches

Basic appraisal approaches of business value include asset-based approach, income approach and market approach.

The asset-based approach is also called the cost approach, which is based on the Balance Sheet of the assessed entity on the reference date to assess all assets and liabilities on the Balance Sheet and off the Balance Sheet, if identifiable, so as to arrive at the value of the assessed subject.

The income approach is a way of determining the value of the assessed subject by capitalizing or discounting expected income. Some commonly used approaches of the income approach are dividend discounting approach and cashflow discounting approach. The income approach measures the value of a business from the perspective of profitability and is built on the theory of expected utility in economics.

The market approach determines the value of the assessed subject by comparing it with comparable listed companies or comparable cases. Two commonly used approaches of the market approach are listed company comparison and case comparison.

(ii) Choice of appraisal approaches

The asset-based approach is based on the Balance Sheet to assess all assets and liabilities on the Balance Sheet and off the Balance Sheet, if identifiable, so as to arrive at the value of the assessed subject. Since the assessed entity is able to provide and the appraisers are able to obtain from external sources all materials needed under the asset-based approach, it is possible to carry out a thorough stock-taking and appraisal of the assets and liabilities of the assessed entity. Therefore, the asset-based approach is adopted this time.

The income approach is built on the theory of expected utility in economics, which means to investors the value of a business lies in the income the business is expected to generate in the future. The income approach does not directly use references available in the market to demonstrate the present fair market value of the assessed subject, but it assesses assets by expected profitability of assets, which determines the present fair market value of assets. It can reflect the value overall and the conclusion is reliable and convincing. Speaking of the conditions for the application of the income approach, since the assessed entity has the independent ability to make profits and its management provided profit forecasts for future years, it is possible to reasonably estimate future profitability of the Company based on historical business results and internal and external business environment of the Company, and the risk associated with future profit is quantifiable. Hence, the income approach is used.

Market approach refers to an evaluation approach that compares an evaluation object with a comparable listed company or a comparable transaction case to determine the value of the evaluation object. As the evaluated unit is a non-listed company, the business structure, business model, enterprise scale, asset allocation and use of listed companies in the same industry, business stage, growth, business risk, financial risk and other factors are significantly different from those of the evaluated enterprise, and there are few cases of trading, acquisition and merger of comparable enterprises in the same industry in China near the benchmark date, so the relevant reliable comparable transaction case business and financial data are difficult to obtain and the appropriate value ratio cannot be calculated. Therefore, the market approach is not applicable to this evaluation.

Hence, the asset-based approach and the income approach were applied to this asset appraisal.

(iii) Introduction of specific appraisal approaches

i) The asset-based approach

The asset-based approach is based on the Balance Sheet of the assessed entity on the reference date to assess all assets and liabilities so as to arrive at the value of the assessed subject. The appraisal of all assets and liabilities is detailed as follows:

1. Evaluation of current assets and liabilities

The current assets of the assessed unit include monetary funds, bills receivable, accounts receivable, prepayments, other receivables and inventories; Liabilities include accounts payable, advance receipts, salary payable to employees, taxes payable and other payables.

(1) Monetary assets: Including cash on hand and bank deposits, the evaluation value is determined from the verified value through cash checking, bank statement verification, bank correspondence, etc.

(2) Notes receivable: Notes receivable are commercial notes received by business entities from sale of goods or rendering of services. All notes receivable examined in the appraisal are banker's acceptance bills. For notes receivable, the appraisers checked accounting records, reviewed the register of notes receivable, and carried out notes stocktaking. For some significant notes receivable, they examined relevant sales contracts and delivery orders (shipping orders), among other original records. After all of these are confirmed to be error-free, the carrying value is the assessed value.

(3) Accounts receivable and other receivables: After all receivables are confirmed to be error-free, the assessed value of each receivable is an estimate of its recoverable amount. For the money that has good reason to believe that all can be recovered, the evaluation value shall be calculated according to the amount of all receivables. When it is difficult to determine the amount of accounts receivable that may not be recovered, we can analyze the amount, time and reason of arrears, recovery of funds, funds of debtors, credit and management status with the help of historical data and on-site investigation, and then estimate the amount that may not be recovered by referring to the aging analysis approach as an evaluation value after deduction of risk losses. If there is conclusive evidence that it cannot be recovered, it shall be calculated as zero value.

(4) Accounts prepaid: Accounts prepaid are assessed by the value of assets or titles arising from recoverable goods. For recoverable goods or titles, the carrying value is the assessed value. Where solid evidence shows that the goods are not recoverable and the accounts prepaid are unable to form assets or titles, the assessed value of accounts prepaid is zero.

(5) Inventories

Finished products: Finished products can be assessed using the cost approach or the market approach. In this case, the market approach is adopted. The value of a finished product is the full cost plus an appropriate profit determined depending on its sales in the market, or might be lower than the cost. For products that sell well, the assessed value is their ex-factory prices less selling expenses and all taxes; for products that sell normally, the assessed value is determined by ex-factory prices less selling expenses, all taxes, and an appropriate amount of after-tax net profit; for products that sell with great efforts, the assessed value is determined by ex-factory prices less selling expenses, all taxes, and after-tax net profit; for products that are unsalable, overstocked or are sold at lower prices, the net realizable value is the basis of appraisal.

(6) Liabilities: Liabilities are checked and verified, and assessed by liability items and amounts the assessed entity will assume after the purpose of appraisal is achieved. Those liability items the assessed entity will not assume are stated at zero.

2. Appraisal of non-current assets

(1) Housing buildings (structures)

The cost approach is mainly used to evaluate houses and structures.

Assessed value = Total price of replacement × Integrated depreciation rate

① Determination of total price of replacement of buildings and structures

Total price of replacement = Construction and installation cost + Upfront and other expenses + Cost of capital – Deductible VAT

For large-sized, high-value and important buildings and structures, the cost of civil work and the cost of installation are calculated separately in accordance with the local quota and pricing documents in force and then the total construction and installation cost is obtained.

For low-value and simple buildings and structures, the total construction and installation cost is determined using the unit cost per square meter approach.

Upfront and other expenses are determined as per industrial standards and local utilities fee rates. The cost of capital is determined based on lending rate on the reference date and normal construction period of the building type in question. Finally, these are summed up to arrive at the total price of replacement.

② Determination of integrated depreciation rate

(A) For high-value important buildings and structures, site survey depreciation rate and useful life-based depreciation rate are combined to determine integrated depreciation rate. The formula is as follows:

Comprehensive newness rate = survey newness rate × 60% + age newness rate × 40%

Of which:

New age rate (%) = serviceable life/(serviceable life + used life) × 100%

The newness rate of on-site investigation is based on understanding the maintenance and management of the main buildings item by item over the years, evaluating the structure and decoration of the buildings after on-site investigation, filling in the on-site investigation table of the newness rate, and calculating the newness rate of investigation.

(B) For buildings and structures of small unit value and simple structure, the useful life approach is used with appropriate revisions circumstantially to determine the depreciation rate. The formula is as follows:

Depreciation rate = (Durable years – Years used)/ Durable years × 100%

(2) Equipment assets

Equipment assets included in the scope of evaluation include machinery and transportation equipment.

In accordance with the purpose of this appraisal and the principle of continuous use, based on the market price, combined with the characteristics of the equipment and the information collected, the cost approach is mainly used to evaluate the equipment assets

Assessed value = Total price of replacement × Integrated depreciation rate

(1) Machinery and equipment

The machinery and equipment included in this assessment are mainly domestic ones.

① Determination of total price of replacement

Total price of replacement = Equipment purchase price + Freight and miscellaneous expenses + Installation and debugging expenses + Basic expenses + Other expenses + The cost of capital – VAT

(A) Equipment purchase price

The purchase price of made-in-China equipment is determined based on inquiries after manufacturers or trade firms, The Quotation Manual for Electromechanical Products and the contract prices of similar equipment recently. For a small number of equipment the purchase prices of which are not available, the price index approach is used.

(B) Freight and miscellaneous expenses

Different freight rates apply to the purchase price depending on the distance between the manufacturers and the location of the equipment, weight and dimensions of the equipment.

(C) Installation and debugging expenses

Different installation fee rates apply to the purchase price depending on the nature, weight and ease of installation of the equipment.

For small devices that do not need to be installed, there is no installation and debugging expense.

(D) Basic expenses

Different fee rates apply to the purchase price depending on the nature of the equipment, with reference to The Budget Estimate Preparation Approach and Indicators for Machinery Construction Projects.

(E) Other expenses

Other expenses include administrative expenses, feasibility study and appraisal charges, design fees and project supervision fees. Other expenses are the sum of the purchase price of equipment, freight and miscellaneous expenses, basic expenses and installation and debugging expenses, determined by reference to other construction fee rates where the equipment is located and the nature of the equipment.

(F) The cost of capital

The cost of capital is determined based on applicable lending rate on the reference date and construction period as appropriate to the construction project and is evenly amortized over the construction period.

The cost of capital = (Equipment purchase price + Freight and miscellaneous expenses + Installation and debugging expenses + Basic expenses + Other expenses) × Lending rate × Construction period × 1/2

(2) Appraisal of vehicles

① Total price of replacement of vehicles

Total price of replacement of vehicles is made up of three components, that is, purchase price exclusive of VAT, acquisition tax and other appropriate expenses (such as vehicle examination fee, license plate fee and handling charges). The purchase price is determined primarily by reference to latest trade prices of comparable models.

② Determination of integrated depreciation rate

Theoretical depreciation rate is determined at the lower of mileage and useful life according to the prevailing vehicle scrapping standards. Then it is combined with site survey depreciation rate obtained from on-site survey to arrive at integrated depreciation rate.

③ Determination of assessed value of vehicles

Assessed value = Total price of replacement of vehicles × Integrated depreciation rate

For vehicles that have been purchased earlier, have stopped production and have no similar price, the market approach is mainly used to evaluate the second-hand transaction price.

ii) The income approach

The cashflow discounting approach of the income approach is adopted this time. The cashflows measured are free cashflows. The value of total shareholders' equity is obtained indirectly from an estimation of overall value of the business.

Net free cashflows over certain years in the future are discounted at an appropriate discount rate and summarized to arrive at the overall value of operating assets of the business, which, plus surplus assets and non-operating assets and minus interest-bearing debts, produces the value of total shareholders' equity.

1. Computation model

$E = V - D$ *Formula 1*

$V = P + C_1 + C_2 + E'$ *Formula 2*

Of which:

E: Value of total shareholders' equity;

V: Overall value of the business;

D: Assessed value of interest-bearing debts;

P: Assessed value of operating assets:

C_1: Assessed value of surplus assets;

C_2: Assessed value of non-operating assets;

E': (Excluded from cashflows) Assessed value of long-term equity investments.

P, assessed value of operating assets, in Formula 2 is obtained by the following formula:

$$P = \sum_{t=1}^{n} \left[R_t \times (1 + r)^{-t}\right] + \frac{R_{n+1}}{(r - g)} \times (1 + r)^{-n} \quad \textit{Formula 3}$$

The first part is the value over the explicit forecast horizon, and the latter part is the value over the infinite horizon (future value).

In Formula 3:

R_t: Make clear the free cash flow of enterprises in the T phase of the forecast period

t: Number of installments over the explicit forecast horizon: 1, 2, 3, ..., n;

r: Discount rate;

R_{n+1}: Free cashflows over the infinite horizon;

g: Growth rate over the infinite horizon, g = 0 for the purpose of the appraisal;

n: The last year of the explicit forecast horizon.

2. *Determination of key parameters in the model*

1) Determination of expected profit

Free cashflows serve as the quantitative indicator of expected profit of the business.

Free cashflows are gross cashflows after payment of operating costs and income taxes and before payment of cash to settle claims. The computation formula is:

Free cashflows = After-tax net profit + Depreciation and amortization + Interest expenses × (1 – Tax rate T) – Capex – Change in working capital

2) Determination of profit period

For the purpose of appraisal of business value, the profit period is the length of time during which the business is expected to make profit. To predict future profit of the business appropriately, the profit period is divided into finite and infinite periods depending on the nature of business and relevant laws and regulations, treaties and contracts.

The sustainable term is adopted as the income period in this assessment. Among them, the first stage is from 1 March 2018 to 31 December 2023. According to the business situation and business plan of the evaluated enterprise, the income status is changing at this stage. The second stage will be a sustainable operation from 1 January 2024, at which the evaluated enterprise will maintain a stable profit level.

3) Determination of discount rate

Discount rate can be determined by various approaches and ways. For the sake of consistency between the measurement of profit and discount rate, free cashflows are used to measure profit and discount rate is determined by Weighted Average Cost of Capital (WACC).

4) Determination of assessed value of interest-bearing debts

Interest – bearing debts include long-term and short-term loans of enterprises, determined according to their market value.

5) Determination of assessed value of surplus assets and non-operating assets (liabilities)

Surplus assets are excess assets that are not directly related to profit and are more than necessary in everyday activities, usually being excess monetary assets and financial assets held for trading; non-operating assts are assets that are not directly related to profit and do not generate benefit. These assets are assessed separately.

VIII. APPRAISAL PROCESS AND FINDINGS

Pan-China Assets Appraisal Co., Ltd. validated and reviewed the legal documents, accounting records and other relevant materials provided by the principal, validated the property titles, inspected relevant assets on site and checked against the inventory of assets provided by the assessed entity, carried out necessary market research and transaction price comparisons, as well as financial analysis and forecast, among other necessary asset appraisal procedures, in accordance with asset appraisal standards, generally accepted accounting principles, relevant laws, regulations and requirements of the authorities, and by following the matters specified in the asset appraisal engagement contract concluded with the principal. The asset appraisal process is detailed as follows:

1. Acceptance of engagement and preparations

(1) Pan-China Assets Appraisal Co., Ltd accepted the entrustment of the entrusting party in March 2018 and engaged in this asset appraisal project. (1) Upon taking the job, Pan-China Assets Appraisal Co., Ltd. held talks with the principal over the purpose, subject and scope, reference date of the appraisal, the nature of the assets to be assessed and other matters that are of significance to the asset appraisal proposal.

(2) An asset declaration breakdown form was tailored to the assets to be assessed. Main assets investigation form and profit and loss investigation form of main activities were designed. Some staff members of the principal supporting the appraisal received training. An asset inventory and all investigation forms were completed.

(3) Design of the appraisal proposal

Depending on the nature of the assets to be assessed, the appraisal implementation plan was finalized, the appraisers were appointed and an on-site task force was put together.

(4) Preparation of appraisal documents

Traded prices of the assessed subjects, market prices of major raw materials, and property title proofs of the assessed subjects were gathered and collated.

2. On-site inventory phase

(1) Truthfulness and legitimacy of the assessed subjects

The appraisers checked physical assets and monetary claims and debts against the statements of assets and liabilities provided by the principal and the assessed entity in different ways to confirm truthfulness and accuracy of the assets and liabilities.

For monetary funds, we conduct investigations by consulting journals, checking cash on hand, reviewing bank statements and statements of bank reconciliation.

For claims and debts, the appraisers checked general ledgers and subsidiary ledgers, and randomly checked contracts and vouchers, to confirm truthfulness of the assets and liabilities.

For fixed assets, focused and general investigations were combined, with focus on buildings and structures, and important equipment. The appraisers consulted relevant engineering design and construction documents, contractor contracts, settlement documents, and equipment purchase contracts and invoices, to determine truthfulness of the assets.

(2) Investigation of actual state of the assets

Focused and general investigations were combined to find out the state of the equipment, with focus on production machinery. Supported by the persons in charge of the equipment at the assessed entity, the appraisers reviewed the operation records of the equipment and checked the running status of the equipment on site. On the basis of investigation, key equipment investigation forms were completed.

(3) Investigation of value composition of physical assets and business development

The value composition of the assets was checked for appropriateness and compliance depending on the nature of the assets of the assessed entity. In particular, the truthfulness, accuracy, completeness and compliance of the carrying amount of fixed assets was examined. Relevant accounting vouchers, accounting books, final accounts, construction contracts and equipment purchase contracts were reviewed.

(4) Investigation of revenue and costs

To make preparations for future cashflow forecasts, profit/loss accounting data of relevant entities in prior years were collected for estimation and analysis; actual business performance, the composition of their revenue, costs and expenses and future trends of the entities and business units were found out by interviews and other means.

By collecting relevant information, this paper analyzes and forecasts the market environment, future competition and development trend of various businesses of Scrap Steel Company.

3. Choice of appraisal approach, gathering of market intelligence and the process of estimation

The appraisers determined appraisal parameters and prices based on the work plan mapped out for the project in particular and the pricing principles and valuation models identified as appropriate in light of the actual situation, and then started appraising and estimating by reference to the historical data and future forecasts provided by the principal.

4. Summary of appraisal findings

(1) Determination of appraisal results

According to the situation of the assessment site survey conducted by the appraisers of Pan-China Assets Appraisal Co., Ltd and the necessary market survey and calculation, the results of the asset-based approach and the income approach entrusted with the assessment of assets are determined.

(2) Analysis of appraisal results and preparation of the appraisal report

The asset appraisal report was drafted in compliance with the requirements of Pan-China Assets Appraisal Co., Ltd.. The appraisal results and the relevant asset appraisal report went through three-level reviews by Pan-China Assets Appraisal Co., Ltd. and were confirmed to be error-free by the signatory asset appraiser. Then the project team finalized and delivered the report.

(3) Archiving of original documents

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: Open market assumption is an assumption about the conditions of the market the assets are assumed to enter and about the degree of impact the assets are exposed to under such market conditions. 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: The continuous use assumption is an assumption about the conditions of the market the assets are assumed to enter and about the state of the assets under such market conditions. First of all, the assets being appraised are in use. Secondly, hypothetically the assets in use will continue to be used. Under the continuous use assumption, the possibility of repurposing of the assets or optimal conditions of use are disregarded. Hence, the appraisal results are of limited usability.

4. Going concern assumption: The entire assets are taken as the subject of appraisal. As a business entity, the Company will continue as a going concern in the external environment. The management is responsible and has the ability to take responsibilities; the business is legal and profitable, and thus sustainable.

(ii) Assumptions in the income approach:

1. No material changes will happen to the relevant laws, regulations and policies currently in force and the macroeconomic condition of the country; no material changes will happen to the political, economic and social environment in the regions where the parties are located; there will be no material adverse impact arising from other unforeseeable and force majeure factors.

2. The Company is assumed to continue as a going concern with the state of the assets on the reference date.

3. The management of the Company is responsible and has the ability to perform its duties.

4. The Company is assumed to comply with all applicable laws and regulations unless otherwise specified.

5. The accounting policies the Company will adopt in the future are assumed to be, in all material aspects, consistent with the accounting policies adopted when the report was being prepared.

6. The conduct of business and the scope of activities of the Company are assumed to be consistent with the present management style and level.

7. No material changes will happen to interest rates, exchange rates, tax bases and rates and policy duties and levies.

8. No other manmade or force majeure factors or unforeseeable factors will have material adverse impact on the business of the Company.

X. APPRAISAL CONCLUSION

(I) Appraisal conclusion with asset-based approach

The book value of the total assets of Maanshan Ma Steel Scrap Steel Co., Ltd. (馬鞍山馬鋼廢鋼有限責任公司) is RMB654.2877 million, the estimated value is RMB668.2338 million, and the value added is RMB13.9461 million, with a value-added rate of 2.13 %. The book value of the debt is RMB343.9032 million, and the estimated value is RMB343.9032 million, with no increase or decrease. The book value of net assets was RMB310.845 million, the estimated value was RMB324.3306 million, the value added was RMB13.9461 million, and the value-added rate was 4.49%.

For further information on appraisal summary, please refer to the following sheet:

Summary sheet of asset appraisal

Amount in: Unit: RMB10,000

Item	Carrying amount	Estimated value	Increase or decease	Value-added rate *(%)*
Current assets	62,902.05	62,991.69	89.64	0.14
Non-current assets	2,526.72	3,831.69	1,304.97	51.65
Of which: Long-term equity investments				
Investment properties				
Fixed assets	2,526.72	3,831.69	1,304.97	51.65
Construction in Progress				
Intangible assets				
Land use right				
Others				
Total assets	**65,428.77**	**66,823.38**	**1,394.61**	**2.13**
Current liabilities	34,390.32	34,390.32		
Non-current liabilities				
Total liabilities	**34,390.32**	**34,390.32**		
Net assets	**31,038.45**	**32,433.06**	**1,394.61**	**4.49**

Note: For further information on appraisal conclusion, please refer to the Sheet of Assets Appraisal.

(II) Appraisal results of income approach

According to the income approach, the total equity value of shareholders of Ma Steel Scrap Steel Co., Ltd.（馬鞍山馬鋼廢鋼有限責任公司）is RMB391.7607 million, an increase of RMB81.3762 million, or 26.22% over the book net assets of RMB310.3845 million.

(III) Final determination of appraisal conclusion

1. The asset-based approach is based on the replacement of the cost of assets as the value standard, reflecting the social necessary labor consumed by the investment of assets (purchase and construction costs), which will usually change with the changes of the national economy.

2. The evaluation of income approach is based on the expected income of assets and reflects the size of assets' operating ability (profitability), which is usually affected by various conditions such as macro-economy, government control and effective use of assets.

In conclusion, there are differences between the two approaches to appraisal.

After analysis, we believe that the appraisal result of the asset-based approach can more fairly reflect the value of all shareholders' rights and interests of Ma Steel Scrap Steel Co., Ltd.（馬鞍山馬鋼廢鋼有限責任公司）. The main reasons are: As the production guarantor and supply unit of Maanshan Iron & Steel Company Limited, the evaluated unit Scrap Steel Company mainly purchases scrap steel for Maanshan Iron & Steel Company Limited to guarantee the scrap steel needed for the production of Maanshan Iron & Steel Company Limited with a single business scope and service target. At the same time, it can be seen from the historical business data that its sales target is highly concentrated, and its future earnings largely depend on the demand of Maanshan Iron & Steel Company Limited for scrap steel and its profitability, increasing the uncertainty of its future earnings. The appraisal by taking the asset-based approach is, in large part, based on the full replacement cost of existing enterprise assets on the benchmark date of assets appraisal and this is a basic reflection on the prevailing market price. Regarding this appraisal, the appraised provided detailed materials of asset liabilities and the appraiser collected external data deemed necessary to the asset-based approach. We conducted a full inspection and appraisal of its assets and liabilities. Therefore, the appraisal conclusion come up with using the asset-based approach is comparatively more reliable. Therefore, the asset-based approach was adopted.

XI. SPECIAL NOTES

The company appraiser is incapable of evaluating and estimating the following items on their own. Notwithstanding the above, this may affect the conclusion. For this reason, it is essential for the user of the appraisal report to pay particular attention to this.

(I) The "appraisal value" in this report refers to our fair valuation opinions for the purposes listed in this report on the premise that the current use of the appraised assets remains unchanged and continues to operate, as well as on the basis of the status of the appraisal benchmark date and the external economic environment, without being responsible for other uses.

(II) The appraisal conclusion in the report reflects the market value determined by the appraisee according to the principle of open market under the purpose of this appraisal, without considering the relevant expenses and taxes to be borne by the assets in the process of property registration or ownership change, and without making any tax adjustment preparation for the value added of the assets appraisal. The appraisal conclusion is not to be deemed a guarantee for the realizable price of the appraised object.

(III) In case of changes in the amount of assets and pricing standards within the term of appraisal conclusion, moderate adjustments shall be made, instead of the direct use thereof.

(IV) The ownership information is incomplete or defective:

According to Request for Instructions on Asset Plans of Distribution Centers and Steel Scrap Companies and instructions issued by Maanshan Iron & Steel Company Limited Department Document Equipment (2014) No. 19, Maanshan Iron & Steel Company Limited plans to transfer some of the fixed assets used in the distribution centers to Ma Steel Scrap Steel Co., Ltd.(馬鞍山馬鋼廢鋼有限責任公司)for compensation. On 10 December 2014, Maanshan Iron & Steel Company Limited (Equipment Department) signed a Fixed Assets Transfer Agreement with Ma Steel Scrap Steel Co., Ltd.(馬鞍山馬鋼廢鋼有限責任公司), involving 96 building (structure) structures (excluding land) and machinery and equipment transferred, with a total transfer price of RMB29.77728 million.

The total number of houses and buildings included in this appraisal by Ma Steel Scrap Steel Co., Ltd. (馬鞍山馬鋼廢鋼有限責任公司) is 35, with a total construction area of 9,188.09㎡, all of which are properties transferred by Maanshan Iron & Steel Company Limited as mentioned above. Since the assets originally transferred did not include land and the land was still owned by Maanshan Iron & Steel Company Limited, the transfer formalities of the property have not yet been completed for this part of the building. In this evaluation, the 35 items of technical data, such as the area of buildings and corresponding structures, were used as the basis for evaluation and calculation according to the Technical Report on Topographic Mapping and Building Structure Area Statistics of No. 1 and No. 2 Branch of Ma Steel Scrap Steel Co., Ltd. (馬鞍山馬鋼廢鋼有限責任公司) issued by Masteel Group of Surveying and Mapping co., LTD.

On the above matters, the enterprise has issued a statement that the ownership belongs to Ma Steel Scrap Steel Co., Ltd. (馬鞍山馬鋼廢鋼有限責任公司) and there is no property right dispute. The assessment is based on the premise that the ownership of property rights is clear and there is no dispute.

(V) Limitations of asset appraisal procedures, handling methods and their impact on appraisal conclusions:

1. In this appraisal, the asset appraiser did not carry out technical tests on the technical parameters and performance of various equipment on the benchmark date. The asset appraiser made a judgment through on-site investigation on the premise that the relevant technical data and operation records provided by the evaluated unit are true and effective.

2. In this appraisal, the asset appraiser did not carry out technical inspection on the concealed works and internal structures of various buildings (structures) which are not visible to the naked eye. The appraisal conclusion of the houses and structures was based on the assumption that the relevant engineering data provided by the evaluated unit are true and effective and without any inspection instruments.

XII. RESTRICTIONS ON THE USE OF ASSET APPRAISAL REPORT

(I) The appraisal report may only serve the purpose of appraisal stated herein.

(II) The asset appraisal institution and the appraiser will not be held liable or take the consequences, in case the client 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 stated in the commission contract for asset appraisal, and report users in compliance with laws and administrative regulations.

(IV) The user of the asset appraisal report should correctly understand the appraisal conclusion, which is not equal to the achievable price of the appraisal object, and the appraisal conclusion should not be considered as a guarantee for the achievable price of the appraisal object.

(V) The appraisal report shall be submitted to the state-owned assets supervision and administration authorities or the competent business department for examination. The report shall not be used until after being put on file.

(VI) All (or perhaps any) of the appraisal report may be extracted, quoted or disclosed, subject to examination by the appraisal institution, unless otherwise stated in the laws, regulations and entrusted by the corresponding party.

(VII) The appraisal conclusion disclosed in this appraisal report is valid only for the corresponding economic behavior of the project, and the validity period of the asset appraisal conclusion is one year from the appraisal benchmark date, that is, from 28 February 2018 to 27 February 2019. When the appraisal target is hit within the term, the appraisal conclusion shall be a useful guideline on the value, subject to adjustments subsequent to the benchmark date of assets appraisal. Assets shall be reappraised if the one-year limit is exceeded.

XIII. REPORTING DATE OF ASSET APPRAISAL

The asset appraisal report date is 18 April 2018.

The following is the valuation report received from Pan-China Assets Appraisal Co., Ltd. in relation to the valuation of K. Wah Company as at 27 March 2018, which is prepared in Chinese. Should there be any inconsistency between the Chinese and the English version, the Chinese version shall prevail.

Anhui Ma Steel K. Wah New Building Materials Co., Ltd Asset Appraisal Report of the Company's Total Shareholders' Equity Involved in the Proposed Capital Increase and Share Enlargement

Tianxing Commentary Report [2018] No. 0329

Anhui Ma Steel K. Wah New Building Materials Co., Ltd

Pan-China Assets Appraisal Co., Ltd. is engaged by Anhui Ma Steel K. Wah New Building Materials Co., Ltd to assess the market value of its total shareholders' equity involved in the proposed capital and share enlargement as at 31 December 2017 in an independent, objective and impartial manner, by adopting the asset-based approach and income approach and following necessary appraisal procedures, in accordance with relevant laws, administrative regulations and asset appraisal standards. The asset appraisal results are presented as follows.

I. OVERVIEW OF THE PRINCIPAL CUM ASSESSED ENTITY, AND OTHER USERS OF THE APPRAISAL REPORT AS AGREED UPON IN THE ASSET APPRAISAL ENGAGEMENT CONTRACT

(i) Overview of the principal cum assessed entity

Name of Entity:	Anhui Ma Steel K. Wah New Building Materials Co., Ltd (K. Wah Company)
Address:	Jiangbianlian Village, Maanshan, Anhui
Legal Representative:	Jiang Yuxiang
Registered Capital:	USD8,389,000
Nature of Entity:	Limited Liability Company (Sino-foreign joint venture)

Date of Incorporation:	27 September 2002
Term of Operation:	27 September 2002 to 26 September 2032
Unified Social Credit Code:	913405007430658766
Scope of Business:	Transportation and sale of blast furnace slag; transportation and sale of steel slag; production, sale and transportation of products made with the use of blast furnace slag and steel slag, such as mine filling and consolidation agents; provision of technical consulting and services; terminal loading/unloading and warehousing services, and services related to terminal and other port facilities.

i) History

K. Wah Company was jointly invested by Maanshan Iron and Steel Company Limited ("Masteel") and Leader Investments Company Limited ("Leader Investments") with the approval of Anhui Provincial People's Government by instrument number Shangwaizi Wanfuzi Zi [2002] 0192, and obtained the license of foreign-invested enterprises of the People's Republic of China ("PRC") on 23 September 2002.

The joint venture contract was signed in Hong Kong in December 2002. Masteel and Leader Investments together invested a sum of USD 4,290,000 at the ratio of 7:3.

K. Wah Company's business registration was done in February 2003 and construction of premises took place in March to September 2003 on the former address of the meat processing plant. Owing to the relocation of projects in the size of 5,000,000 tonnes, from April 2004 to January 2005, K. Wah Company rented a 85.4-mu plot from Masteel and completed Phase I of the premises construction at the present address of the sixth group of Hengxing, the municipal power plant community, on which a 600,000 tonne/year ground granulated blast furnace slag production line was set up.

The initial registered capital of K. Wah Company was USD4,290,000. K. Wah Company's registered capital was increased by USD4,099,000 pursuant to the shareholders' resolution passed in November 2009 and the revised Articles of Association. After that, the registered capital of K. Wah Company became USD8,389,000 (the shareholders and their respective shareholding percentage remained unchanged).

Between November 2009 and November 2010, phase II of the construction was completed at the current site where another 600,000 tonne/year ground granulated blast furnace slag production line was completed. Now K. Wah Company boasts annual output of 1,200,000 tonnes of ground granulated blast furnace slag and 2,400 tonnes of iron powder.

As of the appraisal reference date of 31 December 2017, the shareholding structure of K. Wah Company is outlined in the table below:

Amount in: USD

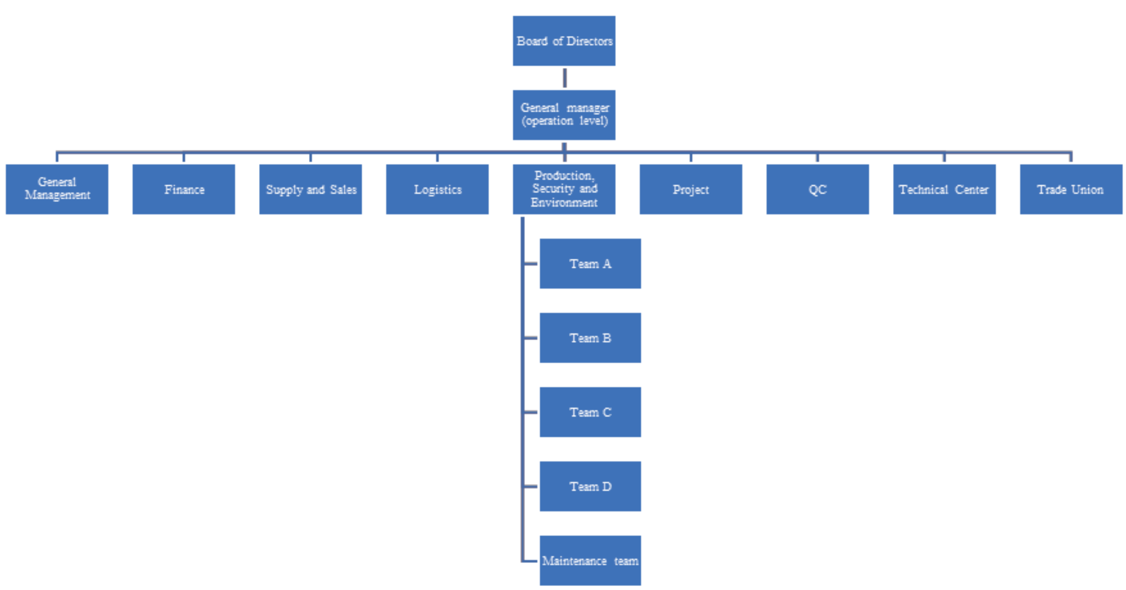
Seq. No.	**Name of Shareholder**	**Subscribed Registered Capital**	**Equity Interest** *(%)*
1	Maanshan Iron and Steel Company Limited	5,872,300.00	70.00
2	Leader Investments Company Limited	2,516,700.00	30.00
3	**Total**	**8,389,000.00**	**100.00**

ii) Overview of main assets of the Company

K. Wah Company specializes in processing and trade of water granulated slag, such as ground granulated blast furnace slag and mine filling and consolidation agents. K. Wah Company is able to produce 1,200,000 tonnes of ground granulated blast furnace slag per annum. Phase I with a designed capacity of 600,000 tonnes of ground granulated blast furnace slag per annum, went into operation in January 2005. Phase II, with a designed capacity of 600,000 tonnes of ground granulated blast furnace slag per annum became operational in October 2010. Physical assets fall into the following categories: inventories, buildings and structures, machinery and equipment. These physical assets are located mainly in the production area of K. Wah Company. K. Wah Company has substantial physical assets, the locations of which are relatively centralized and some fixed assets have significant unit value.

iii) Organization and human resources of the Company

K. Wah Company has about 100 permanent workers and 35 contract laborers. K. Wah Company is comprised of General Management, Finance, Supply and Sales, Logistics, Production, Security and Environment, Project, QC, Technical Center and Trade Union. The organization chart of K. Wah Company is provided below:



iv) Financials and Business Performance

Financial Statement

Unit: RMB0,000

Item	2015.12.31	2016.12.31	2017.12.31
Current assets:			
Cash and Cash Equivalents	427.18	3,580.21	4,721.23
Notes receivable	5,695.78	6,360.16	13,348.87
Accounts receivable	969.66	1,179.92	2,268.56
Prepayments	0.00	112.46	160.27
Other receivables	65.16	232.09	39.69
Inventories	1,412.24	1,666.14	3,334.51
Other current assets	0.00	7.00	0.00
Total current assets	**8,570.01**	**13,137.97**	**23,873.13**
Non-current assets:			
Fixed assets	8,722.92	8,349.62	7,354.15
Construction in Progress	8.40	46.79	28.30
Deferred income tax assets	32.02	41.71	35.08
Total non-current assets	**8,763.34**	**8,438.12**	**7,417.53**
Total assets	**17,333.35**	**21,576.09**	**31,290.66**
Current liabilities:			
Accounts payable	2,190.58	3,403.52	4,608.43
Accounts collected in advance	2,117.96	1,459.55	1,721.08
Payroll payable	186.02	502.80	819.74
Taxes and Dues Payable	157.11	559.98	2,012.67
Dividends payable	0.00	786.08	248.12
Other payables	915.97	1,528.63	873.02
Total current liabilities	**5,567.64**	**8,740.56**	**10,283.07**
Non-current liabilities:			
Total non-current liabilities	0.00	0.00	0.00
Total liabilities	**5,567.64**	**8,740.56**	**10,283.07**
Net assets	**11,765.71**	**12,835.53**	**21,007.59**

Business Performance

Unit: RMB0,000

Item	2015	2016	2017
Operating revenue	**20,544.08**	**38,940.44**	**77,296.44**
Primary operating revenue			
Other operating revenue			
Operating costs	**20,003.73**	**34,997.68**	**61,313.96**
Operating costs and taxes	59.70	234.17	602.11
Selling expenses	148.02	202.49	145.68
G&A expenses	628.98	1,158.35	2,916.51
Financial expenses	141.86	140.33	318.47
Asset impairment loss	56.31	38.76	–26.53
Operating profit	**–494.52**	**2,168.65**	**12,103.25**
Non-operating income	0.00	10.00	0.00
Non-operating expenditure	0.93	0.00	11.76
Total profit	**–495.45**	**2,178.65**	**12,091.49**
Less: Profit tax expenses	–14.08	298.45	3,011.32
Net profit	**–481.37**	**1,880.20**	**9,080.17**

Note: The 2015 figures were reported in the Ruihua Audit Report No. (2016) 01480243 issued by Ruihua Certified Public Accountants (LLP); the 2016 figures were reported in the Ruihua Audit Report No. (2017) 01480137 issued by Ruihua Certified Public Accountants (LLP); and the 2017 figures were reported in the Ruihua Audit Report No. (2018) 450016 issued by Ruihua Certified Public Accountants (LLP).

(ii) Other users of the appraisal report as agreed upon in the asset appraisal engagement contract

As stipulated in the asset appraisal engagement contract, the report has no other user.

(iii) Relationship between the principal and the assessed entity

The principal is the assessed entity.

II. PURPOSE OF APPRAISAL

According to the minutes of the sixth meeting of the fourth session of the Board of Directors of K. Wah Company (Board [2017] No. 4), K. Wah Company, for the purpose of capital increase and share enlargement, needs the market value of its total shareholders' equity as at the reference date to serve as the basis of valuation for the economic action.

III. SUBJECT AND SCOPE OF APPRAISAL

(i) Subject of appraisal

Total shareholders' equity of K. Wah Company as at the reference date is assessed.

(ii) Scope of appraisal

All assets and liabilities of K. Wah Company as at the reference date are assessed. The book value of total assets is RMB312,906,600 and that of liabilities RMB102,830,700, net assets RMB210,075,900. For details on the book value of each asset and liability item, please see the table below:

Asset Appraisal and Declaration Summary Table

Unit: RMB0,000

Item	Book Value
Current assets	23,873.13
Non-current assets	7,417.53
Of which: Long-term equity investments	–
Investment real estate	–
Fixed assets	7,354.15
Construction in Progress	28.30
Intangible assets	–
Land use right	–
Others	35.08
Total assets	**31,290.66**
Current liabilities	10,283.07
Non-current liabilities	–
Total liabilities	**10,283.07**
Net assets	**21,007.59**

The principal and the assessed entity have undertaken that the subject and scope of appraisal in the engagement are consistent with the subject and scope of appraisal involved in the economic behaviour. Zhongxinghua Certified Public Accounts LLP has carried out an audit and issued a special auditor's report no. (2018).

IV. TYPE OF VALUE

Market value is assessed in this appraisal. Reference to market value in this report means the estimated value of the assessed subject on the reference date in an arm's length transaction between a willing rational buyer and a seller who acts in a sensible manner without being forced in any form or by any means.

V. REFERENCE DATE OF APPRAISAL

The reference date is 31 December 2017.

The reference date is determined by the principal and consistent with the reference date specified in the asset appraisal engagement contract.

VI. BASIS OF APPRAISAL

The appraisal work is carried out on the basis of the following economic behaviour, laws and regulations, appraisal standards, asset ownership and pricing:

(i) Basis of economic behaviour

The minute of the sixth meeting of the fourth session of the Board of Directors of K. Wah Company (Board [2017] No. 4)

(ii) Laws and regulations

1. The Law of the PRC on the State-Owned Assets of Enterprises (Order of the President of the PRC (No. 5));

2. The Company Law of the PRC;

3. The Property Law of the PRC (Order of the President of the PRC (No. 62));

4. The Enterprise Income Tax Law of the PRC;

5. The Asset Appraisal Law of the PRC (Order of the President of the PRC (No. 46));

6. Rules on the Evaluation and Management of State Assets (Order No. 91 [1991] of the State Council);

7. Detailed Rules for the Implementation of the Administrative Measures for State-Owned Assets Assessment (No. 36 [1992] of the Office of the National State-Owned Assets Administration Bureau);

8. Opinions of the Ministry of Finance on Reforming State-owned Asset Appraisal Administration Method and Strengthening Asset Appraisal Administration Work (Guo Ban Fa [2001] No. 102);

9. Rules on Certain Issues Relating to the Appraisal of State-owned Assets (Order No. 14 of the Ministry of Finance ("MOF") in 2011);

10. Interim Measures for Supervision and Administration of State-owned Assets of Enterprises (Order No. 378 [2003] of the State Council of the PRC);

11. Measures for the Supervision and Administration of the Transactions of State-Owned Assets of Enterprises (Order No. 32 of the State-owned Assets Supervision and Administration Commission of the State Council ("SASAC") and MOF);

12. Interim Administration Measures for Valuation of State-owned Assets of Enterprises (Order No. 12 of SASAC of State Council);

13. Notice of the Appraisal and Management of State-owned Assets (Order No. 274 [2006] of SASAC);

14. Anhui Province Measures for the Supervision and Administration of the Transactions of State-Owned Assets of Enterprises (Anhui Guo Zi Chan Quan [2016] No. 144);

15. Notice on Issues concerning the Audit of Valuation Report for Stateowned Assets of Enterprises (Guo Zi Chan Quan [2009] No. 941 of the SASAC of the State Council);

16. Regulation on the Implementation of the Enterprise Income Tax Law of the People's Republic of China;

17. Interim Regulation of the PRC on Value-added Tax;

18. Detailed Rules for the Implementation of the Interim Regulations of the PRC on Value-added Taxes;

19. Other relevant laws and regulations.

(iii) Appraisal standards

1. Basic Rules for Asset Appraisal No. 43 [2017] of MOF);

2. Professional Codes of Ethics for Assets (Order No. 30 [2017] of China Appraisal Society ("CAS"));

3. Asset Appraisal Practicing Standards – Asset Appraisal Procedures (CAS [2017] No. 31);

4. Asset Appraisal Practicing Standards – Asset Appraisal Report (CAS [2017] No. 32);

5. Asset Appraisal Practicing Standards – Asset Appraisal Engagement Contract (CAS [2017] No. 33);

6. Asset Appraisal Practicing Standards – Asset Appraisal Files (CAS [2017] No. 34);

7. Asset Appraisal Practicing Standards – Business Value (CAS [2017] No. 36);

8. Asset Appraisal Practicing Standards – Use of Experts' Services and Relevant Reports (CAS [2017] No. 35);

9. Asset Appraisal Practicing Standards – Immovable Properties (CAS [2017] No. 38);

10. Asset Appraisal Practicing Standards – Machinery and Equipment (CAS [2017] No. 39);

11. A Guide for State – owned Assets Appraisal Reports by Enterprises (CAS [2017] No. 42);

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. Guidelines for Legal Ownership of Subject of Asset Appraisal (CAS [2017] No. 48);

(iv) Ownership of assets

1. Business License, Article of Association of corporations;

2. Purchase contracts, invoices, and relevant agreements and contracts of main machinery;

3. Other documents evidencing ownership.

(v) Pricing

1. Asset appraisal Declaration Form and Profit Forecast Form provided by the assessed entity;

2. Regulations on Charges for Project Survey and Design (State Planning Commission and the Ministry of Housing and Urban-Rural Development [2002] No. 10);

3. Regulations on Construction Costs of Infrastructure Projects ([2016] No. 504);

4. The Circular of National Development and Reform Commission ("NDRC") and the Ministry of Housing and Urban-Rural Development (NDRC Price [2007] No. 670);

5. The Circular of State Planning Commission on Releasing Interim Administrative Measures for Tender Agent Service Charges (Price [2002] No. 1980);

6. The Circular of State Planning Commission on Releasing Interim Administrative Measures for Advance Work Consultation Charges for Construction Projects (Price [1999] No. 1283);

7. Notice of State Planning Commission and State Administration for Environmental Protection on Issues Concerning Environmental Impact Consultation Charges (Price [2002] No. 125);

8. Standards for Compulsory Scrapping of Motor Vehicles (the Ministry of Commerce, NDRC, the Ministry of Public Security and State Administration for Environmental Protection Decree No. 12 in 2012);

9. Banks' deposit and lending reference interest rates and exchange rates on the reference date;

10. The Criteria of Damage Rating of Houses and Rating Standards (Cheng Zhu Zi [1984] No. 678);

11. Anhui Province Construction Project Bill of Quantities and Pricing Specifications (DBJ34/T-206-2005);

12. Anhui Province Construction Price List for 2005;

13. Anhui Province Buildings Consumption Quota for 2005;

14. Anhui Province Decoration Project Consumption Quota for 2005;

15. Anhui Installation Work Consumption Quota for 2005;

16. Notice of the Ministry of Finance and the State Administration of Taxation on Implementing the Pilot Program of Replacing Business Tax with Value-Added Tax in an All-round Manner ([2016] No. 36);

17. Notice of the Ministry of Finance and State Administration of Taxation on Policies of the Pilot Program of Business Tax to VAT in the Building Service Sector ([2016] No. 58);

18. Maanshan Construction Costs Information (December 2017);

19. The Quotation Manual for Electromechanical Products (2017);

20. Relevant budgets provided by the assessed entity;

21. Auditor's Reports in prior years, Business Plans and Profit Forecasts for future years provided by the assessed entity;

22. Raw materials purchase contracts entered by the assessed entity with other parties;

23. Labor costs contracts and transportation contracts entered by the assessed entity with other parties;

24. On-site investigation records and other appraisal information collected by the appraisers;

25. Accounting statements, financial accounting materials, relevant agreements, contracts, invoices and other financial data provided by the assessed entity;

26. Statistics, technical specifications, pricing documents released by relevant authorities and relevant inquiry materials and pricing parameters information gathered by the Company;

27. The Customs Import and Export Tariff of the PRC (2013);

28. Production price index published by the relevant national statistics authorities and Wind information;

29. Other materials related to this asset appraisal.

VII. APPRAISAL APPROACHES

(i) Introduction of appraisal approaches

Basic appraisal approaches of an entity's value include asset-based approach, income approach and market approach.

The asset-based approach is also called the cost approach, which is based on the Balance Sheet of the assessed entity on the reference date to assess all assets and liabilities on the Balance Sheet and off the Balance Sheet, if identifiable, so as to arrive at the value of the assessed subject.

The income approach is a way of determining the value of the assessed item by capitalizing or discounting expected income. Some commonly used methods of the income approach are dividend discounting method and cashflow discounting method. The income approach measures the value of a business from the perspective of profitability and is built on the theory of expected utility in economics.

The market approach determines the value of the assessed entity by comparing it with comparable listed companies or comparable cases. Two commonly used methods of the market approach are listed company comparison and case comparison.

(ii) Choice of appraisal approaches

The asset-based approach is based on the Balance Sheet to assess all assets and liabilities on the Balance Sheet and off the Balance Sheet, if identifiable, so as to arrive at the value of the assessed entity. Since the assessed entity is able to provide and the appraisers are able to obtain from external sources all necessary materials for the application of the asset-based approach, it is possible to carry out a thorough stock-taking and appraisal of the assets and liabilities of the assessed entity. Therefore, the asset-based approach is adopted this time.

The income approach is built on the theory of expected utility in economics. From investors' perspective, value of a business lies in the income the business is expected to generate in the future. The income approach does not directly use comparable references available in the market as the present fair market value of the assessed entity, but it assesses assets with reference to the expected profitability of assets, which forms the basis of the present fair market value of assets. It can reflect the overall value and arrive at a more reliable and convincing conclusion. Regarding the applicability of the income approach, since the assessed entity has an independent ability to make profits and its management has provided profit forecasts for future years, it is possible to reasonably estimate the future profitability of the company based on historical business results and internal and external business environment of the company, and the risk associated with future profit is quantifiable. Hence, the income approach is applicable.

Hence, the asset-based approach and the income approach are adopted in this asset appraisal.

(iii) Introduction of specific appraisal methods

i) The asset-based approach

The asset-based approach is based on the Balance Sheet of the assessed entity on the reference date to assess all assets and liabilities so as to arrive at the value of the assessed entity. The appraisal of all assets and liabilities is detailed as follows:

1. Appraisal of current assets and liabilities

Current assets of the assessed entity comprise cash and cash equivalents, notes receivable, accounts receivable, prepayment, other receivables, inventories; liabilities comprise accounts payable, accounts collected in advance, payroll payable, taxes payable, dividends payable and other payables.

(1) Cash and cash equivalents: Inclusive of cash on hand and bank deposits, are assessed by carrying out cash stock-taking and checking banks' statements and letters.

(2) Notes receivable: Notes receivable are commercial notes received by business entities from sale of goods or rendering of services. All notes receivable assessed in the appraisal are banker's acceptance. For notes receivable, the appraisers verify accounting records, review the register of notes receivable, and add up and verify the total note. For some significant notes receivables, the appraiser would check count the notes, such as relevant sales contracts and delivery orders (shipping orders). After all of these are confirmed to be error-free, the appraiser would come up with the appraised value by reference to the verified book value.

(3) Accounts receivable and other receivables: After all receivables are confirmed to be error-free, the appraised value of each receivable is determined according to the estimated recoverable amount. Where an receivable is believed to be fully recoverable, the whole amount is taken as the appraised value; if it is only partially recoverable, and it is impossible to determine the unrecoverable amount, the unrecoverable amount is estimated using the ageing analysis method, based on historical data, site investigation findings, and upon an analysis of the amount, time and reason for delinquency, recovery status, financial position, credit standing and current performance of the debtor, and is deducted as a loss to arrive at the net appraised value; if there is solid evidence of an unrecoverable receivable, the appraised value is taken as zero; bad debt provisions are stated at zero.

(4) Prepayment: Prepayments are determined according to the value of goods receivable or rights. For recoverable goods or rights, the book value is the appraised value. Where solid evidence shows that the goods are not recoverable and the prepayment are unable to form corresponding assets or equity, the appraised value of the prepayment is zero.

(5) Inventories

Inventories: Inventories include materials and finished products etc. Purchased inventories that are held in stock shortly, highly liquid and subject to insignificant price changes are assessed by the book value; purchased inventories that are held in stock for a long period of time, illiquid and subject to material price changes are assessed by the market price on the reference date plus regular procurement costs; spare products and parts that are slow-moving and eliminated in upgrade and remodeling are assessed by the salvage value depending on properties of the materials.

Finished products: Finished products can be assessed using the cost method or the market method. In this case, the market method is adopted. The value of a finished product is determined based on the full cost of the products, and depending on its sales in the market, the value may be adjusted upward to reflect its profit or adjusted lower than the cost. For popular products, the appraised value is their ex-factory prices less selling expenses and all taxes; for products that sell normally, the assessed value is determined by ex-factory prices less selling expenses, all taxes, and an appropriate amount of after-tax net profit; for products that have to be sold with great efforts, the assessed value is determined by ex-factory prices less selling expenses, all taxes, and after-tax net profit; for products that are unsalable, overstocked or have to be sold at lower prices, the net realizable value is taken as the appraised value. Products that are sold on installment or consigned for sale are deemed as finished products provided that the account books, original vouchers and contracts are verified.

(6) Liabilities: Verified liabilities are determined by the actual liability items and amount payable for the assessed entity after the purpose of appraisal is achieved. Those liability items which need not be paid by the assessed entity will be taken as zero.

2. *Appraisal of non-current assets*

(1) Buildings and structures, pipelines and grooves

Buildings, structures, pipelines and grooves are assessed using the cost of replacement approach.

1) The cost of replacement approach

Appraised value = full replacement price × Integrated newness rate

① *Determination of full replacement price of buildings and structures*

Total replacement price = Construction and installation cost + Upfront and other expenses + Capital costs – Deductible VAT

For large-sized, high-value and important buildings and structures, the cost of civil work and the cost of installation are calculated separately in accordance with the local quota and pricing documents in force. The total construction and installation costs are then calculated.

For low-value and simple buildings and structures, the total construction and installation costs are determined using the unit cost per square meter method.

Advance and other expenses are determined as per the industrial standards and local administration fee rates. The capital cost is determined based on lending rate on the reference date and the normal construction period of the building type in question, which would then be used in calculating the total replacement price.

② *Determination of integrated newness rate*

(A) For high-value important buildings and structures, on-site investigation newness rate and life newness rate are combined to determine integrated newness rate. The formula is as follows:

Integrated newness rate = On-site investigate newness rate × 60% + Theoretical newness rate × 40%

where:

Theoretical newness rate (%) = Remaining useful life/(Remaining useful life + Years used) ×100%

After going through all completion documents of the main buildings, finding out historical information of repairs and management and carrying out a site investigation, a newness rate site investigation sheet is filled in to indicate the scores of the structure, furnishing and equipment of the buildings. Then site investigation newness rate is calculated on such basis.

(B) For buildings and structures of small unit value and simple structure, the useful life method is used to determine the newness rate with necessary revisions in the circumstances. The formula is as follows:

Newness rate = (Durable years – Years used)/ Durable years × 100%.

(2) Equipment assets

Equipment assets included in the appraisal comprise machinery, vehicles, and electronic devices.

According to the purpose of this valuation and the principle of continuous use, the replacement cost method is adopted for the valuation based on the market price, with consideration given to the characteristics of the appraised equipment and the information collected.

Appraised value = Full replacement price × Integrated newness rate

1) Machinery

The appraisal covers locally-made and imported equipment.

① *Determination of full replacement price*

Full replacement price = Equipment purchase price + Freight and miscellaneous expenses + Installation and debugging expenses + Basic expenses + Other expenses + The capital cost – VAT

(A) Equipment purchase price

The purchase price of locally-made equipment is determined after enquiring with manufacturers or trade firm's and making reference to "The Quotation Manual for Electromechanical Products" and the contract prices of similar equipment recently. For a small number of equipment the purchase prices of which are not available, the price index method is used.

For imported equipment, the import contracts and customs declaration forms of relevant equipment are checked to determine the FOB or CIF price of the equipment. The current or recent FOB or CIF price of imported equipment of the same kind in the market is used as the purchase price. In addition to the current purchase price, overseas transportation insurance, tariff, import VAT, bank handling charges, foreign trade handling charges and inspection and quarantine fees are also taken into account. Where inquiries are impossible, the purchase price of imported equipment is determined using the price index method.

(B) Freight and miscellaneous expenses

Freight and miscellaneous charges are calculated based on the purchase price of the equipment and different rates applied according to factors such as the distance between the manufacturer and the installation location, weight, shape and size.

(C) Installation and debugging expenses

Different installation fee rates apply to the purchase price depending on the nature, weight and ease of installation of the equipment.

For small devices that do not need to be installed, there is no installation and debugging expense.

(D) Basic expenses

Different fee rates apply to the purchase price depending on the nature of the equipment, with reference to The Budget Estimate Preparation Method and Indicators for Machinery Construction Projects.

(E) Other expenses

Other expenses include administrative expenses, feasibility study and appraisal charges, design fees and project supervision fees. The calculation basis of other expenses are the sum of the purchase price of equipment, freight and miscellaneous expenses, basic expenses and installation and debugging expenses, using other construction fee at where the equipment is located as benchmark and taking into account the nature of the equipment.

(F) The capital cost

The capital cost is determined based on applicable lending rate on the reference date and the reasonable construction period. The capital cost is calculated based on the average capital input during the construction period.

The capital cost = (Equipment purchase price + Freight and miscellaneous expenses + Installation and debugging expenses + Basic expenses + Other expenses) × Lending rate × Construction period × 1/2

② *Determination of integrated newness rate*

Integrated newness rate = On-site investigation newness rate × 0.6 + Theoretical newness rate × 0.4

(A) On-site investigation newness rate

The on-site investigation newness rate is primarily determined by the actual status of the assessed entity. According to the scoring for technical condition, working environment and maintenance condition of each component of the equipment at the on-site investigation, the on-site investigation newness rate is determined.

(B) Theoretical newness rate

Theoretical newness rate is determined by the economic useful life of the equipment (or remaining useful life) and years used.

Theoretical newness rate = (Economic useful life – Years used)/Economic useful life ×100%

For equipment beyond its economic useful life, the following formula is used:

Theoretical newness rate = Remaining useful life/(Years used + Remaining useful life) ×100%

For low-value, light-weight, simple equipment operating properly, its newness rate is primarily determined by the useful life method, taking into account the length of use and maintenance condition.

③ *Determination of appraised value*

Appraised value of machinery and equipment = Full replacement price × Integrated newness rate

2) Appraisal of vehicles

① *Full replacement price of vehicles*

The full replacement price of vehicles is made up of three components, that is, purchase price exclusive of VAT, acquisition tax and other appropriate expenses (such as vehicle examination fee, license plate fee and handling charges). The purchase price is determined primarily by reference to the latest market prices of comparable models.

② *Determination of integrated newness rate*

According to the prevailing vehicle scrapping standards, the theoretical newness rate is determined at the lower of mileage and useful life, and the same is considered together with the on-site investigation findings to give the integrated newness rate.

③ *Determination of appraised value of vehicles*

Appraised value = Full replacement price of vehicles × Integrated newness rate

3) Appraisal of electronic devices

① *Determination of full replacement price of electronic devices*

Electronic devices are mostly computers, printers and air-conditioners used in office. Distributors are responsible for delivery, installation and debugging. The replacement cost is determined by the purchase price directly.

② *Determination of newness rate*

For small equipment such as electronic devices and air-conditioners, integrated newness rate is determined mainly by economic useful life; for bulky electronic equipment, its working environment and running status need to be considered when determine integrated newness rate.

③ *Determination of assessed value*

Appraised value = full replacement price of electronic devices × newness rate

For equipment that was purchased long time ago, if it is no longer in production and has no reference prices, the market approach uses the second-hand price.

(3) Construction in Progress

Construction in Progress (CIP) is assessed using the cost approach. To avoid double count or omission of assets in the appraisal, the following approach applies to CIP, depending on the nature and condition of each CIP:

1) Completed CIPs that are ready for intended use but are yet to be converted to fixed assets are assessed using the same approach as applicable to fixed assets.

2) Where main facilities or main structure of buildings is converted to fixed assets, but some expenses are not converted, if the value is covered in the appraisal of fixed assets, the appraised value of the CIPs are taken as zero.

3) Unfinished CIPs

① Where the construction commenced within half a year from the reference date, the appraised value of CIPs is the verified value declared, net of unreasonable expenditure.

② Where the construction commenced more than half a year ago from the reference date, and is going on properly, if changes in the prices of equipment, materials, labor and others involved in the investment during this period of time are not material, the appraised value is the carrying value net of unreasonable expenditure plus an appropriate amount of capital cost; where material changes in the prices of equipment, materials, labor and others have taken place, the replacement value is determined based on all costs that would be incurred to reproduce the completed workload of the CIP on the reference date under normal situation; where serious physical obsolescence and depreciation, functional obsolescence and depreciation and economic obsolescence and depreciation are obvious, the amount of depreciation is required to be deducted; otherwise, the amount of depreciation is zero.

4) Land use right involved in CIPs is stated at zero under this account title if it is assessed separately and included in other account title to avoid duplicate appraisal.

(4) Deferred income tax

The appraised value is the value of assets and rights the appraised entity is still entitled to after the reference date, based on the examination of account books and original vouchers.

ii) The income approach

The discounted cash flow method of the income approach is adopted this time. The cash flows measured are free cash flow to firm. The value of total shareholders' equity is obtained indirectly by estimating the overall value of the firm.

Net free cash flow to firm over several years in the future are discounted at an appropriate discount rate and aggregated to derive the value of entire operating assets of the firm. The value is then added by the value of surplus assets and non-operating assets and minus interest-bearing debts to derive the value of total shareholders' equity.

I. Free cash flow model

1. Computation model

$E = V - D$ *Formula 1*

$V = P + C_1 + C_2 + E'$ *Formula 2*

Of which:

E: Value of total shareholders' equity;

V: Overall value of the firm;

D: Appraised value of interest-bearing debts;

P: Appraised value of operating assets;

C_1: Appraised value of surplus assets;

C_2: Appraised value of non-operating assets;

E': (Not reflected in the cash flows) Appraised value of long-term equity investments.

Where P, appraised value of operating assets, in Formula 2 is obtained by the following formula:

$$P = \sum_{t=1}^{n} \left[R_t \times (1 + r)^{-t} \right] + \frac{R_{n+1}}{(r - g)} \times (1 + r)^{-n} \qquad \textit{Formula 3}$$

The first part is the value over the certain forecast horizon, and the latter part is the value of an annuity (ending value).

In Formula 3:

R_t: Free cash flow to firm of installment over the certain forecast horizon;

t: Number of installments over the certain forecast horizon: 1, 2, 3, ..., n;

r: Discount rate;

R_{n+1}: Free cash flow to firm over the annuity;

g: Growth rate over the annuity, g = 0 for the purpose of the appraisal;

n: The last year of the certain forecast horizon.

2. Determination of key parameters in the model

1) Determination of expected profit

Free cash flow to firm serves as the quantitative indicator of expected profit of the business.

Free cash flow to firm is the total cash flow after payment of operating cost and income taxes and before payment of cash to settle claims. The computation formula is:

Free cash flow to firm = After-tax net profit + Depreciation and amortization + Interest expenses × (1 – Tax rate T) – Long term investment – Change in working capital

2) Determination of profit period

For the purpose of appraisal of business value, the profit period is the length of time during which the business is expected to make profit. To predict future profit of the business appropriately, the profit period is divided into finite and infinite periods depending on the nature of business and relevant laws and regulations, treaties and contracts.

Maanshan Iron & Steel Company Limited, the major shareholder of K. Wah Company, is a key iron & steel production base in China, listed both in Hong Kong and mainland China, is developing soundly and has close business ties with K. Wah Company. Moreover, K. Wah Company is doing well consistently and has a plan to get listed in Hong Kong within the next five years. Hence, the period of sustainable operation is taken as the profit period for the purpose of the appraisal. During phase I, from 2018 to 2022, profit changes with the business performance and plan of the assessed entity; during phase II, the period of sustainable operation starting from 2022, the assessed entity will keep its profit at a stable level.

3) Determination of discount rate

Discount rate can be determined by various methods and ways. Based on the principle of consistency between the measurement of profit and discount rate, since the entity's free cash flow to firm is used to measure profit, discount rate is determined by Weighted Average capital cost (WACC).

4) Determination of appraised value of interest-bearing debts

Interest-bearing debts include long-term and short-term borrowings. There is no interest-bearing debts in the appraisal.

5) Determination of appraised value of surplus assets and non-operating assets (liabilities)

Surplus assets are excess assets that are not directly related to profit and are more than needed in operating activities, usually being excess monetary assets and financial assets held for transaction; non-operating assets are assets that are not directly related to profit and do not generate benefit. These assets are appraised separately.

6) Determination of appraised value of long-term equity investments

There is no long-term equity investment in the appraisal.

VIII. APPRAISAL PROCESS AND FINDINGS

Pan-China Assets Appraisal Co., Ltd. validated and reviewed the legal documents, accounting records and other relevant materials provided by the principal, validated the property titles, inspected relevant assets on site and checked against the inventory of assets provided by the assessed entity, carried out necessary market research and transaction price comparisons, as well as financial analysis and forecast, among other necessary asset appraisal procedures, in accordance with asset appraisal standards, generally accepted accounting principles, relevant laws, regulations and requirements of the authorities, and by following the matters specified in the asset appraisal engagement contract concluded with the principal. The detailed asset appraisal procedures are as follows:

1. Acceptance of engagement and preparations

(1) Pan-China Assets Appraisal Co., Ltd. accepted the asset appraisal engagement in January 2018. Upon the engagement, Pan-China Assets Appraisal Co., Ltd. discussed with the principal over the purpose, subject and scope, reference date of the appraisal, the nature of the assets to be assessed and other matters that are of significance to the asset appraisal proposal.

(2) An asset declaration breakdown form was tailored to the assets to be assessed. Main assets investigation form and profit and loss investigation form of main business activities were designed. Training was provided to some staff members of the principal involved the appraisal. An asset inventory and all investigation forms were completed.

(3) Design of the appraisal proposal

Depending on the nature of the assets to be assessed, the appraisal implementation plan was finalized, the appraisers were appointed and an on-site task force was established.

(4) Preparation of appraisal documents

Market prices of the assessed subjects, market prices of main raw materials, and property title proofs of the assessed subjects were gathered and collated.

2. On-site stocktaking

(1) Truthfulness and legitimacy of the assessed subjects

The appraisers verify the physical assets and monetary claims and debts against the statements of assets and liabilities provided by the principal and the assessed entity in different ways to confirm the truthfulness and accuracy of the assets and liabilities.

For cash and cash equivalents, the appraisers reviewed the journals, counted cash on hand, and reviewed bank statements and deposit balance reconciliation statements.

For claims and debts, the appraisers checked the general ledgers and subsidiary ledgers, and randomly checked the contracts and vouchers, to confirm truthfulness of the assets and liabilities.

For fixed assets, specific and general investigations were both carried out, with focused investigation conducted on buildings and structures, and important equipment. The appraisers consulted relevant design and construction documents, contractor contracts, billing documents, and equipment purchase contracts and invoices, to determine truthfulness of the assets.

(2) Investigation of actual state of the assets

Specific and general investigations were used to find out the state of the equipment, with a focus on production machinery. Supported by the persons in charge of the equipment at the assessed entity, the appraisers reviewed the operation records of the equipment and checked the running status of the equipment on site. On the basis of investigation, key equipment investigation forms were completed.

(3) Investigation of value composition of physical assets and business development

The reasonableness and compliance of the value composition of the assets was checked depending on the nature of the assets of the assessed entity. In particular, the truthfulness, accuracy, completeness and compliance of the book value of fixed assets was examined. Relevant accounting vouchers, accounting books, final accounts, construction contracts and equipment purchase contracts were reviewed.

(4) Investigation of revenue and costs

To make preparations for future cash flow forecasts, profit/loss accounting data of relevant entities in prior years were collected for estimation and analysis; actual business performance, the composition of their revenue, costs and expenses and future trends of the entities and business units were revealed by interview and other means.

Relevant information was gathered to analyze and project the market environment each business of K. Wah Company is operating in, competition and development trends in the future.

3. Choice of appraisal methodology, gathering of market intelligence and the process of estimation

The appraisers determined appraisal parameters and prices based on the work plan mapped out for the project in particular and the appropriate pricing principles and valuation models identified, and then started appraising and assessing by reference to the historical data and future forecasts provided by the principal.

4. Summary of appraisal findings

(1) Determination of appraisal conclusion

The results of asset appraisal using the asset-based approach and the income present value approach were determined based on the findings of on-site investigation and necessary market research and assessment carried out by the appraisers from Pan-China Assets Appraisal Co., Ltd..

(2) Analysis of appraisal results and preparation of the appraisal report

The asset appraisal report was drafted in compliance with the requirements of Pan-China Assets Appraisal Co., Ltd.. The appraisal conclusion and the relevant asset appraisal report went through a three-level review by Pan-China Assets Appraisal Co., Ltd.. Having been verified by the undersigned appraiser, the report is finalized and delivered by the project team.

(3) Archiving of original documents

IX. ASSUMPTIONS IN THE APPRAISAL

(i) General assumptions:

1. Trading assumption: All assets to be appraised are assumed to be in the process of trading. The appraisers valued the assets by simulating a market based on the trade terms of assets.

2. Open market assumption: Open market assumption is about the conditions of market where the assets can be traded and the impact of such market condition on the assets. Open market is a market with sufficient market information and competition among willing buyers and sellers. In this market, buyers and sellers are in equal status and have the opportunities and time to obtain sufficient market information. The transactions between the buyers and sellers are conducted in a voluntary and sensible manner, free from any duress or restrictions.

3. Assumption on continuing operation of assets: The assumption is based on the conditions of market where the assets can be traded and the conditions of assets in such market. First, it is assumed that the assets are currently in use. Second, it is assumed that the assets will continue to be used for the current purpose. Under the assumption, the possibility of change of use or optimal conditions of use of the assets are not taken into account. Hence, the applicability of the appraisal conclusion is limited.

4. Going concern assumption: The entity's assets in its entirety are taken as the subject of appraisal. As a business entity, the company is assumed to continue as a going concern under the external environment in accordance with its objectives. The management is assumed to be responsible and capable. It is further assumed that the entity would continue to run in a legal and reasonably profitable manner, and thus sustainable.

(ii) Assumptions in the income approach:

1. It is assumed that there will be no material changes in the relevant laws, regulations and policies currently in force and the macroeconomic condition of the country will remain unchanged. It is further assumed that there will be no material changes in the political, economic and social environment in the regions where the parties are located, and there will be no material adverse impact arising from other unforeseeable and force majeure factors.

2. The company is assumed to continue as a going concern with the state of the assets on the reference date.

3. The management of the company is assumed to be responsible and competent.

4. It is assumed that the company will comply with all applicable laws and regulations unless otherwise specified.

5. The accounting policies the company will adopt in the future are assumed to be, in all material aspects, consistent with the accounting policies adopted when the report was being prepared.

6. The conduct of business and the scope of activities of the company are assumed to be consistent with the present management style and level.

7. The land occupied by the company is assumed to be continually available under the lease. Water, electricity and gas supply is assumed to be available as it is, with no material changes in fees. The production scale is assumed to stay at the present level.

8. It is assumed that there will be no material changes to interest rates, exchange rates, tax bases and rates and policy duties and levies.

9. The applicable corporate income tax rate in the coming years is assumed at 25%.

10. It is assumed that no other force majeure factors or unforeseeable factors will have material adverse impact on the business of the company.

X. APPRAISAL CONCLUSION

(I) Appraisal conclusion with asset-based approach

By taking the asset-based approach, the book value of total assets of K. Wah Company is RMB312.9066 million, the appraised value is RMB316.71440 million and added value is RMB3.8078 million, representing an increase of 1.22%; the book value of liabilities is RMB102.8307 million and the appraised value is RMB102.8307 million, without any changes; the book value of net assets is RMB210.0759 million and the appraised value is RMB213.8837 million and the added value is RMB3.8078 million, representing an increase of 1.81%.

For further information on appraisal summary, please see the following sheet:

Summary sheet of asset appraisal

Unit: RMB0,000

Item	Book value	Appraised value	Increase or decease	Appreciation rate *(%)*
Current assets	23,873.13	24,053.41	180.28	0.76
Non-current assets	7,417.53	7,618.03	200.50	2.70
Of which: Long-term equity investments	–	–	–	
Investment properties	–	–	–	
Fixed assets	7,354.15	7,554.65	200.50	2.73
Construction in Progress	28.30	28.30	–	–
Intangible assets	–	–	–	
Land use right	–	–	–	
Others	35.08	35.08	–	–
Total assets	**31,290.66**	**31,671.44**	**380.78**	**1.22**
Current liabilities	10,283.07	10,283.07	–	–
Non-current liabilities				
Total liabilities	**10,283.07**	10,283.07	–	–
Net assets	**21,007.59**	21,388.37	380.78	1.81

Note: For further information on appraisal conclusion, please refer to the Sheet of Assets Appraisal.

(II) Appraisal results of income approach

By taking the income approach, the total shareholders' equity of K. Wah Company is RMB251.7323 million, the book value of net assets is RMB210.0759 million and the added value is RMB41.6564 million, representing an increase of 19.83%.

(III) Final determination of appraisal conclusion

By taking the asset-based approach, the shareholders' equity of the assessed entity is estimated at RMB213.8837 million, and by taking the income approach, the shareholders' equity is estimated at RMB251.7323 million. The estimated value of the latter is RMB37.8486 million higher than that of the former. The main reasons for the difference in the outcomes by two different approaches are set out as follows:

1. The asset-based approach determines the assets value with reference to the replacement cost and reflects the necessary social labor arising from asset investments (construction costs). In general terms, construction costs vary according to the situation of national economy.

2. The income approach determines the assets value with reference to their expected profits and reflects the scale of asset operations (profitability). In general terms, macro economy, government control and effective use of assets, etc. have an impact on the profitability.

For the above reasons, the two approaches to appraisal arrive at different conclusion.

Upon analysis, we opine that the asset-based approach is more reflective of the total shareholders' equity of K. Wah Company. The main reasons are that the income approach is more dependent on K. Wah Company's future profitability, asset quality, business operation capability and business risk. Water slag makes up a large proportion of raw materials used for K. Wah Company's business. On a closer analysis of costs in recent years, the fluctuation in the costs of the raw materials exceeds 50%. In the meantime, the majority of its customers are in East China, thereby proving a high degree of concentration. The price is mainly determined according to market demand and cement price. On closer analysis of selling prices in recent years, the fluctuation exceeds 50%. Future profits are more likely to fluctuate as the costs of raw material and the price also fluctuates drastically. The appraisal by taking the asset-based approach is, in large part, based on the full replacement cost of existing assets on the reference date of assets appraisal and this reflects prevailing market price. Regarding this appraisal, the assessed entity provided detailed information about its asset and liabilities, and the appraiser also collected external data necessary for the asset-based approach. We conducted a full inspection and appraisal of its assets and liabilities. Therefore, the asset-based approach is more reliable. In conclusion, the asset-based approach is adopted.

XI. SPECIAL NOTES

The company appraiser is not in the position to evaluate and estimate the value of the following items. However, those items may affect the appraisal conclusion. For this reason, it is essential for the user of the appraisal report to pay particular attention to the following:

(I) The "estimated value" refers to the fair value estimated on the premises of the unchanged use and continuous operation of appraised assets, and estimated under the conditions on the reference date of assets appraisal and external economic environment thereof. The estimated value has no implications on other uses of the appraised assets.

(II) The appraisal conclusion stated in the report reflects the market value of the assessed entity upon the principle of open market, with no regard for the costs and taxes of property registration or changes of ownership, or preparation for tax adjustments of added value arising out of asset appraisal. The appraisal conclusion is not to be deemed as a guarantee for the realizable price of the assessed entity.

(III) Circumstances where ownership materials are incomplete or defective

I) There are 13 buildings in K. Wah Company to be appraised, all of which were self-built at the incorporation of K. Wah Company without the property ownership certificate. The floor area is estimated and calculated based on the survey plan and area shown on the construction drawing issued by the real estate surveying team of Magang (Group) Surveying Co., Ltd. and provided by the assessed entity. The final area of the building is subject to the property ownership certificate issued by local real-estate management authorities. Details of the building without the certificate are listed below:

Name of building	Date of completion	Floor area *(m^2)*	Original book value *(RMB)*	Net book value *(RMB)*
Blast stove – operating room	2004-12	41.16	779,955.00	288,610.94
Master station of power distribution	2004-12	421.9	890,587.42	329,226.53
Spare parts storage	2005-07	468.16	661,517.28	252,421.27
Main dust-collecting building and fan room (Phase II)	2010-11	279.38	2,057,383.52	1,350,586.48

Name of building	Date of completion	Floor area	Original book value	Net book value
		(m^2)	*(RMB)*	*(RMB)*
2# electric control room (Phase II)	2010-11	70.23	109,190.08	71,678.73
Air compression station (Phase II)	2010-11	76.03	112,958.96	74,152.97
Vehicle weighting room (Phase II)	2010-11	43.19	352,787.81	231,590.53
Gatehouse (Phase II)	2010-11	35.03	108,306.00	71,098.22
Equipment installation (Phase II)	2010-11		2,219,030.00	1,456,700.71
Dining-room and bathroom	2014-02	668.73	2,559,790.20	2,136,107.93
Comprehensive office building	2004-12	1,905.33	2,602,674.00	1,003,128.80
Stockroom	2014-05	5,418.28	20,226,676.96	17,158,491.18
Power distribution room	2015-09	49.14	117,991.00	105,115.24
Total		9,476.56	32,798,848.23	24,528,909.53

K. Wah Company has issued a statement to confirm its ownership of the aforesaid items are undisputed. The appraisal is carried out with a clear property right of assets and without any dispute.

The impact of the aforesaid items on the appraisal were not considered.

II) As of the reference date of assets appraisal, the right of use of the land on which all the houses and buildings of K. Wah Company to be appraised situated had been vested in Maanshan Iron & Steel Company Limited. Maanshan Iron & Steel Company Limited offered the use of the land to K. Wah Company on a paid lease basis. China MCC17 Precast Factory, Huashui Dyke, Yangtze River Embankment and in the west and to Hengxing Village (the old sixth team) respectively marked the easternmost, southernmost, westernmost and northmost boundaries of the land.

(IV) Scrapped assets

Some vehicles, machinery and equipment on the list of appraised items are to be scrapped. Scraped equipment may be evaluated according to the realizable value. For further information, refer to the following sheet:

Machinery and equipment to be scrapped

Name	Measuring unit	Quantity	Date of first use	Original book value *(RMB)*	Net book value *(RMB)*
Filter	1	2005-03	2005-03	10,000.00	300.00
Filter	1	2005-03	2005-03	10,000.00	300.00
Air dryer	1	2005-03	2005-03	23,000.00	690.00
Air dryer	1	2005-03	2005-03	23,000.00	690.00
High-temperature electric butterfly valve	1	2004-12	2004-12	46,850.00	1,405.50
Bar gate	1	2004-12	2004-12	4,200.00	126.00
Single-beat rod valve	1	2004-12	2004-12	22,000.00	660.00
Single-beat rod valve	1	2004-12	2004-12	4,100.00	123.00
Single-beat rod valve	1	2004-12	2004-12	4,100.00	123.00
Pneumatic 3-way side valve	1	2004-12	2004-12	8,150.00	244.50
Electric door	1	2005-06	2005-06	100,000.00	3,000.00
Single-stage single-suction horizontal centrifugal pump	1	2004-12	2004-12	8,330.00	249.90
Down-up pipeline of recycled water in the factory	1	2004-12	2004-12	30,357.00	910.71
Control cabinet (including floating ball)	1	2004-12	2004-12	18,390.00	551.70
Submersible pump (including self-coupling)	1	2004-12	2004-12	73,500.00	2,205.00

Name	Measuring unit	Quantity	Date of first use	Original book value *(RMB)*	Net book value *(RMB)*
Submersible pump (including self-coupling)	1	2004-12	2004-12	73,500.00	2,205.00
Sampler	1	2005-06	2005-06	3,380.00	101.40
Ripple compensator	1	2005-06	2005-06	163,931.63	4,917.95

Vehicle to be scrapped

Name	License plate No.	Date of first use	Original book value *(RMB)*	Original book value *(RMB)*
Buick SGM7251G	Wan E15528	2005-03	246,888.03	7,406.64

(V) Limitation of the appraisal procedures are affected

I) The asset appraiser did not carry out any technical testing on the technical parameters and performance of various pieces of equipment as at the reference date of assets appraisal. The appraiser made assessment by means of site investigation on the assumption that the relevant technical information and operation records provided by the assessed entity are true and effective.

II) In this appraisal, the asset appraiser did not carry out any technical testing on any concealed work and interior structures (those could not be inspected by human eyes) of various buildings and constructions. The appraisal of buildings and constructions was concluded by means of site investigation, without the use of any detecting instrument, on the assumption that the construction information provided by the assessed entity are true and effective.

(VI) Impact of auditing disclosure on estimated value

Zhongxinghua Certified Public Accounts LLP audited the financial data of the Company and published an audit report no. (2018) 450016) on 31 December 2017. Zhongxinghua Certified Public Accounts LLP made the following disclosures in the footnotes to the financial statements: the Company was rated as a high and new technology enterprise on 7 November 2017 with the Certificate No: GR201734001585. K. Wah Company has met the preferential tax policy requirement and has been entitled to enjoy the preferential corporate income tax rate fo 15% for the years from 2017 to 2019. Nevertheless, the proportion of aggregate expenditure of R&D to sales revenue from 2015 to 2017 failed to reach the requisite 3% for it to be eligible for the preferential tax policy, therefore the corporate income tax payable by K. Wah Company was declared and assessed at the rate of 25%. In case of changes in tax rate thereafter, adjustments shall be made according to the proportion approved by tax authorities. The rate of corporate income tax is taken at 25% for the purpose of this appraisal.

This appraisal report adopts the book value after audit adjustment and verification as the estimated value in the pursuance of appraisal. Users of the appraisal report shall keep be aware of the potential impact of disclosure on appraisal conclusion.

(VII) In case of changes in the amount of assets and pricing standards within the term of appraisal conclusion, adjustments shall be made accordingly and the report shall not be used as it is.

(VIII) The following circumstances occurred between the reference date of assets appraisal and the date of appraisal report may affect the appraisal conclusion:

From the reference date to the date of issuance of this appraisal report, there were no material events which affected the appraisal premise and appraisal conclusion. Therefore, no material adjustment to the appraisal conclusion was needed.

XII. RESTRICTIONS ON THE USE OF ASSET APPRAISAL REPORT

(I) The appraisal report may only serve the purpose of appraisal stated herein.

(II) In case the principal or other users of the appraisal report breaches the relevant laws, administrative regulations and use the report for purposes other than what is stated herein, the asset appraisal institution and the appraiser will not be held liable.

(III) No institution or individual other than the principal, other report users stated in the appraisal engagement contract or report users in compliance with laws and administrative regulations shall use the asset appraisal report.

(IV) The user of the appraisal report shall understand that the appraisal conclusion is not to be taken as the realizable price of the appraised object and the conclusion should not be deemed as a guarantee for the realizable price thereof.

(V) This appraisal report shall be submitted to the state-owned assets supervision and administration authorities or the management of the relevant enterprise for review. This report shall not be used until after being put on record.

(VI) All or any parts of this appraisal report may only be extracted, quoted or disclosed with the approval of the appraisal institution, unless it is required under the laws, regulations or permitted by the corresponding party.

(VII) The conclusion stated in the appraisal report shall apply only to the economic behavior of the project. The appraisal conclusion shall be held valid for one year from the reference date of assets appraisal, i.e. from 31 December 2017 to 30 December 2018. When the appraisal target is achieved within the term, the appraisal conclusion shall be a useful guideline on the value, while adjustment may be made in light of events occurred subsequent to the reference date of assets appraisal. Assets shall be reappraised if the one-year limit expires.

XIII. REPORTING DATE OF ASSET APPRAISAL

The reporting date of assets appraisal is 27 March 2018.

The following is the valuation report received from Zhong Ming (Beijing) Assets Appraisal International Co., Ltd. in relation to the valuation of Chemical Energy Company as at 15 July 2018, which is prepared in Chinese. Should there be any inconsistency between the Chinese and the English version, the Chinese version shall prevail.

Anhui Ma Steel Chemical Energy Technology Co., Ltd. Asset Appraisal Report of the Company's Total Shareholders' Equity Involved in the Proposed Capital Increase

Zhong Ming Commentary Report [2018] No. 9034

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

Zhong Ming (Beijing) Assets Appraisal International Co., Ltd accepted the joint engagement of both parties, adhered to the principles of independence, objectivity and impartiality in accordance with laws, administrative regulations and asset appraisal standards, adopted the asset-based approach and conducted the necessary appraisal procedures to appraise the market value of all shareholders' rights and interests involved in the proposed capital increase of Anhui Ma Steel Chemical Energy Technology Co., Ltd. (hereinafter referred to as "Chemical Energy Company") on 30 June 2018. The asset appraisal is now reported as follows:

I. OVERVIEW OF THE CLIENTS, THE APPRAISED ENTITY AND THE USER OF OTHER ASSET APPRAISAL REPORTS AS AGREED IN THE ASSET APPRAISAL ENGAGEMENT CONTRACT

The clients of this asset appraisal project are Magang (Group) Holding Company Limited (hereinafter referred to as "Parent Company") and Maanshan Iron & Steel Company Limited (hereinafter referred to as the "Company"), the appraised entity is Chemical Energy Company, and the users of other asset appraisal reports stipulated in the asset appraisal engagement contract are the users of the appraisal reports stipulated by national laws and regulations.

(I) Client 1

Name: Magang (Group) Holding Company Limited

Unified Social Credit Code: 91340500150509144U

Company Type:	Limited liability company (Wholly state-owned)
Legal address:	No. 8, Jiuhua West Road, Yushan District, Maanshan City
Legal Representative:	Wei Yao
Registered Capital:	RMB6.29829 billion
Period of Operation:	18 September 1998 to non-fixed term
Scope of Activities:	Capital management; mining and selection of mineral products; implementation 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 the operation of subordinate branches) (Projects subject to legal approval can only be carried out with the approval of relevant departments).

(II) Client 2

Name:	Maanshan Iron & Steel Company Limited
Unified Social Credit Code:	91340000610400837Y
Company Type:	Limited liability company (listed joint venture of Taiwan, Hong Kong, Macau and Mainland China)
Legal address:	No. 8, Jiuhua West Road, Maanshan City, Anhui Province
Legal Representative:	Ding Yi
Registered Capital:	RMB7.700681186 billion

Period of Operation:	1 September 1993 to non-fixed term
Scope of Activities:	black metal smelting and rolling processing, coke and coking products, refractory materials, power and gas production and sales; wharf, storage, transportation, trade and other steel related businesses; extended processing of steel products, production and sale of metal products; steel structure, equipment manufacturing and installation, car repair and scrap car recycling and dismantling (only for scrap car recycling of our company); housing and civil engineering construction, construction and installation, and architectural decoration (to carry out business activities with qualification certificates); technical, consulting and labour services.

(III) General information of the appraised entity

1. Registration

Name:	Anhui Masteel Chemical Energy Technology Co., Ltd.
Unified Social Credit Code:	91340500MA2RKX5493
Company Type:	limited liability company (wholly owned by a legal person that is not invested or controlled by a natural person)
Legal address:	south side of Rentouji, Maanshan City (Former Office Building of Coal Char Company of Maanshan Iron & Steel Company Limited)
Legal Representative:	Qiu Quanshan
Registered Capital:	RMB600 million

Period of Operation:	30 March 2018 to non-fixed term
Scope of Activities:	research, development, production and sales of chemical products (excluding dangerous chemicals and easy-to-manufacture drugs); annual output of 61,050 tons of benzene, 10,760 tons of toluene, 3,460 tons of xylene, 1,820 tons of non-aromatic hydrocarbons, 2,510 tons of dimethyl residue, 340 tons of benzene residue, 67,700 tons of crude benzene (light benzene), 18,670 tons of sulfur, 1,835 tons of heavy benzene, 4,790 tons of sodium phenolate and 150,000 tons of coal tar; production and sales of coke, metal products, household appliances, mechanical and electrical equipment, instruments and meters, and technical consulting services; project and engineering design; product identification and testing. (Projects subject to legal approval, can only be carried out with the approval by relevant departments)

2. *History*

Chemical Energy Company was established in March 2018 with a sole capital contribution from the Company. The registered capital of the company is RMB600 million, of which RMB260.51404 million is the monetary contribution and RMB339.48596 million is the asset contribution. As of the benchmark date of appraisal, the above investment procedures have been completed, and the equity structure of the Chemical Energy Company at the time of establishment is as follows:

Seq. No.	**Name of shareholder**	**Contribution amount** *(Unit: RMB10,000)*	**Share ratio** *(%)*
1	Maanshan Iron & Steel Company Limited	60,000	100.00
	Total	60,000	100.00

As of the benchmark date of appraisal, the above ownership structure of Chemical Energy Company has not changed.

3. Organizational structure

Chemical Energy Company does not have a board of shareholders, and the shareholders shall exercise the functions and powers stipulated in the articles of association of the company. Chemical Energy Company has a board of directors, which is the company's management decision-making body. The board of directors appoints a general manager to administer the company's production, operation and management. Chemical Energy Company has set up financial investment department, comprehensive management office, production technology office and other functional departments.

4. Financial and operational status of the enterprise

Financial Position Statement

Amount in: Unit: RMB10,000

Items	**30 June 2018**
Current assets	5,598.92
Non-current assets	67,950.82
Total assets	73,511.01
Current liabilities	13,549.74
Non-current liabilities	–
Total liabilities	13,549.74
Net assets	60,000.00

Note: As of the benchmark date of appraisal of 30 June 2018, Chemical Energy Company has not yet carried out actual production and operation.

The financial data of June 2018 were extracted from the audit report of Ruihua Wanshen Zi [2018] 3402006 issued by the Anhui branch of Ruihua Certified Public Accountants (Special General Partnership).

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

Other asset appraisal report users agreed in the asset appraisal engagement contract are those stipulated by laws and administrative regulations.

(V) Relationship between the clients and the appraised entity

The appraised entity is a second-tier subsidiary of the first client, and a subsidiary of the second client.

II. PURPOSE OF APPRAISAL

According to the minutes of the office meeting of the general manager of the Parent Company, Chemical Energy Company plans to increase its capital and expand its shares. The appraisal is to determine the market value of all shareholders' rights and interests of Chemical Energy Company on the benchmark date of appraisal, and provide valuable reference for Chemical Energy Company's proposed capital increase.

III. OBJECT AND SCOPE OF APPRAISAL

(I) Appraised object and scope of appraisal

The appraised object is all rights and interests of shareholders of Chemical Energy Company. The scope of appraisal involves the audited assets and liabilities declared by Chemical Energy Company on the benchmark date of appraisal, with the book value of total assets of RMB735.4974 million, the book value of total liabilities of RMB135.4974 million and the book value of net assets of RMB600 million. The specific items of assets and liabilities shall be subject to the appraisal declaration form submitted by Chemical Energy Company. Assets and liabilities included in the declaration form and confirmed by Parent Company, Company and Chemical Energy Company are within the scope of this appraisal. The book value of various assets and liabilities on the benchmark date of appraisal is as follows:

Amount in: Unit: RMB10,000

Asset type	Book value	Proportion of total assets	Types of liabilities	Book value	Proportion of total liabilities
Monetary assets	5,598.92	7.61%	Accounts payable	13,002.23	95.96%
Total current assets	5,598.92	7.61%	Deposit received	547.51	4.04%
Fixed assets	46,873.12	63.73%	Total current liabilities	13,549.74	100.00%
Intangible assets	13,301.51	18.09%	–	–	–
Other non-current assets	7,776.20	10.57%	–	–	–
Total non-current assets	67,950.82	92.39%	Total liabilities	13,549.74	100.00%
Total assets	73,549.74	100.00%	Net assets	60,000.00	*****

The above financial data are extracted from the audit report No. [2018] 34020006 issued by the Anhui branch of Ruihua Certified Public Accountants (Special General Partnership).

(II) Status of major assets and liabilities

Main assets and liabilities of Chemical Energy Company include current assets, non-current assets and current liabilities. The proportion of current assets in total assets is of a smaller proportion at 7.61%. Non-current assets accounted for 92.39 % of total assets, of which fixed assets, intangible assets and other non-current assets accounted for 63.73%, 18.09% and 10.57% respectively. Current liabilities accounted for 100.00 % of total liabilities.

1. Current assets

The current assets included in the appraisal are all monetary funds – bank deposits, with a total book value of RMB55.9892 million. They mainly involve two financial institutions and two bank accounts.

2. Liabilities

Current liabilities included in the appraisal involve accounts payable and deposits received, with a total book value of RMB135.4974 million.

From the analysis in the above table, it can be seen that: accounts payable account for a large proportion of current liabilities, mainly in regard to the purchase money for the purchase of the company's equipment.

3. Fixed assets

The fixed assets included in the scope of appraisal involve housing and building assets and equipment assets, with a total book value of RMB468.7312 million.

(1) Houses and building assets

Houses and building assets included in the scope of appraisal are located in the energy plant of Chemical Energy Company and distributed in areas such as coking first purification, second purification, third purification and refined benzene which were built between 1962 and 2017.

There are 55 buildings with a total floor area of 34,779.33 square meters, mainly including workshops, office buildings, workshops, pump rooms, etc., and structures including mixed steel and mixed structures, etc. For details on the handling of real estate certificates of houses and buildings, please refer to the "XI. Special Matters Description, (VI) In case the ownership information is incomplete or defective."

There are a total of 76 structures and ancillary facilities, mainly including various pipeline bridges, walls, roads, various pools and various equipment frames, etc. These frames mainly include steel concrete, steel structure and brick-concrete structure, etc.

Houses and buildings of different structures can be maintained according to the requirements, and they are in normal use and in good condition.

(2) Equipment assets

Equipment assets included in the scope of appraisal are machinery, equipment and vehicles. It is distributed in areas such as the first purification, second purification, third purification and refined benzene of Chemical Energy Company. There are 1,162 items in total.

The book value of machinery and equipment is RMB290.967 million, mainly for various pipelines, compressors, condensing towers, various pumps, reactors (towers), etc., purchased between 1993 and 2012. The book value of the vehicles is RMB2.1557 million, mainly for oil tankers and refueling vehicles, which were purchased between 1994 and 2017.

As of the benchmark date of the appraisal, the machinery and equipment included in the scope of appraisal have been scrapped, as follows:

						Book value *(RMB)*		
Seq. No.	**Device name**	**Specification model**	**Unit**	**Quantity**	**Enabling Date**	**Original value**	**Net value**	**Note**
1	Diesel locomotive	JMY380FS	Number	1	1991.01	85,500.00	85,500.00	Scrap

The machinery and equipment included in the scope of appraisal is well maintained, in normal use and good condition.

4. Intangible assets

The intangible assets included in the scope of appraisal are land use rights, with a total of 8 cases of industrial land transfer, carrying a book value of RMB133.0151 million and a parcel area of 409,889.48 square meters. See the following table for details:

Basic parcel information

Amount: Unit: RMB10,000

Seq. No.	Land Warrant Number	Parcel name	Land location	Obtain Date	Land use Nature	Land Use	Quasi-application Fixed number of year	Development level	Area (m^2)	Carrying amount
1	MGY (2006) No. 31763	The plot of the old coal coking area in the third factory area	The third factory area	1993.06	Transfer	Industrial engineering	50	Ready infrastructure	260,084.84	7,880.57
2	MGY (2008) No. 80990	Block of benzene hydrogenation main plant area	Benzene hydrogenation main plant area	2007.03	Transfer	Industrial engineering	50	Ready infrastructure	82,867.10	3,157.24
3	MGY (2006) No. 31763	The plot of the auxiliary area of the third plant area	The third factory area	1993.06	Transfer	Industrial engineering	50	Ready infrastructure	3,406.77	103.23
4	MGY (2006) No. 31836	The plot of the 5 million ton steel project in the new district	5 million tons of steel project in the new district	2006.08	Transfer	Industrial engineering	50	Ready infrastructure	8,551.21	
5	MGY (2006) No. 31837	The plot of the 5 million ton steel project in the new district	5 million tons of steel project in the new district	2006.08	Transfer	Industrial engineering	50	Ready infrastructure	2,723.87	1,607.62
6	MGY (2006) No. 31838	The plot of the 5 million ton steel project in the new district	5 million tons of steel project in the new district	2006.08	Transfer	Industrial engineering	50	Ready infrastructure	34,009.97	
7	MGY (2006) No. 31753	New district (Certificate of Cihu union rural port raw material factory)	Port raw material factory	1993.06	Transfer	Industrial engineering	50	Ready infrastructure	1,856.44	552.85
8	MGY (2014) No. 019240	New district (No. 2 Factory Site Certificate)	Port raw material factory	1993.06	Transfer	Industrial engineering	50	Ready infrastructure	16,389.28	
	Total								409,889.48	13,301.51

5. *Other non-current assets*

There is a total of 1 item of other non-current assets included in the scope of appraisal, with a carrying amount of RMB77.762 million, which is mainly the input tax of value-added tax incurred by the company's shareholders' investment in housing and buildings, land use rights and the company's purchase of machinery and equipment.

(III) The type, quantity and legal ownership of the book records or unrecorded intangible assets declared by the enterprise

In addition to the intangible assets recorded above – namely the land use rights, there are no other intangible assets recorded or unrecorded within the enterprise's reporting scope.

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

As of the benchmark date of appraisal, the enterprise has not declared, and the appraisers have not identified, any off-balance-sheet assets.

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

This appraisal does not refer to the conclusions of the report issued by other agencies.

The clients and the appraised entity have guaranteed to the appraised object and scope of appraisal under the engagement to be consistent with the appraised object and scope involved in economic behavior.

IV. VALUE TYPES AND THEIR DEFINITIONS

(I) Type of Value

The type of value adopted in this appraisal is the market value.

(II) Value type definition

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

(III) Reasons for choosing the value type

The reason for adopting the market value is that the market value can better reflect the appraisal needs of the clients than the other value types, so that the evaluation conclusion can serve the purpose of this appraisal.

V. REFERENCE DATE OF APPRAISAL

(I) According to the agreement in the asset appraisal engagement contract, the benchmark date for this appraisal is 30 June 2018.

(II) The determination of the benchmark date of the appraisal is decided by the clients through negotiation according to the following specific circumstances:

1. The benchmark date of the appraisal is the same as the time of the accounting statements, so that the accounting information can be used conveniently.

2. The benchmark date of appraisal is close to the appraisal date, reducing the adjustment in terms of the quantity of physical assets and increasing the accuracy and transparency of market price inquiry and credit investigation.

3. The benchmark date of this appraisal is as close as possible to the realization date of the purpose of the appraisal, as this is conducive to ensuring that the conclusion of the appraisal effectively serves the purpose of this appraisal.

(III) The price standards adopted in this appraisal are all effective on the benchmark date of appraisal.

When the selected benchmark date of appraisal gets closer, there were no major fluctuations in the international and domestic markets; the prices of all kinds of goods, means of production and labour services were generally stable, and the market exchange rate of RMB against foreign currencies was within the normal range of fluctuation. Therefore, the selection of the benchmark date will not materially affect the conclusion of the evaluation caused by various market prices at different time points.

VI. BASIS OF APPRAISAL

(I) Basis of behavior

1. Minutes of General Manager's Office Meeting of Magang (Group) Holding Company Limited (Ji Jingji [2018] No. 7).

(II) Legal basis

1. Assets Appraisal Law of the People's Republic of China (adopted at the 21st meeting of the Standing Committee of the 12th National People's Congress of the People's Republic of China on 2 July 2016);

2. Notice of the Ministry of Finance on Implementing the Asset Appraisal Law of the People's Republic of China (Cai Zi (2016) No. 93);

3. Company Law of the People's Republic of China (revised at the 6th meeting of the Standing Committee of the 12th National People's Congress on 28 December 2013);

4. Property Law of the People's Republic of China (adopted at the 5th Session of the 10th National People's Congress on 16 March 2007);

5. Law of the People's Republic of China on State-owned Assets of Enterprises (adopted at the 5th meeting of the Standing Committee of the 11th National People's Congress on 28 October 2008);

6. Law of the People's Republic of China on Urban Real Estate Management (Order No. 29 of the President of the People's Republic of China);

7. Regulations on Administration of Urban Real Estate Transfer (Ministry of Construction Order No. 96);

8. Land Administration Law of the People's Republic of China (Order No. 28 of the President of the People's Republic of China);

9. Regulations of the People's Republic of China on the Implementation of Land Administration Law (Order No.256 of the State Council);

10. Provisional Regulations of the People's Republic of China on Assignment and Transfer of State-owned Land Use Rights in Cities and Towns (Order No. 55 of State Council);

11. Enterprise Income Tax Law of the People's Republic of China (adopted at the 5th Session of the 10th National People's Congress on 16 March 2007) and its implementing regulations;

12. Provisional Regulations of the People's Republic of China on Value Added Tax (Order No. 538 of the State Council);

13. Rules for the Implementation of the Provisional Regulations of the People's Republic of China on Value Added Tax (Order No. 50 of the Ministry of Finance and the State Administration of Taxation);

14. Notice on Several Issues Concerning the National Implementation of Value Added Tax Transformation Reform (Cai Shui [2008] No. 170);

15. Measures for the Administration of State-owned Assets Appraisal (Order No. 91 of the State Council);

16. Detailed Rules for the Implementation of Measures for the Appraisal and Management of State-owned Assets (Guoziban Fa [1992] No. 36);

17. Notice of the Ministry of Finance on Reforming the Administration of State-owned Assets Appraisal and Strengthening the Supervision and Administration of Assets Appraisal (Guo Ban Fa [2001] No. 102);

18. Provisions on Several Issues of State-owned Assets Appraisal and Management (Ministry of Finance Order No. 14);

19. Measures for the Administration of State-owned Assets Appraisal Project Filing (Cai Qi Zi [2001] No. 802);

20. Provisional Regulations on Supervision and Administration of State-owned Assets of Enterprises (Order No. 378 of the State Council);

21. Interim Measures for the Appraisal and Management of State-owned Assets of Enterprises (Order No. 12 of the State-owned Assets Supervision and Administration Commission of the State Council);

22. Notice on Issues Related to Strengthening the Appraisal and Management of State-owned Assets of Enterprises (SASAC Property Rights [2006] No. 274);

23. Notice on Matters Related to Audit of State-owned Assets Appraisal Report of Enterprises (State-owned Assets [2009] No. 941);

24. Notice on Printing and Distributing Guidelines for Filing State-owned Assets Appraisal Projects of Enterprises (No. 64 [2013] of State-owned Assets Property Rights);

25. Other laws and regulations related to asset appraisal.

(III) The basis of the guidelines

1. Basic Criteria for Asset Appraisal (Cai Zi [2017] No. 43);

2. Professional Ethics Guidelines for Asset Appraisal (Zhong Ping Xie [2017] No. 30);

3. Asset Appraisal Practice Guidelines-Asset Appraisal Procedures (Zhong Ping Xie [2017] No. 31);

4. Asset Appraisal Practice Guidelines-Asset Appraisal Procedures (Zhong Ping Xie [2017] No. 32);

5. Asset Appraisal Practice Guidelines-Asset Appraisal Engagement Contract (Zhong Ping Xie [2017] No. 33);

6. Asset Appraisal Practice Guidelines-Asset Appraisal Files (Zhong Ping Xie [2017] No. 34);

7. Asset Appraisal Practice Guidelines– Enterprise Value (Zhong Ping Xie [2017] No. 36);

8. Asset Appraisal Practice Guidelines– Real Estate (Zhong Ping Xie [2017] No. 38);

9. Asset Appraisal Practice Guidelines– Machinery and Equipment (Zhong Ping Xie [2017] No. 39);

10. Guide to Business Quality Control of Asset Appraisal Institutions (Zhong Ping Xie [2017] No. 46);

11. Guiding Opinions on Asset Appraisal Value Types (Zhong Ping Xie [2017] No. 47);

12. Guiding Opinions on Legal Ownership of Assets Appraisal Objects (Zhong Ping Xie [2017] No. 48);

13. Guidelines for State – owned Assets Appraisal Report of Enterprises (Zhong Ping Xie [2017] No. 42);

14. Accounting Standards for Business Enterprises, basic standards, specific standards, application guidelines and interpretation of accounting standards (issued by the Ministry of Finance in 2006);

15. Zhong Ming (Beijing) Assets Appraisal International Co., Ltd on Asset Appraisal Quality Control System, Quality Control Norms and Appraisal Business Management System.

(IV) Ownership basis

1. State-owned Land Use Certificate of the People's Republic of China;

2. Motor Vehicle Driving License;

3. Purchase invoices for machinery and equipment;

4. Other ownership certificates, etc.

(V) Basis for pricing

1. Financial statements and audit reports on the benchmark date of appraisal provided by Chemical Energy Company;

2. Code for Real Estate Appraisal (National Standard of the People's Republic of China GB/T 50291 – 2015);

3. The State Standard of the People's Republic of China Regulations on Urban Land Valuation (GB/T 18508 – 2014);

4. Bank deposit and loan benchmark interest rate on the benchmark date of appraisal;

5. 2018 Mechanical and Electrical Products Quotation Manual;

6. Appraisers' inquiry records through the open market;

7. Appraisers' on-site investigation records and other relevant appraisal information collected.

(VI) Other reference basis

1. List of Assets Inventory Appraisal Declaration provided by the appraised entity;

2. Asset Appraisal Engagement Contract signed by the Parent Company and Company with Chemical Energy Company;

3. Interview records of related personnel of Chemical Energy Company;

4. Notes on Matters Related to Asset Appraisal written by the clients and appraised entity;

5. Commitment letter from the clients and the appraised entity;

6. Appraisers' on-site check and verification records, data collected from on-site investigation, and relevant data collected from parameter data selection in the evaluation process;

7. Other relevant information provided by the appraised entity.

VII. APPRAISAL APPROACHES

(1) Selection of appraisal approaches

According to the basic principles of asset appraisal, the appraisal approaches to determine the asset value include market approach, income approach and cost approach (also called asset-based approach), as well as their derivative approaches.

Asset appraisal professionals should analyze the applicability of the above three basic approaches according to the purpose of the appraisal, the appraised object, value type and data collection, and select appraisal approach according to law.

The appraisal approach selected for this appraisal is: asset-based approach. The reasons for selecting the appraisal approach are as follows:

1. The income approach is based on the expected utility theory of economics, that is, to investors, the value of an enterprise lies in the expected revenue that the enterprise can produce in the future. Although the income approach does not directly use the reference in the real market to illustrate the current fair market value of the appraised object, it is the fundamental basis for determining the current fair market value of assets – the expected profitability of assets and the value in use, which can fully reflect the overall value of the enterprise, and its appraisal conclusion shows good reliability and persuasiveness. As far as the applicable conditions of the income approach are concerned, the income approach is not applicable to this appraisal because the assessed entity was incorporated and completed the industrial and commercial registration in March 2018 and has not yet carried out actual operation as of the benchmark date of the appraisal and the management of the appraised entity cannot reasonably predict future operations.

2. 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. Due to the lack of a fully developed and active capital market in China at present, it is difficult to accurately quantify and revise the similarity between comparable listed companies or transaction cases and appraised objects, so the accuracy of the appraisal results by the market approach is difficult to consider the value of the appraised object accurately, and the market approach evaluates the value based on the time-point impact of the capital market on the benchmark date without considering the impact of market periodic fluctuations. Therefore, the market approach is not applicable to this appraisal.

3. The reasons for selecting the asset-based approach for appraisal are as follows: The asset-based approach is based on the balance sheet, which reasonably appraises the value of assets and liabilities on and off the balance sheet of an enterprise and determines the value of the object to be evaluated. The assets and liabilities of the appraised entity on and off the balance sheet on the benchmark date of appraisal can be identified, and the appraisers can collect the information needed to meet the asset-based approach from outside and can conduct a comprehensive inventory and appraisal of energy-related assets and liabilities of Chemical Energy Company. Therefore, the asset-based approach is applicable to this appraisal.

(2) Introduction of the appraisal approaches

The basic formula is as follows:

Net assets appraisal value = sum of appraisal values of individual assets – sum of appraisal values of liabilities

Specific appraisal approaches are as follows:

1. Appraisal approach of current assets

All current assets included in the scope of appraisal are monetary funds.

Monetary funds means bank deposits. By checking bank statements, bank letters, etc., the appraised value is determined from the verified book value.

2. Appraisal approaches of houses and buildings

The asset-based approach is used to appraise buildings (excluding the value of land use right); the replacement cost is determined on the basis of the current market value of the reconstructed asset under the premise of continuous use, and the newness rate is determined through on-site investigation and comprehensive technical analysis. The appraised value is calculated accordingly, and the calculation formula is as follows:

Appraisal value = replacement value × newness rate

Replacement cost = construction and installation project cost + early-stage expenses and other expenses + capital cost – deductible value-added tax

In determining the replacement cost, we will first classify the appraised buildings and structures according to the detailed inventory and evaluation list provided by the clients and the evaluated unit and the actual situation of the site investigation, and select representative buildings and structures as typical projects to calculate the replacement cost, while the replacement cost of the rest of the buildings and structures will be calculated by analogy.

The cost of construction and installation projects is calculated by analogy calculation approach, budget and final accounts adjustment approachor budget re-compilation approach. The early-stage expenses and other expenses and capital costs shall be calculated in accordance with the relevant provisions.

(1) Determination of replacement cost

1) Determination of construction and installation project cost

The cost of housing construction and installation project is calculated by budget appraisal approach and analogy calculation approach.

A. Budget appraisal approach

This is a approach of re-budgeting according to the drawings, relevant technical data and the current regional quota. For buildings without data, the quantities are determined according to on-site measurements, and similar construction practices are adopted for concealed works or the workload is calculated by consulting design units.

B. Analogy calculation approach

Comparing the construction and installation cost calculated by the budget appraisal approach and that of other buildings with the same type of structure, the construction and installation cost is determined by adjusting the factors affecting the construction and installation cost such as the difference between the building structure, decoration and relevant professional standards.

2) Determination of early-stage expenses and other expenses

Early-stage expenses and other expenses are composed of government policy fees and construction unit management costs. Government policy fees refer to various fees charged by local governments for the management of social capital construction, which are generally charged to the construction unit as a percentage of the project settlement cost or the unit construction area rate. The expenditure regarding management cost of the construction unit is the cost other than the project cost that the construction unit must spend, such as various expenses of management personnel and various handling fees.

3) Cost of capital

The cost of capital specifically means the cost of capital used by the project during the normal construction period. The capital cost rate is the loan interest rate of the People's Bank of China that is being implemented on the benchmark date of appraisal.

Assuming that the cost, early-stage expenses and other expenses of the construction and installation project of the appraised object are evenly invested in the fixed construction period, the interest on the cost, early-stage expenses and other expenses of the construction and installation project is calculated according to half the time of the fixed construction period, and the sum of the interest of these two parts is the capital cost of the appraised object.

4) Calculation of replacement value

Replacement cost = construction and installation project cost + early-stage expenses and other expenses + capital cost – deductible value-added tax

Replacement unit price = replacement cost/construction area

(2) Determination of the newness rate

The newness rate was comprehensively determined by combining the theoretical newness rate with the technical appraisal newness rate. When the newness rate is determined by the theoretical newness rate approach, it is calculated according to the service life and economic durability of the building. When the newness rate of technical appraisal is determined by the newness rate approach, the appraisal scores of each part are evaluated according to the actual use, repair and maintenance of the building structure, decoration and equipment, and the newness rate of technical appraisal is obtained. The final newness rate is determined by the sum of 40% of the theoretical newness rate and 6 % of the technical appraisal newness rate.

1) Theoretical newness rate

Theoretical newness rate = serviceable life/(used life + serviceable life) × 100%

2) Newness rate of technical appraisal

According to the structure (foundation, bearing member, non-bearing member, roof, floor), decoration (doors and windows, exterior wall, interior wall, ceiling) and equipment (water, sanitation, electricity, heating and other), the main factors that affect the building's newness rate are determined by calculating the proportion of each item in the construction cost, and the intact value of each item is determined by referring to the Ministry of Construction's "Appraisal Standard for Housing Damage Grade" and combining with the actual site investigation.

Newness rate of technical appraisal = Σ weight of each part × newness rate of this part scoring approach

The weight coefficient is determined according to the proportion of building structure, decoration and equipment to the total cost, combined with factors such as site investigation and building use intensity.

According to the on-site investigation, identify the new and old degree of the building and determine the newness rate of scoring approach according to the construction time, maintenance and use of the building. At the same time, consider the impact of its functional or economic devaluation.

3) Determination of comprehensive newness rate

Comprehensive newness rate = theoretical newness rate × 40 % + newness rate of technical appraisal × 60 %

(3) Calculation of the appraised value

Appraised value = replacement cost × comprehensive newness rate

3. Appraisal approach of machinery and equipment

According to the appraisal purpose, the asset-based approach is adopted in this appraisal of equipment assets; the replacement cost is determined on the basis of the current market value of the newly purchased assets under the premise of continuous use, and the new rate is determined through on-site investigation and comprehensive technical analysis, and the appraisal value is calculated accordingly. The computation formula is:

According to the purpose of this appraisal, according to the principle of continuous use *in situ*, based on the market price, combined with the characteristics of the equipment and the information collected, the cost approach is mainly used to appraise the equipment assets.

Assessed value = Total price of replacement × Integrated depreciation rate

(1) Appraisal approach of machinery and equipment

In this appraisal, the machinery and equipment included in the evaluation scope include general equipment and non-standard equipment.

A. Determination of full replacement price

Full replacement price = purchase price + transportation and miscellaneous expenses + safety adjustment fee + basic fee + other expenses + capital cost – deductible value-added tax

a. Determination of the purchase price of equipment

Domestic equipment: It is mainly determined by making inquiries from manufacturers or trading companies, consulting the 2018 Mechanical and Electrical Products Quotation Manual and referring to the contract prices of similar equipment on the benchmark date. In regard to a small number of equipment of which the appraiser could not ascertain the purchase price, the price change rate of equipment of the same age and category shall be calculated and determined.

Non-standard equipment: Comprehensive evaluation approach is adopted to determine the full replacement price of non-standard equipment. The comprehensive evaluation approach calculates the complete manufacturing cost of the equipment by determining the main material cost and the main purchased parts cost of the equipment, and determines the cost price of the equipment taking into account the profits, taxes and design costs of the enterprise.

b. Determination of transportation and miscellaneous expenses

Equipment transportation and miscellaneous charges mainly include freight, loading and unloading charges, insurance charges, etc. Generally, they are based on the purchase price of the equipment, taking into account factors such as the distance between the manufacturer and the location of the equipment, the weight of the equipment and the size of the equipment, and are calculated according to different transportation and miscellaneous charges rates. If the equipment cost already includes transportation and miscellaneous expenses, the calculation will not be repeated.

c. Determination of installation and commissioning fees

According to the characteristics, weight and installation difficulty of the equipment, based on the purchase price, the installation and adjustment costs are calculated according to different rates, and those that do not need to be installed and that already include the installation and adjustment costs are not repeated.

d. Determination of basic costs

Regarding the basic equipment needed, a certain basic rate shall be considered according to the actual situation of the equipment on the premise of not duplicating the accounting of housings and buildings.

e. Determination of other costs

According to the specific circumstances of the asset, other costs should be considered.

f. Determination of capital cost

The cost of capital is determined based on applicable loan interests rate on the reference date and construction period as appropriate to the construction project and is evenly amortized over the construction period. The items it constitutes are calculated according to the tax included.

g. Deductible VAT

According to relevant tax documents such as Cai Shui [2008] No. 170 and Cai Shui [2013] No. 106, the input tax incurred by ordinary VAT taxpayers in purchasing or making their own fixed assets on the benchmark date of appraisal can be deducted from the output tax based on VAT invoices, customs import VAT special payment documents and transportation expense settlement documents, and the input tax will be recorded in the subject "tax payable – VAT payable (input tax)". Therefore:

The deductible value-added tax = equipment purchase price $\times$ 16%/(1 + 16%) + (transportation and miscellaneous expenses + installation and adjustment expenses + basic expenses) $\times$ 10%/(1 + 10%) + other expenses deductible amount

(2) *Appraisal approach for vehicles*

Determination of full replacement price

Through market inquiry and other approaches, the local purchase price of new vehicles on the benchmark date of appraisal is determined, and the replacement price of the commissioned vehicle is determined according to the national deductible value-added tax. The calculation formula is:

Full replacement price = purchase price + vehicle purchase tax + other expenses – deductible VAT

Vehicle purchase tax = vehicle price excluding tax × tax rate 10 %

Deductible VAT = [purchase price including tax/(1 + 16%)] × 16%

Other expenses include industrial and commercial transaction expenses, vehicle inspection expenses, licensing expenses, etc., calculated at RMB500.00.

(3) *Determination of the newness rate*

1) A general survey of general small equipment is conducted, and its comprehensive newness rate is determined according to the equipment's working environment and field survey status, combined with its economic life.

2) Regarding important equipment, on-site investigation is conducted to understand its working environment, existing technical status, recent technical data, relevant repair records and operation records, and a score of on-site investigation status (out of 100 points), i.e. is made to determine the newness rate of on-site investigation, and the weight of this item is 60%. Combined with its theoretical newness rate, the weight of which is 40%, the weighted average is used to determine its comprehensive newness rate. That is:

Comprehensive newness rate = theoretical newness rate × 40% + newness rate of technical appraisal × 60%

This means that:

The main equipment adopts the comprehensive newness rate, and the newness rate of general equipment is determined by the fixed number of years that it has been used.

Comprehensive newness rate = year newness rate（年限成新率）× 40% + survey newness rate × 60%

The year newness rate is determined according to the economic service life (or serviceable life) and the service life of the equipment.

Year newness rate = (economic life years – years used)/economic life years × 100 %

For equipment that has been used for more years than its economic useful life, the following formula is used:

Year newness rate = serviceable life/(used age + serviceable life) × 100%

3) The newness rate of vehicles shall be comprehensively evaluated according to the relevant provisions of the national standards for car scrapping and the actual mileage and on-site investigation.

Comprehensive newness rate = theoretical newness rate × 40% + newness rate of technical appraisal × 60%

Of which:

A. Theoretical newness rate = mileage newness rate

B. The newness rate of technical appraisal can be determined by on-site investigation, understanding the existing conditions of vehicles, relevant repair records and accident records, and making a score of on-site investigation conditions (out of 100 points).

(4) Appraisal approach of land use right

(1) The market comparison approach is to calculate the land price of the appraisal object at the appraisal date by comparing the land purchase, lease cases and the appraisal object with similar conditions or the same use value according to the substitution principle and correcting the differences between the two in terms of transaction conditions, transaction date, region and individual factors that affect the land price.

Calculation formula of the market comparison approach:

$PD = PB \times A \times B \times C \times D \times E$

In this formula: PD – Valuation object price

PB – Comparable example parcel price

A – Parcel transaction index to be appraised divided by parcel transaction index of comparable example

B – The land price index of the parcel to be appraised on the benchmark date of appraisal divided by the land price index of the comparable transaction date

C – The area factor condition index of the parcel to be appraised divided by area factor condition index of the comparable example

D – Individual factor condition index of parcel to be appraised divided by individual factor condition index of comparable example

E – The service life correction index of the parcel to be appraised divided by the service life correction index of the comparable example

(2) The benchmark land price is defined as the average market price of different land use levels, and the land price composition includes the land acquisition fee, land development fee and national land ownership income.

The calculation formula of the revised approach of benchmark land price coefficient:

$Pi = P \times (1 \pm K) \times IIS \pm M$

In this formula: PI – the land price to be appraised

P – The benchmark land price of the grade where the parcel is located

K – Total correction value of influencing factors of parcel area to be appraised (individual)

M – The revised value of the matching degree of the municipal infrastructure of the parcel to be appraised

IIS – Product of individual factor correction factors of parcel to be appraised (including volume ratio and land use period correction).

(5) Other current assets are mainly the VAT input tax incurred when the shareholders of the company invest in houses and buildings, land use rights and purchasing machinery and equipment. The appraisers reviewed the investment and purchase agreement, relevant invoices and verified the value-added tax to determine the appraisal value based on the verified book value.

(6) *Specific appraisal approaches of current liabilities*

Current liabilities included in the appraisal mainly include accounts payable and deposits receipts. For debts actually assumed on the benchmark date after verification, the appraisal value shall be determined according to the verified carrying amount.

VIII. APPRAISAL PROCESS AND FINDINGS

This appraisal procedure is mainly divided into four stages, and the main appraisal process is as follows:

(1) Accepting the engagement

Negotiate with the clients, clearly evaluate the basic business matters, comprehensively analyze and assess their professional competence, independence and business risks, and sign an asset appraisal engagement contract; Determine the person in charge of the project, form an evaluation project team and prepare an evaluation plan; guide the appraised unit to check the assets, fill in the asset appraisal declaration form, and prepare the necessary materials for appraisal.

(2) On-site investigation and collection of appraisal data

According to the specific situation of the appraisal business and in accordance with the requirements of the appraisal procedure guidelines and other relevant regulations, the appraisers have carried out necessary check and verification of assets and liabilities involved in the appraised object through inquiry, correspondence and verification, and have carried out necessary due diligence on the operation and management status of the appraised entity, etc., obtaining appraisal data from various possible channels, verifying the scope of appraisal, understanding the current status of the appraised object, and paying attention to the legal ownership of the appraised object.

(3) Appraisal and estimation stage

Appraisers must analyze, summarise and sort out the collected appraisal data to form the basis for appraisal and estimation. With reference to the appraised object, value type, appraisal data collection and other relevant conditions, the applicable appraisal approach is selected, and the corresponding formula and parameters are selected for analysis, calculation and judgment to form a preliminary appraisal result.

According to the preliminary appraisal results of various assets, relevant appraisal statements are prepared, and on the basis of verifying that the appraisal results of specific asset projects are correct and that there are no duplications or omissions in the appraisal work, asset appraisal summary analysis is conducted based on each asset appraisal statement to determine the final appraisal conclusion and prepare an asset appraisal report.

(4) Stage of preparation and submission of asset appraisal report

According to relevant laws, regulations, asset appraisal standards and internal quality control system of appraisal institutions, necessary internal audit of the appraisal report is conducted and the appraisal procedures were implemented; necessary communication authorized by the clients with relevant parties were made on relevant contents of the appraisal report; According to the requirements of the asset appraisal engagement contract, a formal asset appraisal report was submitted to the clients.

IX. ASSUMPTIONS IN THE APPRAISAL

Due to the changes in the operating environment of the enterprise and the changing factors affecting the value of assets, it is necessary to establish some assumptions in order to appraise the value of assets by professionals and fully support our conclusion of the appraisal. This appraisal is based on the following premises and assumptions:

(1) General assumptions

1. Assumptions regarding transaction

The assumptions regarding transaction assume that all assets to be appraised are already in the process of trading, and the appraisers evaluate the assets according to the simulated market such as the trading conditions of the assets to be appraised. The assumptions regarding transaction is a basic premise for asset appraisal.

2. Open market assumption

The open market assumption assumes that assets traded in the market, or assets to be traded in the market, have equal status with each other, and each has the opportunity and time to obtain sufficient market information so as to make a rational judgment on the function, purpose and transaction price of the assets. The open market assumption is based on the fact that assets can be traded openly in the market.

3. Assumption of business continuity

The assumption of business continuity is to assume that the business operation of the appraised entity is legal, and there will be no unpredictable factors leading to its unsustainable business operation.

(2) Special assumptions

1. This appraisal is premised on the specific appraisal purpose listed in this asset appraisal report.

2. Assumption of no significant change: It is assumed that there will be no major changes in the current laws and regulations of the country and the macro-economic situation of the country, and that the external economic environment such as interest rate, exchange rate, tax benchmark and tax rate, and policy-based fee collection will not change unpredictably.

3. Assumption of no adverse effects: It is assumed that no other force majeure or unforeseeable factors will have a significant adverse impact on the assets to be appraised of the appraised entity.

4. Assumption of consistent direction: It is assumed that the business scope and mode of the appraised entity are consistent with the current direction on the basis of the current management mode and management level, regardless of future changes in business capability that may result from management and business strategy adjustments.

5. Assumption of policy coherence: It is assumed that the accounting policies to be adopted by the appraised entity in the future are generally consistent in important respects with the accounting policies adopted in the preparation of this report.

6. Assumptions of data authenticity: Relevant basic data and financial data provided by the appraised entity and clients are true, accurate and complete;

7. The scope of appraisal is only based on the appraisal declaration form provided by Chemical Energy Company, without considering the contingent assets and contingent liabilities that may exist outside the list that Chemical Energy Company provided;

This appraisal result will generally fail when something inconsistent with the above assumptions occurs.

X. APPRAISAL CONCLUSION

(I) Results of the asset-based approach appraisal

After the implementation of the appraisal procedure, on the benchmark date of appraisal, the conclusion of the appraisal with the asset-based approach under the assumption that all shareholders' rights and interests are under continuous operation is as follows:

The book value of net assets is RMB600 million, the appraised value is RMB598.5939 million, the increase of the appraised value is RMB–1.4061 million, and the growth rate is –0.23%. Details are given in the following table:

Summary Sheet of Asset Appraisal

Appraised entity: Anhui Ma Steel Chemical Energy Technology Co., Ltd.

Amount Unit: Unit: RMB10,000

Items		Carrying amount A	Estimated value B	Increase or decrease C = B – A	Value-added rate *(%)* D = C/A × 100%
Current assets	1	5,598.92	5,598.92	–	
Non-current assets	2	67,950.82	67,810.21	–140.61	–0.21
Of which: Fixed assets	3	46,873.12	46,765.23	–107.88	–0.23
Intangible assets	4	13,301.51	13,268.78	–32.73	–0.25
Other non-current assets	5	7,776.20	7,776.20	–	
Total assets	6	73,549.74	73,409.13	–140.61	–0.19
Current liabilities	7	13,549.74	13,549.74	–	
Non-current liabilities	8	–	–	–	
Total liabilities	9	13,549.74	13,549.74	–	
Net assets	10	60,000.00	59,859.39	–140.61	–0.23

Details of the appraisal conclusion can be found in the Asset Basis Approach Appraisal Schedule.

XI. SPECIAL NOTES

The appraisers are incapable of evaluating and estimating the following items on their own, which may affect the conclusion. For this reason, it is essential for the user of the appraisal report to pay particular attention to the items below.

(I) The "estimated value" refers to fair opinions of estimation for any purpose stated in the report, not for any other, on the premise of unchanged use of appraised assets, continuous operations, as well as conditions on the benchmark date of assets appraisal and external economic environment.

(II) The conclusion of the appraisal stated in the report reflects the market value of the appraised object upon the principle of open market, with no regard for the costs and taxes of property registration or changes of ownership, or preparation for tax adjustments of added value arising out of asset appraisal. The appraisal conclusion is not to be deemed a guarantee for the realizable price of the appraised object.

(III) The result of this appraisal does not consider the premium or discount due to factors such as controlling shareholding and minor shareholding, nor does it consider the impact of the liquidity of the equity interests under the engagement on the appraisal result.

(IV) After the benchmark date of appraisal, if the quantity and pricing standard of assets change within the validity period up to 29 June 2019, appropriate adjustments should be made instead of directly using the appraisal conclusion.

(V) Citing the conclusions of reports issued by other institutions

This appraisal does not refer to the conclusion of any reports issued by other agencies.

(VI) The case in which the ownership information is incomplete or defective

1. As of the benchmark date of the appraisal, the houses and buildings included in the scope of this appraisal have not yet completed the registration formalities of Real Estate Ownership Certificate, as shown in the following table:

Amount: Unit: RMB10,000

Seq. No.	Name of building	Date of completion	Floor area *(m^2)*	Original value of appraisal	Net value of appraisal
1	Complex building of first purification plant	2004.08	1,743.00	189.38	123.10
2	Internal combustion engine garage	1968.01	137.91	12.29	1.84
3	Blower room	1989.01	2,250.00	288.42	77.87
4	1# 2# Electric capture transformer room	1994.12	100.00	24.54	10.31
5	Biochemical dephenolization pump room	1979.01	443.31	69.82	10.47
6	Regulating pool pump room	1985.01	154.85	24.39	4.15
7	Biochemical electromagnetic station	1979.01	26.00	5.11	0.77
8	Biochemical 2# transformer room	2005.03	48.00	5.69	3.75
9	Central laboratory	1983.01	722.26	127.86	19.18
10	Factory office building	1980.01	1,250.00	172.44	25.87
11	Condensation pump room	1991.01	690.00	108.67	34.77
12	Central control building	1994.12	796.50	211.03	88.63
13	Factory hall	1978.01	1,328.25	248.12	37.22
14	Acetylene oxygen cylinder warehouse	1998.01	40.00	3.96	1.98
15	Laboratory	1994.12	684.00	121.09	50.86
16	Transformer room	1985.01	32.00	3.79	0.64
17	Dispatching building	1990.01	430.00	46.72	14.02
18	Car depot	1971.01	730.86	72.28	10.84
19	Hall toilet	1990.01	17.09	1.53	0.46
20	Bathroom	1985.01	554.16	49.38	8.40
21	Biochemical complex building	2005.03	807.00	79.80	52.66
22	Biochemical 1# transformer room	2005.03	48.00	5.69	3.75
23	Biochemical O1 wind turbine room	2005.03	144.00	18.46	12.18
24	Refrigeration main building	2004.03	446.00	70.24	44.95

Seq. No.	Name of building	Date of completion	Floor area (m^2)	Original value of appraisal	Net value of appraisal
25	Biochemical laboratory	1980.01	297.34	52.63	7.89
26	Tank washing station building	1994.02	300.00	38.45	15.38
27	Recovery control building	2007.08	2,288.00	606.19	448.58
28	Oil depot distribution room	2007.08	44.00	33.58	24.85
29	Blower room	2007.08	1,581.00	434.32	321.40
30	Dehydrogenation room	2007.08	126.00	39.53	29.25
31	Phenol cyanogen waste water complex building	2007.08	745.00	408.42	302.23
32	Sulfur storage	2007.08	318.00	93.57	69.24
33	Ammonium sulfate plant	2007.08	3,069.00	813.11	601.70
34	Circulating water pump room	2007.08	1,120.00	789.05	583.90
35	Water distributor chamber	2007.08	288.00	56.61	41.89
36	Secondary sedimentation tank pump room	2007.08	120.00	32.97	24.40
37	Central substation	2007.08	880.00	172.98	128.00
38	Alkali pump room	2007.08	339.00	238.83	176.73
39	Laboratory building, operation area 1, central inspection area	1992.10	265.20	46.95	16.90
40	Truck scale room	2012.06	21.00	61.56	50.48
41	Circulating water foam station	2012.06	76.00	66.16	54.25
42	Maintenance workshop	2012.06	420.00	148.20	121.52
43	Office building	2012.06	1,107.00	152.72	125.23
44	Complex building	2012.06	2,212.00	369.97	303.38
45	1# Guard room	2012.06	56.00	321.72	263.81
46	2# Guard room	2012.06	56.00	59.69	48.95
47	Comprehensive water pump house	2012.06	493.00	53.57	43.92
48	Monitoring house	2017.12	9.00	2.12	2.10
49	Dosing room	2015.05	110.00	34.52	31.06
50	Sludge room	2017.01	93.60	63.20	60.67
51	Low voltage distribution room	2017.01	54.00	52.29	50.19
52	Office building of supply section	1993.08	632.00	87.19	34.00
53	Comprehensive building (Chemical building)	2003.08	1,326.00	221.79	139.73
54	Education building	2005.08	890.00	122.78	82.26
55	Staff activity center	2000.08	1,820.00	286.64	169.12
56	Total		34,779.33	7,921.97	5,011.68

2. As of the benchmark date of the appraisal, the vehicles included in the scope of this appraisal have not completed the formalities for changing the Motor Vehicle Driving License, and the holder of the license is Maanshan Iron and Steel Company Limited. The details are as follows:

Amount: Unit: RMB10,000

Seq. No.	Name of vehicle	License plate No.	Measuring unit	Quantity	Commissioning date	Original value of appraisal	Net value of appraisal
1	Light truck	Wan EJ 0159	Number	1	2017.07	9.53	8.58
2	10-ton tanker	Wan E 07972	Number	1	2005.06	25.09	3.76
3	10-ton tanker	Wan E 07960	Number	1	2005.06	25.09	3.76
4	Fecal suction truck	Wan E 12673	Number	1	2011.01	13.66	2.05
5	Three-force 10t tanker	Wan E 13998	Number	1	2013.01	31.35	10.66
6	Three-force 10t tanker	Wan E 13966	Number	1	2013.01	31.35	10.66
7	Refueling truck	Wan E 17056	Number	1	2015.12	30.40	21.28
8	Oil tank car	Wan E 17303	Number	1	2015.12	40.83	28.58
9	Oil tank car	Wan E 17213	Number	1	2015.12	40.83	28.58
10	Sewage suction struck	Wan E 17858	Number	1	2016.09	28.50	22.52
11	Light truck	Wan EJ 9629	Number	1	2017.06	8.20	7.30
12	Total			11		284.83	147.73

3. As of the benchmark date of the appraisal, the land use right included in the scope of this appraisal has not yet completed the land division and registration formalities for the change of property owner, and the property owner is still Maanshan Iron & Steel Company Limited, as shown in the following table:

Amount: Unit: RMB10,000

Seq. No.	Land Warrant Number	Parcel name	Obtain Date	Area *(m^2)*	Appraisal value
1	MGY (2006) No. 31763	The plot of the old coal coking area in the third factory area	1993.06	260,084.84	7,854.56
2	MGY (2008) No. 80990	Block of benzene hydrogenation main plant area	2007.03	82,867.10	3,157.24
3	MGY (2006) No. 31763	The plot of the auxiliary area of the third plant area	1993.06	3,406.77	102.88
4	MGY (2006) No. 31836	The plot of the 5 million ton steel project in the new district	2006.08	8,551.21	302.71
5	MGY (2006) No. 31837	The plot of the 5 million ton steel project in the new district	2006.08	2,723.87	96.42
6	MGY (2006) No. 31838	The plot of the 5 million ton steel project in the new district	2006.08	34,009.97	1,203.95
7	MGY (2006) No. 31753	New district (Certificate of Cihu union rural port raw material factory)	1993.06	1,856.44	56.06
8	MGY (2014) No. 019240	New district (No.2 Factory Site Certificate)	1993.06	16,389.28	494.96
9	Total			409,889.48	13,268.78

Chemical Energy Company promises that the ownership of the above assets belongs to Chemical Energy Company, and there is no property right dispute. Other assets included in the scope of appraisal do not have incomplete ownership information or defects.

(VII) The case in which the appraisal procedures are limited;

1. The appraiser did not carry out technical tests on the technical parameters and performance of various equipment on the benchmark date of appraisal. The appraiser made a judgment through on-the-spot investigation on the premise that the relevant technical data and operation records provided by the evaluated unit are true and effective without any aid of testing instruments.

2. The appraiser did not carry out technical inspection on the concealed works and internal structures of various buildings and structures (parts not observable to the naked eye). On the premise that the relevant project data provided by the appraised entity are true and effective, the appraiser made a judgment through field investigation without using any inspection instruments.

In addition to the above matters, this appraisal did not result in restrictions on the inventory and appraisal procedures of non-physical assets due to restrictions on asset performance, storage location, litigation preservation, technical performance, commercial or state secrets, etc.

(VIII) The case in which the appraisal data is incomplete

According to the results of check and verification, there is no incomplete appraisal data in this appraisal.

(IX) Legal, economic and other outstanding matters existing on the benchmark date of the appraisal;

According to Chemical Energy Company's commitment, the assets included in the appraisal scope are determined not to involve legal, economic and other pending matters.

(X) The nature and amount of the guarantee and its contingent liabilities (contingent assets) and the relationship with the object of appraisal.

According to Chemical Energy Company's commitment, the assets included in the appraisal scope are determined not to involve guarantees and contingent liabilities (contingent assets).

(XI) Matters that may affect the appraisal conclusion between the benchmark date of appraisal and the asset appraisal report date

According to Chemical Energy Company's commitment, there are no other important issues that need to be adjusted for the conclusion of the appraisal from the benchmark date of appraisal to the date of issuance of the appraisal report.

(XII) Defects that may have a significant impact on the conclusion of the appraisal in the economic behavior corresponding to this asset appraisal.

According to Chemical Energy Company's commitment, determining the economic behavior corresponding to the appraisal will not have a significant impact on the conclusion of the appraisal.

(XIII) Other important matters that need to be explained

1. On 1 June 2018, the Company signed a capital increase agreement with Chemical Energy Company, which stipulates that the asset price to be contributed shall be subject to the appraisal report issued by the appraisal agency. At the same time, the two sides also signed an agreement on the purchase of machinery and equipment, which stipulates that the asset price to be purchased shall be subject to the appraisal report issued by the appraisal agency. As of the benchmark date of appraisal of this project, the above economic behavior has been completed and relevant assets have been invoiced. Fixed assets and land use rights included in the scope of this appraisal are recorded at the appraisal value.

2. The conclusion of this appraisal does not take into account the changes in tax obligations that may arise from the increase or decrease of the appraisal value.

Users of the appraisal report should pay attention to the impact of the above-mentioned special matters on the conclusion of the appraisal.

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

(I) This appraisal report can only be used by users of the appraisal report specified in the asset appraisal engagement contract, and can only be used for the appraisal purpose and purpose specified in the asset appraisal engagement contract.

(II) The asset appraisal institution and the appraiser 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) No other institution or individual can become the user of the asset appraisal report except the clients, the user of the asset appraisal report agreed in the asset appraisal engagement contract and the user of the asset appraisal report stipulated by laws and administrative regulations.

(IV) The user of the asset appraisal report shall correctly understand the conclusion of the appraisal, which is not equal to the achievable price of the appraisal object, and the conclusion of the appraisal shall not be considered as a guarantee for the achievable price of the appraisal object.

(V) If all or part of the contents of this asset appraisal report are extracted, quoted or disclosed in the public media, the appraisal institution shall review the relevant contents. Without the appraisal institution's review of the relevant contents, the contents of the appraisal report shall not be extracted, quoted or disclosed in the public media, unless otherwise agreed by the relevant parties.

(VI) The asset appraisal report shall be signed by the asset appraiser and sealed by the appraisal institution, and shall have legal effect and be officially used only after the asset appraisal report has been approved or filed by the competent approval or filing management unit in accordance with the relevant provisions of the state-owned asset management.

(VII) The conclusion of this appraisal is an objective and fair reflection of the market value of all rights and interests of shareholders of Chemical Energy Company with 30 June 2018 taken as the benchmark date of appraisal. The conclusion of this appraisal cannot be directly used when major issues occur after the benchmark date of appraisal.

(VIII) According to the Asset Appraisal Practice Standard – Asset Appraisal Report, "The asset appraisal report can only be used when the difference between the benchmark date of appraisal and the realization date of the economic behavior is not more than one year," the validity period of the conclusion of this appraisal is one year from the benchmark date of appraisal, that is, from 30 June 2018 to 29 June 2019. If the asset status and market status change significantly compared with the relevant status on the benchmark date of appraisal, the clients shall engage the appraisal agency to carry out the appraisal renewal business or re-appraisal.

XIII. REPORTING DATE OF ASSET APPRAISAL

The official date of this appraisal report is 15 July 2018, which is the date of the reaching the conclusion of the appraisal.

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

Interests in the Company

As at the Latest Practicable Date, none of the Directors, supervisors and chief executive of the Company have any interests and short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of the SFO) which was required 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 any such Director, chief executive or supervisor is taken or deemed to have under such provisions of the SFO) or which was required to be entered into the register required to be kept by the Company under section 352 of the SFO or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

Save as that Mr. Ding Yi and Mr. Qian Haifan who are also directors of the Parent Group and Mr. Ren Tianbao who is also deputy general manager of the Parent Company, 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 2017, 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

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 his Associates was 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 2017, 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
Somerley Capital Limited	A licensed corporation to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO (Chapter 571 of the Laws of Hong Kong)

Somerley Capital Limited has given and has 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) Somerley Capital Limited did not have any interest, either direct or indirect, in any assets which had been, since 31 December 2017, 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) Somerley Capital Limited 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. 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 Hong Yun and Ms. Chiu Hoi Shan.

(iv) Unless stated otherwise, in the event of inconsistency, the English language text of this circular shall prevail over the Chinese language text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Room 1204-06, 12th Floor, The Chinese Bank Building, 61 Des Voeux Road Central, Central, Hong Kong on any workday from the date of this circular up to and as at the date of the EGM:

(i) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out in page 119 of this circular;

(ii) the written consent from Somerley Capital Limited;

(iii) the letter from Somerley Capital Limited to the Independent Board Committee and the Independent Shareholders, the text of which is set out in page 120 to 248 of this circular;

(iv) the Agreements;

(v) a copy of this circular.

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

(A joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 00323)

NOTICE REGARDING 2018 SECOND EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2018 Second 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 Wednesday, 21 November 2018.

The EGM will consider the following resolutions:

ORDINARY RESOLUTIONS:

1. To consider and approve the Supplementary Continuing Connected Transactions Agreement entered into between the Company and Magang (Group) Holding Company Limited, so as to update the 2018 proposed annual caps under the 2016-2018 Continuing Connected Transactions Agreement entered into between the Company and it on 10 September 2015.

2. To consider and approve the Supplementary Energy Saving and Environmental Protection Agreement entered into between the Company and Anhui Xinchuang Energy Saving and Environmental Protection Science & Technology Co., Ltd., so as to update the 2018 proposed annual caps under the 2016-2018 Energy Saving and Environmental Protection Agreement entered into between the Company and it on 10 September 2015.

3. To consider and approve the transactions contemplated under the 2019-2021 Sale and Purchase of Ore Agreement entered into between the Company and Magang (Group) Holding Company Limited and the relevant proposed annual caps.

4. To consider and approve the transactions contemplated under the 2019-2021 Energy Saving and Environmental Protection Agreement entered into between the Company and Anhui Xinchuang Energy Saving and Environmental Protection Science & Technology Co., Ltd. and the relevant proposed annual caps.

5. To consider and approve the transactions contemplated under the 2019-2021 Continuing Connected Transactions Agreement entered into between the Company and Magang (Group) Holding Company Limited and the relevant proposed annual caps.

6. To consider and approve the loan services transactions contemplated under the 2019-2021 Financial Services Agreement entered into between Magang Group Finance Co. Ltd. and Magang (Group) Holding Company Limited and the relevant proposed annual caps.

7. To consider and approve the Share Transfer Agreement of Ma Steel Scrap Steel Co., Ltd.

8. To consider and approve the Capital Increase Agreement of Anhui Ma Steel K. Wah New Building Materials Co., Ltd.

9. To consider and approve the Capital Increase Agreement of Anhui Ma Steel Chemical Energy Technology Co., Ltd.

10. To consider and approve the transactions contemplated under the 2019-2021 Continuing Connected Transactions Agreement entered into between the Company and Ma Steel Scrap Steel Co., Ltd. and the relevant proposed annual caps.

11. To consider and approve the transactions contemplated under the 2019-2021 Continuing Connected Transactions Agreement entered into between the Company and Anhui Ma Steel K. Wah New Building Materials Co., Ltd. and the relevant proposed annual caps.

12. To consider and approve the transactions contemplated under the 2019-2021 Continuing Connected Transactions Agreement entered into between the Company and Anhui Ma Steel Chemical Energy Technology Co., Ltd. and the relevant proposed annual caps.

13. To consider and approve the Company's 2018 interim profit distribution plan.

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

28 September 2018
Maanshan City, Anhui Province, the PRC

As at the date of this announcement, the directors of the Company include:
Executive Directors: Ding Yi, Qian Haifan, Zhang Wenyang
Non-executive Directors: Ren Tianbao
Independent Non-executive Directors: Zhang Chunxia, Zhu Shaofang, Wang Xianzhu

Notes:

I. Persons entitled to attend the EGM

Persons who hold H shares of the Company and are registered as holders of H shares on the register of members maintained by The Hong Kong Registrars Limited as at the market close in the afternoon of Friday, 19 October 2018 shall have the right to attend the EGM after completing the registration procedures for attending the meeting. (Holders of A shares will be notified separately).

II. Registration procedures for attending the EGM

1. Holders of H shares shall deliver their written replies for attending the EGM, copies of transfers, share certificates or copies of receipts of share transfer and copies of their own identity cards to the Company by no later than Wednesday, 31 October 2018. 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 authorised 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. The Company's register of members for H shares will be closed from Monday, 22 October 2018 to Wednesday, 21 November 2018 (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 Friday, 19 October 2018. The address of the Registrar for the Company's H shares: 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. Share registration date for holders of A shares will be announced later.

V. Subject to and upon the approval of the EGM, the interim dividend for the year of 2018 is expected to be distributed to the shareholders of H Shares whose names appear on the register of members in respect of H Shares maintained in Hong Kong on Monday, 3 December 2018. The register of members of the Company for H shares will close from Wednesday, 28 November 2018 to Monday, 3 December 2018 (both days inclusive). In order to qualify for the distribution of the proposed dividend, all transfer documents accompanied by the relevant share certificates and other appropriate documents must be lodged by the shareholders of H Shares with the Company's H share registrar – Hong Kong Registrars Limited at 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong on or before 4:30 p.m. on Tuesday, 27 November 2018. The registered day and relevant details of distributing and acquiring the proposed final cash dividend of the holders of A shares will be disclosed separately.

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

VII. Contact of the Company

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