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

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

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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
AMENDMENTS TO TERMS OF CCT AGREEMENTS;
(2) CONTINUING CONNECTED TRANSACTIONS
SALE AND PURCHASE OF SERVICES AGREEMENT, ACCEPTANCE AND
PROVISION OF SERVICES AGREEMENT AND NEW FINANCIAL SERVICES
AGREEMENT; AND
(3) NOTICE OF EGM**

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



A letter from the Board is set out on pages 1 to 67 of this circular. A letter from the Independent Board Committee is set out on page 68 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 69 to 149 of this circular.

Notice for convening the 2021 first extraordinary general meeting of Maanshan Iron & Steel Company Limited (the “**Company**”) to be held at the Magang Office Building, No.8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC, at 1:30 p.m. on Tuesday, 30 November 2021 was issued on 14 October 2021.

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.

12 November 2021

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DEFINITIONS

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

“Acceptance and Provision of Services Agreement”	the acceptance and provision of services agreement entered into between the Company and China Baowu on 29 September 2021
“Anhui Xinchuang”	Anhui Xinchuang Energy Saving and Environmental Protection Science & Technology Co., Ltd. (安徽欣創節能環保科技股份有限公司), a joint stock limited company incorporated in the PRC
“Board”	the board of Directors of the Company
“CCT Agreements”	the Original Ouye Lianjin CCT Agreement, the Existing Ouye Lianjin Supplemental Agreement, the Original Magang Group CCT Agreement, the Existing Magang Group Supplemental Agreement, the Original Ordinary Connected Transactions Agreement, the Existing China Baowu Supplemental Agreement, the Existing Energy Saving and Environmental Protection Agreement
“CCT Supplemental Agreements”	the New Ouye Lianjin Supplemental Agreement, the New Magang Group Supplemental Agreement, the New China Baowu Supplemental Agreement and the Supplemental Energy Saving and Environmental Protection Agreement
“Chemical Energy Company”	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 Continuing Connected Transaction Agreement”	the Continuing Connected Transaction Agreement dated 15 August 2018 executed by the Company and Chemical Energy Company, pursuant 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
“China Baowu”	China Baowu Steel Group Corporation Limited (中國寶武鋼鐵集團有限公司), a limited company incorporated in the PRC and a pilot enterprise of state-owned capital investment company, which is 90% controlled by the SASAC of the State Council

DEFINITIONS

“China Baowu Group”	China Baowu and its subsidiaries (excluding the Group)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Company”	Maanshan Iron & Steel Company Limited, a joint stock limited company incorporated in the PRC, which shares are listed on the Stock Exchange
“Directors”	the directors of the Company
“EGM” or “2021 First Extraordinary General Meeting”	the extraordinary general meeting of the Company to be held on Tuesday, 30 November 2021 to approve, among other things, the CCT Supplemental Agreements, the Sale and Purchase of Products Agreement, the Acceptance and Provision of Services Agreement and New Financial Services Agreement, the transactions contemplated thereunder, and the respective proposed annual caps
“Energy Saving and Environmental Protection Supplemental Agreement”	the energy saving and environmental protection supplemental agreement entered into between the Company and Anhui Xinchuang on 29 September 2021
“Existing China Baowu Supplemental Agreement”	the ordinary related transactions supplemental agreement entered into between the Company and China Baowu on 7 May 2020
“Existing Energy Saving and Environmental Protection Agreement”	the energy saving and environmental protection agreement entered into between the Company and Anhui Xinchuang on 15 August 2018
“Existing Magang Group Supplemental Agreement”	the continuing connected transactions supplemental agreement entered into between the Company and the Parent Company on 7 May 2020
“Existing Ouye Lianjin Supplemental Agreement”	the continuing connected transactions supplemental agreement entered into between the Company and Ouye Lianjin on 7 May 2020

DEFINITIONS

“Existing Products Continuing Connected Transaction Agreements”	the Original Magang Group CCT Agreement (revised by the Existing Magang Group Supplemental Agreement and the New Magang Group Supplemental Agreement), the Original Ordinary Related Transaction Agreement (revised by the Existing China Baowu Supplemental Agreement and the New China Baowu Supplemental Agreement), the Original Ouye Lianjin CCT Agreement (revised by the Existing Ouye Lianjin Supplemental Agreement and New Ouye Lianjin CCT Agreement), the Chemical Energy Company Continuing Connected Transaction Agreement, K. Wah Company Continuing Connected Transaction Agreement, Existing Energy Saving and Environmental Protection Agreement (revised by the Energy Saving and Environmental Protection Supplemental Agreement Amendment), the Sale and Purchase of Ore Agreement and the Integrated Support Services Agreement
“Existing Services Continuing Connected Transaction Agreements”	the Original Magang Group CCT Agreement (revised by the Existing Magang Group Supplemental Agreement and the New Magang Group Supplemental Agreement), the Original Ordinary Related Transaction Agreement (revised by the Existing China Baowu Supplemental Agreement and the New China Baowu Supplemental Agreement), the Original Ouye Lianjin CCT Agreement (revised by the Existing Ouye Lianjin Supplemental Agreement and New Ouye Lianjin CCT Agreement), the Chemical Energy Company Continuing Connected Transaction Agreement, Existing Energy Saving and Environmental Protection Agreement (revised by the Energy Saving and Environmental Protection Supplemental Agreement) Amendment) and the Integrated Support Services Agreement
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC.
“Independent Board Committee”	a board committee comprising all the Independent Non-executive Directors, which will, among others, consider and advise the Independent Shareholders in relation to the CCT Supplemental Agreements, the Sale and Purchase of Products Agreement, the Acceptance and Provision of Services Agreement, the New Financial Services Agreement, the transactions contemplated thereunder, and the respective proposed annual caps

DEFINITIONS

“Independent Financial Adviser”	Halcyon Capital Limited, a licensed corporation to conduct type 6 (advising on corporate finance) regulated activities under the SFO. As the Independent Financial Adviser, it will advise the Independent Board Committee and the Independent Shareholders in relation to the CCT Supplemental Agreements, the Sale and Purchase of Products Agreement, the Acceptance and Provision of Services Agreement, the New Financial Services Agreement, the transactions contemplated thereunder, and the respective proposed annual caps.
“Independent Non-executive Directors”	Independent non-executive Directors of the Company
“Independent Shareholders”	shareholders of the Company other than the Parent Company and its Associates
“Integrated Support Services Agreement”	the integrated support services agreement entered into between the Company and the Parent Company on 27 December 2018
“K. Wah Company”	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 the PRC
“K. Wah Company Continuing Connected Transaction Agreement”	the continuing connected transaction agreement dated 15 August 2018 executed by the Company and K. Wah Company, pursuant which the parties agreed that the Group would sell or provide products to K. Wah Company from 2019 to 2021
“Latest Practicable Date”	8 November 2021
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
“Masteel Group” or “Parent Company”	Magang (Group) Holding Company Limited (馬鋼(集團)控股有限公司), 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

DEFINITIONS

“New China Baowu Supplemental Agreement”	the ordinary connected transaction supplemental agreement entered into between the Company and China Baowu on 29 September 2021
“New Financial Services Agreement”	the financial services agreement entered into between the Finance Company and the Parent Group on 29 September 2021
“New Magang Group Supplemental Agreement”	the continuing connected transactions supplemental agreement entered into between the Company and the Parent Company on 29 September 2021
“New Ouye Lianjin Supplemental Agreement”	the continuing connected transactions supplemental agreement entered into between the Company and Ouye Lianjin on 29 September 2021
“Original Ordinary Related Transaction Agreement”	the ordinary related transaction agreement entered into between the Company and China Baowu on 30 December 2019
“Original Financial Services Agreement”	the financial services agreement entered into between the Finance Company and the Parent Group on 15 August 2018
“Original Magang Group CCT Agreement”	the continuing connected transactions agreement entered into between the Company and the Parent Company on 15 August 2018
“Original Ouye Lianjin CCT Agreement”	the continuing connected transactions agreement entered into between the Company and Ouye Lianjin on 15 August 2018
“Ouye Lianjin”	Ouye Lianjin Renewable Resources Co., Ltd. (歐冶鏈金再生資源有限公司) (formerly known as Maanshan Masteel Scrap Steel Co., Ltd. with its name changed on 19 February 2020), a limited company established in the PRC
“PRC”	the People’s Republic of China
“Previous Ordinary Related Transaction Agreement”	the ordinary related transaction agreement entered into between the Company and China Baowu on 19 September 2019

DEFINITIONS

“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase of Products Agreement”	the sale and purchase of products agreement entered into between the Company and China Baowu on 29 September 2021
“Sale and Purchase of Ore Agreement”	the sale and purchase of ore agreement dated 15 August 2018 executed by the Company and the Parent Company, pursuant to which the parties agreed that the Company would purchase ore and iron ore from the Parent Company from 2019 to 2021
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subject 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)
“Supplemental Energy Saving and Environmental Protection Agreement”	the supplemental energy saving and environmental protection agreement entered into between the Company and Anhui Xinchuang on 29 September 2021
“%”	Percentage

LETTER FROM THE BOARD



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*)

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

12 November 2021

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTIONS
AMENDMENTS TO TERMS OF CCT AGREEMENTS;
(2) CONTINUING CONNECTED TRANSACTIONS
SALE AND PURCHASE OF SERVICES AGREEMENT, ACCEPTANCE AND
PROVISION OF SERVICES AGREEMENT AND NEW FINANCIAL SERVICES
AGREEMENT; AND
(3) NOTICE OF EGM**

1. INTRODUCTION

Reference is made to the announcements of the Company dated 29 September 2021 related to (1) continuing connected transactions – amendments to terms of CCT Agreement; and (2) continuing connected transactions – Sale and Purchase of Products Agreement, Acceptance and Provision of Services Agreement and New Financial Services Agreement.

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.

LETTER FROM THE BOARD

2. CONTINUING CONNECTED TRANSACTIONS – AMENDMENTS TO THE TERMS OF THE CCT AGREEMENTS

(i) New Ouye Lianjin Supplemental Agreement

On 15 August 2018, the Company entered into the Existing Ouye Lianjin CCT Agreement with Ouye Lianjin, agreeing that, from 1 January 2019 to 31 December 2021, the Group would continue to sell or provide products and services to Ouye Lianjin, and Ouye Lianjin would continue to sell or provide products and services to the Group. On 7 May 2020, the Company entered into the Existing Ouye Lianjin Supplemental Agreement with Ouye Lianjin, proposing to, as for the products to be sold by Ouye Lianjin to the Group, (i) increase the annual cap for the year 2020 by RMB3,711.7 million from RMB3,796.8 million, with an adjusted annual cap for the year 2020 of RMB7,508.5 million; and (ii) increase the annual cap for the year 2021 by RMB5,070.0 million from RMB4,522.5 million, with an adjusted annual cap for the year 2021 of RMB9,592.5 million.

Due to the impact of the increase in demand and price rise, the caps under the Existing Ouye Lianjin Supplemental Agreement could not meet the expectation. As such, the Company entered into the New Ouye Lianjin Supplemental Agreement with Ouye Lianjin, proposing to, as for the products to be sold by Ouye Lianjin to the Group, increase the annual cap for the year 2021 by RMB921.4 million from RMB9,592.5 million, with an adjusted annual cap for the year 2021 of RMB10,513.9 million. All other existing principal terms and conditions under the Original Ouye Lianjin CCT Agreement and the Existing Ouye Lianjin Supplemental Agreement remain unchanged.

The Company has confirmed that as of the Latest Practicable Date, the transaction amount under the Original Ouye Lianjin CCT Agreement and the Existing Ouye Lianjin Supplemental Agreement has not exceeded the existing annual caps.

Date

29 September 2021

Parties

- (1) The Company; and
- (2) Ouye Lianjin

LETTER FROM THE BOARD

Subject matter

Ouye Lianjin agreed to, inter alia, sell or provide products to the Group, including steel scrap products.

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 Ouye Lianjin Supplemental Agreement. The terms of the products and services (including but not limited to pricing and payment) to be provided by Ouye Lianjin 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 implementation of New Ouye Lianjin Supplemental Agreement, the Company may decide, at its discretion, whether to enter into agreement with any independent third parties in respect of the transactions contemplated under the Ouye Lianjin Supplemental Agreement.

Consideration

Based on the current pricing standards, the sales of products from Ouye Lianjin to the Group shall be based on the pricing of market price, which shall be determined through open tenders, price comparison, arm's length negotiations between the parties, based on normal commercial terms and comparable market. In practice, steel scrap products will be priced with reference to market price obtained through market research on industry websites including "SteelHome" (<http://www.steelhome.cn>) and "MySteel" (www.mysteel.com) which are commonly recognised sources of data for the iron and steel industry.

The pricing regarding the services and products to be provided by Ouye Lianjin 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.

Payment

For the payment of products sold or services provided by Ouye Lianjin to the Group, the Group shall pay for such products or services within 10 business days after the Group shall have received such products or services and completed the procedures of financial settlement.

LETTER FROM THE BOARD

Condition precedent

The New Ouye Lianjin Supplemental Agreement is conditional upon the Independent Shareholders approving the New Ouye Lianjin Supplemental Agreement and the relevant proposed annual caps at the EGM.

Duration

The New Ouye Lianjin Supplemental Agreement shall be effective subject to approval of Independent Shareholders at the EGM to be convened and expire on 31 December 2021.

Existing annual caps and actual transaction amounts

The existing annual caps (tax exclusive) and the actual transaction amount (tax exclusive) in respect of products provided by Ouye Lianjin to the Group under the Original Ouye Lianjin CCT Agreement and Existing Ouye Lianjin Supplemental Agreement for the year ended 31 December 2019, for the year ended 31 December 2020, for the year ended 31 December 2021 and for the first six months ended 30 June 2021 are set out below:

RMB

	For the year ended 31 December 2019	For the year ended 31 December 2020	For the first six months ended 30 June 2021	For the year ended 31 December 2021
Products provided by Ouye Lianjin to the Group				
Existing annual caps	3,282,400,000	7,508,500,000	N/A	9,592,500,000
Actual transaction amounts	3,075,590,000	5,499,820,000	6,598,400,000	N/A

The actual transaction amounts generated in 2021 has exceeded that of the pro-rata annual caps of 2020, represents approximately 137.57% on a six-month pro-rata basis of the existing annual cap for 2021. The existing annual cap for the year ended 31 December 2020 and 2019 had also record a high utilisation rate of 93.70% and 73.25%, respectively.

LETTER FROM THE BOARD

Proposed Annual Caps

The proposed annual caps (tax exclusive) in respect of the products provided by Ouye Lianjin to the Group under the New Ouye Lianjin Supplemental Agreement for the year ended 31 December 2021 are set out below:

RMB

**For the
year ended
31 December
2021**

Products provided by Ouye Lianjin to the Group

Proposed annual caps of the products	10,513,900,000
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Hence, the total proposed annual caps for sales or provision of products and services by the Group to Ouye Lianjin and sales or provision of products and services by Ouye Lianjin to the Group for the year ended 31 December 2021 will be RMB10,599,662,300.

The proposed annual caps in respect of the New Ouye Lianjin Supplemental Agreement for the year 2021 are determined by reference to (i) the market price for the continuing connected transactions; (ii) the Group's anticipated demand for Ouye Lianjin's products and services to meet its production plan; and (iii) Ouye Lianjin's anticipated capacity to provide products and services to the Group.

In particular, the Group's demand for scrap steel and pig iron has substantially increased from the end of 2020. It is expected that the Group will purchase 290,000 tonnes of scrap metals for November and December 2021. Further, the price for scrap steel and pig iron has increased by approximately 19% since the end of 2020.

In relation to the estimated prices of the scrap material in the range of RMB3,161 and RMB3,369 depending on its required specifications adopted by the Company, it is determined with reference to the latest price of scrap metals before the date of the relevant announcements (i.e. 29 September 2021) as set out in the monthly internal price guides compiled by the Group's purchasing department with reference to the recent market transactions on public domain such as www.steelhome.cn. The estimated price are lower than the market price range quoted from industry websites "www.steelhome.cn" of RMB3,773 per tonne and RMB3,834 per tonne on the same date.

LETTER FROM THE BOARD

Taking into account the actual demand of scrap material for December 2021 and given that estimated purchasing prices of the scrap material adopted by the Company are lower than the market price range and have taken into account, the Board considers that the estimation of the proposed annual caps to be reasonable.

Reasons for and benefits of the New Ouye Lianjin Supplemental Agreement

Obtaining reliable products and services from Ouye Lianjin with unique techniques ensures that the Group is able to sustain stable and sustainable production and is in the interests of the Group. Ouye Lianjin is specialized in providing scrap steel products and has rich experience in the business. The terms and pricing of the Ouye Lianjin's CCT Supplemental Agreement are fair and reasonable, and are in the interests of the Company and its shareholders as a whole.

Listing Rules Implications

As of the Latest Practicable Date, the Parent Company holds approximately 47.59% of the issued share capital of the Company and is the controlling shareholder of the Company. It also holds 69.83% equity interests of Ouye Lianjin, meaning that Ouye Lianjin is a subsidiary of the Parent Company and a connected person of the Company under Chapter 14A of the Listing Rules. Therefore, the transactions under the New Ouye Lianjin Supplemental Agreement would constitute the continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios under the Listing Rules in respect of the proposed annual caps for the transactions contemplated under the New Ouye Lianjin Supplemental Agreement are more than 5%, such continuing connected transactions and proposed annual caps are subject to requirements including reporting, announcement, annual review and Independent Shareholders' approval under Chapter 14A of the Listing Rules.

(ii) New Magang Group Supplemental Agreement

On 15 August 2018, the Company entered into the Original Magang Group CCT Agreement with the Parent Company, agreeing that, from 1 January 2019 to 31 December 2021, the Group would continue to sell or provide products and services to the Parent Group, and the Parent Group would continue to sell or provide products and services to the Group. On 7 May 2020, the Company entered into the Existing Magang Group Supplemental Agreement with the Parent Company to, as for the infrastructure technical and renovation engineering services provided by the Parent Group, (i) increase the annual cap for the year 2020 by RMB1,600 million from RMB1,100 million, with an adjusted annual cap for the year 2020 of RMB2,700 million; and (ii) increase the annual cap for the year 2021 by RMB900 million from RMB1,000 million, with an adjusted annual cap for the year 2021 of RMB1,900 million.

LETTER FROM THE BOARD

Due to the impact of the increase in demand and price rise, the caps under the Original Magang Group CCT Agreement could not meet the expectation. As such, the Company entered into the New Magang Group Supplemental Agreement with the Parent Company, proposing to, (i) as for the products to be sold by the Group to the Parent Group, increase the annual cap for the year 2021 by RMB385 million from RMB1,165.3714 million, with an adjusted annual cap for the year 2021 of RMB1,550.3714 million; and (ii) as for the water and land transportation and related services which are provided by the Parent Group to the Group, 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, increase the annual cap for the year 2021 by RMB392.83 million from RMB3,010.1403 million, with an adjusted annual cap for the year 2021 of RMB3,402.9703 million. All other existing principal terms and conditions under the Original Magang Group CCT Agreement and Existing Magang Group Supplemental Agreement remain unchanged.

The Company has confirmed that as of the Latest Practicable Date, the transaction amount under the Original Magang Group CCT Agreement and Existing Magang Group Supplemental Agreement has not exceeded the existing annual caps.

Date

29 September 2021

Parties

- (1) The Company; and
- (2) The Parent Company

Subject matter

The Company through itself and the Group agreed to sell or provide the following products to the Parent Group, including (i) finished products and relevant commodities, such as steel, steel ingot, accessories, materials (stainless steel band, cable, tool, etc.), coke powder, iron scales and other products (labour protection and office supplies, etc.); and (ii) 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.

LETTER FROM THE BOARD

The Parent Company through itself or the Parent Group agreed to sell or provide services to the Group, including 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 Magang Group Supplemental 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 provided by the Group to the independent third parties 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 Magang Group Supplemental Agreement, the Company may decide, at its discretion, whether to enter into agreement with any independent third parties in respect of the transactions contemplated under the New Magang Group Supplemental Agreement.

Consideration

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

Meanwhile, the price of 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 products and services 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.

LETTER FROM THE BOARD

According to the current pricing standards, the pricing principle for each of the transactions under the New Magang Group Supplemental Agreement is as follows:

Category	Pricing principle	Items
Products to be sold by the Group to Parent Group	State-prescribed price	Electricity/living water/industrial treated water
	Market price	Blast furnace gas/coke oven gas/converter gas/steam/compressed air/other gases/steel/ingot/coke/iron oxide/metallurgical accessories/materials (stainless steel belt, cable, tools, etc.)/labor insurance, office supplies, etc.
Subject services provided by the Parent Group to the Group	Market price	Water and land transportation and related services, including highway transportation, waterway transportation, 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.

The state-prescribed price of electricity is determined by Anhui Province Price Bureau with reference to “Anhui Province Development and Reform Commission on Adjusting the Price of Electricity Sales in the Province” (《安徽省發展改革委關於調整我省銷售電價有關事項的通知皖發改價格》) (for details, please refer to <https://www.wuhu.gov.cn/openness/public/6604551/29704691.html>) implemented on 1 January 2021. The current state-prescribed rate of electricity for industrial and commercial use is approximately RMB0.9792 per kWh for peak seasons and RMB0.6048 per kWh for regular period.

LETTER FROM THE BOARD

The state-prescribed price of water is determined by Maanshan Municipal People's Government with reference to the "Notice of Maanshan Municipal People's Government on Adjusting Water Resources Fees and Sewage Treatment Fees" (《馬鞍山市人民政府關於調整水資源費和污水處理費標準的通知》) (for details, please refer to <http://zwgk.mas.gov.cn/openness/detail/content/613b29e6d1da9b24178b4567.html>) implemented on 1 January 2017. The current state-prescribed rate for industrial water is approximately RMB1.43 per ton.

The market price of coal gas is adjusted synchronously according to the frequency of government pricing of natural gas and approved according to the calorific value per cubic meter of natural gas and various types of gas. Other types of gas are priced against the prices published by third party website (e.g. Baichuan website (<http://www.baiinfo.com>)).

The market price of water transportation is determined by the bidding prices and the standard pricing of management fees; the market price of port comprehensive services, energy management and custody operation services are determined by benchmark pricing; the market price of other services are determined by arm's length negotiations between the parties.

Payment

Regarding the payment of electricity, living water, industrial treated water, blast furnace gas, coke oven gas, converter gas, steam, compressed air, other gases, etc. to be sold by the Group to the Parent Group, the amount of the sales in the previous month shall be paid by the Parent Group to the Group at the beginning of each month on a monthly basis. For the payment of steel, ingot, coke, iron oxide and other products (labour insurance, office supplies, etc.), the Parent Group shall pay to the Group the estimated amount in advance for the sales of the following month on a monthly basis. As for the payment of accessories and materials (stainless steel belts, cables, tools, etc.), the amount of the sales in the previous month shall be paid by the Parent Group to the Group on a monthly basis.

As for the payment of subject 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 has verified the quality.

Condition precedent

The New Magang Group Supplemental Agreement is conditional upon the Independent Shareholders approving the New Magang Group Supplemental Agreement and the relevant proposed annual caps at the EGM.

LETTER FROM THE BOARD

Duration

The New Magang Group Supplemental Agreement shall be effective subject to approval of Independent Shareholders at the EGM to be convened and expire on 31 December 2021.

Existing annual caps and actual transaction amounts

Under the Original Magang Group CCT Agreement, the existing annual caps (tax exclusive) and the actual transaction amount (tax exclusive) in respect of the products to be sold by the Group to Parent Group and subject services provided by the Parent Group to the Group for the year ended 31 December 2019, for the year ended 31 December 2020, for the year ended 31 December 2021 and for the first six months ended 30 June 2021 are set out below:

RMB

		For the year ended 31 December 2019	For the year ended 31 December 2020	For the first six months ended 30 June 2021	For the year ended 31 December 2021
Products sold by the Group to the Parent Group					
Products sold by the Group to the Parent Group,	Existing annual caps	965,297,000	1,061,345,700	N/A	1,165,371,400
including (i) steel, steel ingot, accessories, materials (stainless steel band, cable, tool, etc.), coke powder, iron scales and other products (labour protection and office supplies, etc.), and (ii) living water, electricity, industrial treated water, blast furnace gas, coke oven gas, converter gas, steam, compressed air and other gases	Actual transaction amounts	475,761,000	472,030,000	439,420,000	N/A
Services provided by the Parent Group to the Group					
Subject services provided by the Parent Group to the Group	Existing annual caps	2,744,340,800	2,902,740,100	N/A	3,010,140,300
	Actual transaction amounts	2,010,303,000	2,420,420,000	1,538,690,000	N/A

LETTER FROM THE BOARD

Proposed Annual Caps

The proposed annual caps (tax exclusive) in respect of the products sold by the Group to Parent Group and subject services provided by the Parent Group to the Group under the New Magang Group Supplemental Agreement for the year ended 31 December 2021 are set out below:

RMB

**For the
year ended
31 December
2021**

Products sold by the Group to the Parent Group

The products sold by the Group to the Parent Group, including (i) steel, steel ingot, accessories, materials (stainless steel band, cable, tool, etc.), coke powder, iron scales and other products (labour protection and office supplies, etc.), and (ii) living water, electricity, industrial treated water, blast furnace gas, coke oven gas, converter gas, steam, compressed air and other gases	1,550,371,400
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Services provided by the Parent Group to the Group

Subject services provided by the Parent Group to the Group	3,402,970,300
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LETTER FROM THE BOARD

Accordingly, the total proposed annual caps for the sales or provision of products and services by the Group to the Parent Group and sales or provision of products and services by the Parent Group to the Group for the year ended 31 December 2021 will be RMB9,063,038,300. The breakdown (including figures of the items which are not subject to revision under the New Magang Group Supplemental Agreement) is as follows:

RMB

**For the year ended
31 December 2021**

Products/Services sold/provided by the Group to the Parent Group

The products sold by the Group to the Parent Group	including living water, electricity, industrial treated water, blast furnace gas, coke oven gas, converter gas, steam, compressed air and other gases.	175,000,000
	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.).	1,375,371,400
		1,550,371,400
Subject services provided by the Group to the Parent Group		83,874,000
Sub-Total		1,634,245,400

Products/services sold/provided by the Parent Group to the Group

Products sold by the Parent Group to the Group, including refractory materials, spare parts, equipment, non-standard spare parts, other commodities (coke, pig iron, coal etc.)		2,125,822,600
Infrastructure technical renovation projects conducted by the Parent Group		1,900,000,000
Subject services provided by the Parent Group to the Group		3,402,970,300
Sub-total		7,428,792,900

Total proposed annual cap	9,063,038,300
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LETTER FROM THE BOARD

The proposed annual caps in respect of the New Magang Group Supplemental Agreement for the year 2021 are determined by reference to (i) the historical transaction amounts; (ii) 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.

In particular, because the cooperation between Magang Group Logistics Co., Ltd. and other units within the Group have increased, and the requirements for environmental protection requirements have been enhanced, a further RMB390,000,000 will be incurred mainly for the increased water and land transportation services.

The proposed annual cap for products sold by the Group to the Parent Group for the year ended 31 December 2021 represented an increase of 33.04% as compared to the existing annual cap for products sold by the Group to the Parent Group. By applying the actual transaction amount for the year ended 30 June 2021, the proposed annual cap for products sold by the Group to the Parent Group for the year ended 31 December 2021 have been utilised by approximately 28.3%.

The demand shall substantially increase in the coming period. Based on the discussion between the Company and the Parent Group, they have successfully tendered for four construction projects which will require 70,000 tonnes of steel products including but not limited to H beam steel, hot rolled plates and rebars which will be required to be delivered on or before December 2021. Based on the demand, the Company estimated that the steel will be priced at an average price of RMB5,500 per tonne and the proposed annual cap in relation to the sales of products to the Parent Group be required to increase by RMB385 million to RMB1,550 million.

In light of the above situations, the Board considers that the estimation of the proposed annual caps to be reasonable.

Reasons for and benefits of the New Magang Group Supplemental 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 Parent Group is specialized in providing the subject services and has rich experience in the business. The terms and pricing of the New Magang Group Supplemental Agreement are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

LETTER FROM THE BOARD

Listing Rules Implications

As at the Latest Practicable Date, the Parent Company is interested in approximately 47.59% of the Company's share capital and is the controlling shareholder and connected person of the Company. The transactions under the New Magang Group Supplemental Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios under the Listing Rules in respect of the proposed annual caps for the transactions contemplated under the New Magang Group Supplemental 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 Chapter 14A of the Listing Rules.

(iii) New China Baowu Supplemental Agreement

In view of the expiration of the Previous Ordinary Related Transaction Agreement on 31 December 2019, on 30 December 2019, the Company entered into the Original Ordinary Related Transaction Agreement with China Baowu, agreeing that, from 1 January 2020 to 31 December 2020, i.e. the duration of the Original Ordinary Related Transaction Agreement, the Group would continue to sell or provide products and services to China Baowu Group, and China Baowu Group would sell or provide products and services to the Group.

Due to the increase in demand and price rise, the caps under the Original Ordinary Related Transaction Agreement and the term thereof could no longer meet the expectation. As such, on 7 May 2020, the Company entered into the Existing China Baowu Supplemental Agreement with China Baowu to, (i) increase the annual cap for the year 2020 by RMB10,334.7 million from RMB787 million, with an adjusted annual cap for the year 2020 of RMB11,121.7 million, and (ii) newly set the annual cap of the products and services for the year 2021 of RMB19,893.09 million. The duration of the Existing China Baowu Supplemental Agreement shall be from 1 January 2020 to 31 December 2021.

Due to the impact of the increase in demand and price rise, the caps under the Existing China Baowu Supplemental Agreement could not meet the expectation. As such, the Company entered into the New China Baowu Supplemental Agreement with China Baowu, proposing to, (i) increase the annual cap of the products sold by the Group to China Baowu Group for the year 2021 by RMB943.61 million from RMB232.92 million, with an adjusted annual cap for the year 2021 of RMB1,176.53 million, and (ii) increase the annual cap of the products sold by China Baowu Group to the Group for the year 2021 by RMB3,980 million from RMB14,784.45 million, with an adjusted annual cap for the year 2021 of RMB18,764.45 million. All other existing principal terms and conditions under the Existing Ordinary Related Transaction Agreement and the Existing China Baowu Supplemental Agreement remain unchanged.

LETTER FROM THE BOARD

The Company has confirmed that as of the Latest Practicable Date, the transaction amount under the Original Ordinary Related Transaction Agreement and the Existing China Baowu Supplemental Agreement has not exceeded the existing annual caps.

Date

29 September 2021

Parties

(1) the Company; and

(2) China Baowu

Subject matter

The Group agreed to sell products to China Baowu Group, among others, including steel products, billet, energy, spare parts and related products, etc.

China Baowu Group agreed to sell products to the Group, among others, including iron ores, limestones, scraps, spare parts, auxiliary materials, etc.

The spare parts provided by China Baowu Group to the Group currently are spare parts for rolls and cold rolling equipment, while there is not any sale of spare parts by the Group to China Baowu Group currently. However, in case China Baowu Group has urgent needs for certain spare parts which the Group could provide, the Group could arrange the sale of such products to China Baowu Group as part of the collaboration and cooperation between the Group and China Baowu Group.

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 China Baowu Supplemental Agreement. The terms of products (including but not limited to pricing and payment) to be provided by the Group to China Baowu Group shall not be more favourable than those to independent third parties provided by the Group for similar categories of products. The terms of the products and services (including but not limited to pricing and payment) to be provided by China Baowu Group to the Group shall not be less favourable than those provided by independent third parties to the Group for similar categories of products.

LETTER FROM THE BOARD

During the term of the New China Baowu Supplemental Agreement, the Company may decide, at its discretion, whether to enter into agreement with any independent third parties in respect of the transactions contemplated under the New China Baowu Supplemental Agreement.

Consideration

The pricing for energy medium (i.e. electricity, living water, industrial treated water and natural gas) shall be based on the state-prescribed price. For other products and services and 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. The Company will also obtain the market price through 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 and researches on industry websites.

Meanwhile, the price regarding the products to be provided by the Group to China Baowu Group shall not be lower than the price of the same categories of products provided by the Group to independent third parties. The terms of the sale of energy medium by the Group to independent third parties would be based on state-prescribed price, while that of other products and services sold by the Group to independent third parties would be based on market price.

The price regarding the products to be provided by China Baowu Group to the Group shall not be higher than the price of the same type of products provided by the independent third parties to the Group.

In accordance with the current pricing standards, the pricing principle for each of the transactions under the New China Baowu Supplemental Agreement are as follows:

Category	Pricing principle	Items
Products sold by the Group to China Baowu Group	Market pricing	Steel products, billet, spare parts and related products, etc.
	State-prescribed pricing	Energy
Products purchased by the Group from China Baowu Group	Market pricing	Iron ores, limestones, scraps, spare parts, auxiliary materials, etc.

LETTER FROM THE BOARD

The state-prescribed price of electricity is determined by Anhui Province Price Bureau with reference to “Anhui Province Development and Reform Commission on Adjusting the Price of Electricity Sales in the Province” (《安徽省發展改革委關於調整我省銷售電價有關事項的通知皖發改價格》) (for details, please refer to <https://www.wuhu.gov.cn/openness/public/6604551/29704691.html>) implemented on 1 January 2021. The current state-prescribed rate of electricity for industrial and commercial use is approximately RMB0.9792 per kWh for peak seasons and RMB0.6048 per kWh for regular period.

The state-prescribed price of water is determined by Maanshan Municipal People’s Government with reference to the “Notice of Maanshan Municipal People’s Government on Adjusting Water Resources Fees and Sewage Treatment Fees” (《馬鞍山市人民政府關於調整水資源費和污水處理費標準的通知》) (for details, please refer to <http://zwgk.mas.gov.cn/openness/detail/content/613b29e6d1da9b24178b4567.html>) implemented on 1 January 2017. The current state-prescribed rate for industrial water is approximately RMB1.43 per ton.

The state-prescribed price of natural gas is determined by Maanshan Development and Reform Commission with reference to the “Notice on Adjusting the Sales Price of Natural Gas for Non-Residential Use in the City” (《關於調整我市非居民用天然氣銷售價格的通知》) (for details, please refer to <http://zwgk.mas.gov.cn/openness/detail/content/61302485d1da9baf468b4567.html>) implemented on 1 April 2019. The current state-prescribed rate for natural gas is approximately RMB3.17 per cubic meter.

The market price of steel is determined with reference to the arithmetic average price of monthly average daily transactions on industry websites including “SteelHome” (<http://www.steelhome.cn>) and “MySteel” (www.mysteel.com) which are commonly recognised sources of data for the iron and steel industry.

Payment

The payment and settlement will be based on two-party or three-party agreements executed by different parties of the transactions; control of the procedures and settlement of finances will be conducted in accordance with the respective agreements.

LETTER FROM THE BOARD

The payment method for each of the items under the New China Baowu Supplemental Agreement is as follows:

Category

Payment method

Products provided by the Group to China Baowu Group

Energy medium provided by the
Group to China Baowu Group

The sum for the sales with respect to the previous month shall be paid by China Baowu Group to the Group at the beginning of each month and settlement will be done on a monthly basis.

Steel products, billet, spare parts and related products, etc. provided by the Group to China Baowu Group

At the end of each month, China Baowu 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.

Products provided by China Baowu Group to the Group

Products provided by China Baowu
Group to the Group

For the payment of products sold or provided by the China Baowu 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.

Condition precedent

The New China Baowu Supplemental Agreement is conditional upon the Independent Shareholders approving the New China Baowu Supplemental Agreement and the relevant proposed annual caps at the EGM.

Duration

The New China Baowu Supplemental Agreement shall be effective subject to approval of Independent Shareholders at the EGM to be convened and expire on 31 December 2021.

LETTER FROM THE BOARD

Existing annual caps and actual transaction amounts

The existing annual caps (tax exclusive) and the actual transaction amount (tax exclusive) in respect of products sold by the Group to China Baowu Group under the Original Ordinary Related Transaction Agreement and the Existing China Baowu Supplemental Agreement for the two years ended 31 December 2020 and 31 December 2021 and for the first six months ended 30 June 2021, and under the Previous Ordinary Related Transaction Agreement from 19 September 2019 to 31 December 2019 are set out below:

RMB

Original Ordinary Related Transaction Agreement and Existing China Baowu Supplemental Agreement			Previous Ordinary Related Transaction Agreement		
Annual caps for the year ended 31 December 2020	Actual transaction amounts for the year ended 31 December 2020	Annual caps for the year ended 31 December 2021	Actual transaction amounts for the first six months ended 30 June 2021	Annual caps from 19 September 2019 to 31 December 2019	Actual transaction amounts from 19 September 2019 to 31 December 2019

Products sold by the Group to China Baowu Group

Products, including steel

products, billet, energy, spare

parts and related products,

etc.

448,120,000	194,240,000	232,920,000	162,830,000	30,000,000	12,158,000
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In relation to the products sold by the Group to the China Baowu Group, the utilization rate for the existing annual cap for the year ended 31 December 2021 was 43.35%. The utilization rate for first half of 2021 on a six months pro-rata basis was 139.82%, which was already higher than the utilization rate of that in 2020.

LETTER FROM THE BOARD

The existing annual caps (tax exclusive) and the actual transaction amount (tax exclusive) in respect of products sold by China Baowu Group to the Group under the Original Ordinary Related Transactions Agreement and the Existing China Baowu Supplemental Agreement for the two years ended 31 December 2020 and 31 December 2021 and for the first six months ended 30 June 2021, and under the Previous Ordinary Related Transactions Agreement from 19 September 2019 to 31 December 2019 are set out below:

RMB

Original Ordinary Related Transactions Agreement and Existing China Baowu Supplemental Agreement				Previous Ordinary Related Transactions Agreement	
Actual		Actual		Annual	Actual
Annual caps	transaction	Annual caps	transaction	caps from	transaction
for the	amounts for	for the	the first six	19 September	19 September
year ended	the year ended	year ended	months ended	caps from	amounts from
31 December	31 December	31 December	ending 30 June	2019 to	2019 to
2020	2020	2021	2021	31 December	31 December
				2019	2019

Products sold by China Baowu Group to the Group

Products, including iron ores,
limestones, scraps, spare
parts, auxiliary materials,
etc.

7,241,650,000	1,944,900,000	14,784,450,000	4,817,400,000	220,000,000	142,473,000
<u>7,241,650,000</u>	<u>1,944,900,000</u>	<u>14,784,450,000</u>	<u>4,817,400,000</u>	<u>220,000,000</u>	<u>142,473,000</u>

In relation to the products sold by China Baowu Group to the Group, the utilisation rate for the existing annual cap for the year ended 31 December 2021 was 26.86%. During the calculation of the existing annual cap for the year ended 31 December 2021, the Company expected that there will be an increased demand for the products due to a new tentative project and upward adjusted the annual caps in 2020, however such projects were subsequently cancelled. The utilisation rate for first half of 2021 on a six months pro-rata basis was 65.17%, which was already higher than the utilisation rate of that in 2020.

LETTER FROM THE BOARD

Proposed Annual Caps

The proposed annual caps (tax exclusive) in respect of products sold by the Group to China Baowu Group under the New China Baowu Supplemental Agreement for the year ended 31 December 2021 are set out below:

RMB

**For the
year ended
31 December
2021**

Products sold by the Group to China Baowu Group

Proposed annual caps for products, including steel products, billet,
energy, spare parts and related products, etc.

1,176,530,000

The proposed annual caps (tax exclusive) in respect of products sold by China Baowu Group to the Group under the New China Baowu Supplemental Agreement for the year ended 31 December 2021 are set out below:

RMB

**For the
year ended
31 December
2021**

Products sold by China Baowu Group to the Group

Proposed annual caps for products, including iron ores, limestones,
scraps, spare parts, auxiliary materials, etc.

18,764,450,000

LETTER FROM THE BOARD

Accordingly, the total proposed annual caps in respect of the products and services provided by the Group to China Baowu Group and the products and services provided by China Baowu Group to the Group for the year ended 31 December 2021 will be RMB24,816,700,000. The breakdown (including figures of the items which are not subject to revision under the New China Baowu Supplemental Agreement) is as follows:

RMB

**For the year ended
31 December 2021**

Products/Services sold/provided by the Group to China Baowu Group

The products sold by the Group to China Baowu Group, including steel products, billet, energy, spare parts and related products, etc.	1,176,530,000
Services provided by the Group to China Baowu Group, including processing, agency service, testing and measurement services, etc.	122,160,000
Sub-Total	<u>1,298,690,000</u>

Products/services sold/provided by China Baowu Group to the Group

Products sold by China Baowu Group to the Group, including iron ores, limestones, scraps, spare parts, auxiliary materials, etc.	18,764,450,000
Infrastructure technical renovation projects conducted by China Baowu Group	3,600,880,000
Services provided by China Baowu Group to the Group, including maintenance service, shipping, warehousing, loading and unload, hoisting services etc.	1,152,680,000
Sub-total	<u><u>23,518,010,000</u></u>

Total proposed annual cap	<u><u>24,816,700,000</u></u>
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The proposed annual caps in respect of the New China Baowu Supplemental Agreement for the year 2021 are determined by reference to (i) the state-prescribed price or the market price regarding the continuing connected transactions; (ii) the Group's anticipated capacity in providing products to China Baowu Group, and the Group's anticipated demand for China Baowu Group's products to meet its production plans; and (iii) China Baowu Group's anticipated demand for the Group's products and services, and anticipated capacity in providing products to the Group.

LETTER FROM THE BOARD

The Company intends to purchase (i) 140,000 tonnes of slab ; (ii) 1.84 million tonnes of iron ore products; (iii) 200,000 tonnes of pellets and (iv) various auxiliary materials and spare parts which are required for the production process, which will account for 30%, 48%, 13% and 9% of the proposed annual cap for 2021 for the products sold by China Baowu Group to the Group having considered the need for raw materials to support the Group's rapid development of steel business. Taking into account of the purchase amount according to the Company's procurement plan and the market price of each type of product, the Company estimated that the annual cap would amount to RMB18,764.5 million for the year ended 31 December 2021.

In particular, due to the integration of the Group into China Baowu Group, the Group has participated in the centralized sales and procurement in China Baowu Group, resulting in more transactions between the Group and China Baowu Group. It is expected that the transaction amount of sales of products by the Group to China Baowu Group should increase by approximately RMB943 million, mainly due to new construction projects, increased sales channels through China Baowu Group and increased processing of materials provided by China Baowu Group. As to the purchase of products from China Baowu Group, the price of iron ore has significantly increased in 2021; the purchase of steel billets is expected to increase by approximately RMB820 million.

In light of the above situations, the Board considers that the estimation of the proposed annual caps is reasonable.

Reasons for and benefits of the New China Baowu Supplemental Agreement

Through the China Baowu Supplemental Agreement, the Group could obtain reliable products and services, ensuring that the Group is able to conduct production stably and continuously and are in the interests of the Group. China Baowu Group is specialized and has rich experience in providing the products and services that it provides to the Group. The Group's sales of products to China Baowu Group is not only profitable, but also ensures the stable and smooth production of the Group as it will guarantee the demand for the Group's products and hence will bring stable income to the Group and maintains the Group's production scale. The terms and pricing of the New China Baowu Supplemental Agreement are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

LETTER FROM THE BOARD

Listing Rules Implications

As of the Latest Practicable Date, China Baowu is the controlling shareholder of the Parent Company, and indirectly holds a total of 57.19% equity interests of the Company. According to Rule 14A of the Listing Rules, China Baowu is a connected person of the Company, and therefore, the transactions under the New China Baowu Supplemental Agreement are continuing connected transactions under Chapter 14A of the Listing Rules.

As the applicable percentage ratios under the Listing Rules in respect of the proposed annual caps for the transactions contemplated under the New China Baowu Supplemental Agreement are more than 5%, such continuing connected transactions and proposed annual caps are subject to requirements including reporting, announcement, annual review and Independent Shareholders' approval under Chapter 14A of the Listing Rules.

(iv) Supplemental Energy Saving and Environmental Protection Agreement

On 30 December 2018, 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 power, energy medium and finished products by the Group to Anhui Xinchuang during the period from 1 January 2019 to 31 December 2021.

Due to the impact of the increase in demand and price rise, the caps under the Existing Energy Saving and Environmental Protection Agreement could not meet the expectation. As such, the Company and Anhui Xinchuang entered into the Supplemental Energy Saving and Environmental Protection Agreement, proposing to increase the annual caps for the year 2021 for power, energy medium and finished products to be sold by the Group to Anhui Xinchuang by RMB109.46 million from RMB81 million, with an adjusted annual caps for the year 2021 of RMB190.46 million. All existing principal terms and conditions under the Existing Energy Saving and Environmental Protection Agreement remain unchanged.

The Company has confirmed that as of the Latest Practicable Date, the transaction amount under the Existing Energy Saving and Environmental Protection Agreement has not exceeded the existing annual caps.

Date

29 September 2021

LETTER FROM THE BOARD

Parties

- (1) The Company; and
- (2) Anhui Xinchuang

Subject matter

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.

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 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 the sales of power, energy medium, and 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.

Payment

The payment in respect of power, energy medium, and finished product shall be paid by the Company on monthly basis by the end of each month.

Condition precedent

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 relevant proposed annual caps at the EGM.

LETTER FROM THE BOARD

Duration

It shall be effective subject to approval of Independent Shareholders at the EGM to be convened and expire on 31 December 2021.

Existing annual caps and actual transaction amounts

The existing annual caps (tax exclusive) and the actual transaction amounts (tax exclusive) in respect of the sales of power, energy medium and finished products by the Group to Anhui Xinchuang under the Existing Energy Saving and Environmental Protection Agreement for the years ended 31 December 2019, 31 December 2020, 31 December 2021 and for the first six months ended 30 June 2021 are set out below:

RMB

	For the year ended 31 December 2019	For the year ended 31 December 2020	For the first six months ended 30 June 2021	For the year ended 31 December 2021
Products sold by the Group to Anhui Xinchuang				
Existing annual caps	79,000,000	80,000,000	N/A	81,000,000
Actual transaction amounts	55,990,000	67,390,000	62,710,000	N/A

The existing annual cap for products sold by the Group to Anhui Xinchuang has a high utilisation rate of 70.87% and 84.24%. For the year ended 31 December 2019 and 2020 respectively. Furthermore, the actual utilization rate has already exceeded the 6 months pro-rata existing annual cap for products sold by the Group to Anhui Xinchuang under the Existing Energy Saving and Environmental Protection Agreement. The said utilisation rate indicated that the Company has previously taken a prudent approach in the calculation of the existing annual cap which had been insufficient to meet the increase in demand for 2021.

LETTER FROM THE BOARD

Proposed Annual Caps

Under the Supplemental Energy Saving and Environmental Protection Agreement, the proposed annual caps (tax exclusive) in respect of the products provided by the Group to Anhui Xinchuang pursuant to the Supplemental Energy Saving and Environmental Protection Agreement for the year ended 31 December 2021 are set out below:

**For the
year ended
31 December
2021**

Products sold by the Group to Anhui Xinchuang

Proposed annual caps in respect of the sale of power, energy medium and finished products by the Group to Anhui Xinchuang

190,460,000

The proposed annual caps in respect of the Supplemental Energy Saving and Environmental Protection Agreement for the year of 2021 are determined by reference to (i) the state-prescribed price and/or the market price regarding the sale of power, energy medium and finished products; (ii) the anticipated production of the sale of power, energy medium and finished products and Anhui Xinchuang's anticipated demand for them.

In particular, due to the Company's upgrade of desulfurization system, the consumption of blast furnace gas has been increased. Also, the Company has increased its efforts to adhere to the state's environmental protection policies and such requires higher consumption of energy medium.

Further, the proposed annual cap in relation to the products sold by the Group to Anhui Xinchuang is determined after taking into account the demand of power mediums from Anhui Xinchuang and their relevant state prescribed price. After taking into account the latest demand estimates, the Company is of the view that an upward adjustment of the annual cap in relation to the products sold by the Group to Anhui Xinchuang of RMB109.45 million would be required for December 2021.

The estimated demand of power mediums was arrived based on (i) the possible engagement of Anhui Xinchuang for additional environmental facilities in December 2021; and (ii) the increased demand for power medium for the remaining period in 2021; and (iii) a 10% buffer in the event of extreme weather conditions or any possible pricing adjustment which would occurred in 2021. In light of the situation, the Board considers that the estimation of the proposed annual cap is reasonable.

LETTER FROM THE BOARD

Reasons for and benefits of the Supplemental 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 Supplemental Energy Saving and Environmental Protection Agreement are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

Listing Rules Implications

As at the Latest Practicable Date, the Parent Company is interested in approximately 47.59% 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 Supplemental Energy Saving and Environmental Protection Agreement and the CCT Supplemental Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios under the Listing Rules in respect of the proposed annual caps for the transactions contemplated under the Supplemental Energy Saving and Environmental Protection Agreement (in aggregate with other CCT Supplemental Agreements) are more than 5%, such continuing connected transactions and proposed annual caps are subject to requirements including reporting, announcement, annual review and Independent Shareholders' approval under Chapter 14A of the Listing Rules.

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

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Ouye Lianjin is a state-owned holding enterprise and mainly engaged in recycling, processing and sales of scrap metal; sales and storage of raw iron; domestic trade agency services. The ultimate beneficial owner of Ouye Lianjin is the Parent Company.

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

Anhui Xinchuang is a state-owned holding enterprise and mainly 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 ultimate beneficial owner of Anhui Xinchuang is China Baowu.

Internal Management of the Agreement

To ensure effective execution and implementation of the pricing of the transactions under the CCT Supplemental Agreements, the Company has established “Internal Control Management Measures of Connected Transactions” to regulate the pricing management of relevant 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 respective agreements. In practice, the connected transaction management committee, after receiving the actual monetary amount of the continuing connected transactions, would compare such amount with the annual cap under the agreement. For example, as to transactions with stable monthly transaction amount, if it is discovered that the actual transaction amount of the first quarter, the first to second quarter or the first to third quarter exceeds 25%, 50% and 75% of the annual cap respectively, the connected transaction committee would discuss with the relevant operation department regarding (i) the expected transaction amount for the rest of the year and (ii) possible implementation of alternative measures, such as increasing the transaction with independent third parties instead of with the relevant connected persons.

The Company will make reference to the quotations from independent third party suppliers and service providers and recent transaction terms of the Group with independent third parties to ensure that the price of the products provided by the Group to China Baowu shall not be lower than the price provided to independent third parties.

LETTER FROM THE BOARD

For the continuing connected transactions involving provision of services and supply of products between the Parent Company and the Group, the Group and Ouye Lianjin, the Group and Anhui Xinchuang, the 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.

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. “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”) 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 “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”). Accordingly, the Parent Company and/or China Baowu Group may or may not be awarded the contracts.

LETTER FROM THE BOARD

3. CONTINUING CONNECTED TRANSACTIONS – SALE AND PURCHASE OF PRODUCTS AGREEMENT, ACCEPTANCE AND PROVISION OF SERVICES AGREEMENT AND NEW FINANCIAL SERVICE AGREEMENT

(i) Sale and Purchase of Products Agreement

The Existing Products Continuing Connected Transaction Agreements entered into by the Company and China Baowu and the Parent Group will expire on 31 December 2021. On 29 September 2021, the Company entered into the Sale and Purchase of Products Agreement with China Baowu, pursuant to which the Group agreed to continue to sell products to China Baowu Group and China Baowu Group agreed to continue to sell products to the Group during the period from 1 January 2022 to 31 December 2024. The principal terms of the Agreements are set out below:

Date

29 September 2021

Parties

(1) The Company; and

(2) China Baowu

Subject matter

The Company agreed to sell products to China Baowu Group through itself and the Group, including steel, ingot, coke, iron oxide, metallurgical accessories and materials (stainless steel belt, cable, tools, etc.) and other product (labor insurance, office supplies, etc.); electricity, domestic water, industrial treated water, blast furnace gas, coke oven gas, converter gas, steam, compressed air, other gases and slag, etc.

China Baowu itself agreed to sell products to the Company Group through itself and China Baowu Group, including ore, lime, scrap steel, steel billets, refractory materials, spare parts, complete equipment, non-standard spare parts and other commodities (coke, coal, alloy, oil, gas, etc.).

LETTER FROM THE BOARD

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 Sale and Purchase of Products Agreement. The terms of the products (including but not limited to pricing and payment) to be sold by the Group to China Baowu Group shall not be more favourable than those to the independent third parties provided by the Group for similar categories of products. The terms of the products (including but not limited to pricing and payment) to be sold by China Baowu 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.

During the term of the Sale and Purchase of Products 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 Sale and Purchase of Products 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 shall be based on normal commercial terms.

The pricing regarding the products to be sold by the Group to China Baowu Group shall not be lower than the price of the same categories of products sold by the Group to independent third parties.

The pricing regarding the products to be sold by China Baowu Group to the Group shall not be higher than the price of the same categories of products sold by the independent third parties to the Group.

LETTER FROM THE BOARD

In accordance with the current price standards, the price benchmarks adopted in other transactions under the Sale and Purchase of Products Agreement are as follows:

Category	Principle of Pricing	Items
Products sold by the Group to China Baowu 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
Products purchased by the Group from China Baowu Group	Market price	Ore/lime/scrap steel/steel billets/refractory materials/spare parts and complete equipment/non-standard spare parts, etc.
	Market price	Other commodities (coke, coal, oil, etc.)

Pricing of products sold by the Group to China Baowu

The state-prescribed price of electricity is determined by Anhui Province Price Bureau with reference to “Anhui Province Development and Reform Commission on Adjusting the Price of Electricity Sales in the Province” (《安徽省發展改革委關於調整我省銷售電價有關事項的通知皖發改價格》) (for details, please refer to <https://www.wuhu.gov.cn/openness/public/6604551/29704691.html>) implemented on 1 January 2021. The current state-prescribed rate of electricity for industrial and commercial use is approximately RMB0.9792 per kWh for peak seasons and RMB0.6048 per kWh for regular period.

The state-prescribed price of water is determined by Maanshan Municipal People’s Government with reference to the “Notice of Maanshan Municipal People’s Government on Adjusting Water Resources Fees and Sewage Treatment Fees” (《馬鞍山市人民政府關於調整水資源費和污水處理費標準的通知》) (for details, please refer to <http://zwgk.mas.gov.cn/openness/detail/content/613b29e6d1da9b24178b4567.html>) implemented on 1 January 2017. The current state-prescribed rate for industrial water is approximately RMB1.43 per ton.

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The market price of coal gas is adjusted synchronously according to the frequency of government pricing of natural gas and approved according to the calorific value per cubic meter of natural gas and various types of gas. Other types of gas are priced against the prices published by third party website (e.g. Baichuan website (<http://www.baiinfo.com>)).

The market price of materials such as stainless steel belt, cables, tools etc., labour insurance, labour supplies etc. are determined at a fair bidding price.

Pricing of products purchased by the Group from China Baowu

The market price of scrap steel is determined by the Company on a monthly basis with reference to the arithmetic average price of monthly average daily transactions on industry websites including “SteelHome” (<http://www.steelhome.cn>) and “MySteel” (www.mysteel.com) which are commonly recognised sources of data for the iron and steel industry.

The market price of coke and coal are negotiated and priced according to third party websites’ guide; the market price of coal gas is adjusted synchronously according to the frequency of government pricing of natural gas and approved according to the calorific value per cubic meter of natural gas and various types of gas; the market price of oil products are determined in accordance with the government guidelines.

Payment

Regarding the payment of electricity, domestic water, industrial treated water, blast furnace gas, coke oven gas, converter gas, steam, compressed air, other gases and slag, etc. sold by the Group to China Baowu Group, the sum for the sales with respect to the previous month shall be paid by China Baowu 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, China Baowu 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 metallurgical 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 China Baowu Group to the Group and settlement shall be done on a monthly basis.

For the products sold by China Baowu Group to the Group, the Group shall pay for them within 30 business days after the Group has received and verified the quality of the goods.

Condition precedent

The Sale and Purchase of Products Agreement is conditional upon the Independent Shareholders approving the Sale and Purchase of Products Agreement and respective proposed annual caps at the EGM.

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Duration

Subject to the fulfillment of the aforementioned condition precedent, the Sale and Purchase of Products Agreement shall be for a term of three years commencing 1 January 2022 and ending 31 December 2024.

Existing Annual Caps and actual transaction amounts of the Existing Products Continuing Connected Transaction Agreement

The Existing Annual Caps (tax exclusive) for products under Original Magang Group CCT Agreement (as amended by the Existing Magang Group Supplemental Agreement and the New Magang Group Supplemental Agreement) and for the three years ended/ending 31 December 2019, 31 December 2020 and 31 December 2021 and the actual transaction amounts (tax exclusive) of products for the years ended 31 December 2019, 31 December 2020, and the first six months ended 30 June 2021 are set out as below:

RMB

		For the year ended 31 December 2019	For the year ended 31 December 2020	For the year ending 31 December 2021	For the first six months ended 30 June 2021
Products sold by the Group to the Parent Group					
Products sold by the Group to the Parent Group,	Existing annual caps	965,297,000	1,061,345,700	1,550,371,400	N/A
including steel, ingot, coke, iron oxide, metallurgical accessories and materials (stainless steel belt, cable, tools, etc.) and other products (labor insurance, office supplies, etc.); electricity, domestic water, industrial treated water, blast furnace gas, coke oven gas, converter gas, steam, compressed air, other gases and slag, etc.	Actual transaction amounts	475,760,000	472,030,000	N/A	439,420,000

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		For the year ended 31 December 2019	For the year ended 31 December 2020	For the year ending 31 December 2021	For the first six months ended 30 June 2021
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Products sold by the Parent Group to the Group

Products sold by the Parent Group to the Group, including ore, lime, scrap steel, refractory materials, spare parts, complete equipment, non-standard spare parts and other commodities (coke, coal, alloy, oil, gas, etc.)	Existing annual caps	2,033,126,400	2,105,434,900	2,125,822,600	N/A
	Actual transaction amounts	1,528,127,000	1,790,770,000	N/A	836,180,000

Under the Previous Ordinary Related Transaction Agreement and Original Ordinary Related Transaction Agreement (as amended by the Existing China Baowu Supplemental Agreement and the New China Baowu Supplemental Agreement), the existing annual caps (tax exclusive) of the relevant products from 19 September 2019 to 31 December 2019, for the two years ended/ending 31 December 2020, 31 December 2021 and the actual transaction amounts (tax exclusive) of the relevant products for the years ended 31 December 2019, 31 December 2020, and the first six months ended 30 June 2021 are set out as below:

RMB

		From 19 September 2019 to 31 December 2019	For the year ended 31 December 2020	For the year ending 31 December 2021	For the first six months ended 30 June 2021
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Products sold by the Group to China Baowu Group

Products sold by the Group to China Baowu Group, including steel products, billet, energy, spare parts and related products, etc.	Existing annual caps	30,000,000	448,120,000	1,176,530,000	N/A
	Actual transaction amounts	12,158,000	194,240,000	N/A	162,830,000

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		From 19			
		September	For the	For the	For the first
		2019 to	year ended	year ending	six months
		31 December	31 December	31 December	ended 30 June
		2019	2020	2021	2021

Products sold by China Baowu Group to the Group

Products sold by China Baowu Group to the Group, including iron ores, limestones, scraps, spare parts, auxiliary materials, etc.	Existing annual caps	220,000,000	7,241,650,000	18,764,450,000	N/A
	Actual transaction amounts	142,473,000	1,944,900,000	N/A	4,817,400,000

Under the Original Ouye Lianjin CCT Agreement (as amended by the Existing Ouye Lianjin Supplemental Agreement and the New Ouye Lianjin CCT Agreement), the existing annual caps (tax exclusive) of the products for the years ended/ending 31 December 2019, 31 December 2020 and 31 December 2021 and the actual transaction amounts (tax exclusive) of the products for the years ended 31 December 2019, 31 December 2020, and the first six months ended 30 June 2021 are set out as below:

RMB

		For the	For the	For the	For the first
		year ended	year ended	year ending	six months
		31 December	31 December	31 December	ended 30 June
		2019	2020	2021	2021

Products sold by the Group to Ouye Lianjin

Products sold by the Group to Ouye Lianjin, (including water, electricity, gas, living water, industrial treated water, steam and other gases) and finished products and other commodities (including scraps raw materials and spare parts)	Existing annual caps	28,599,800	30,699,800	32,259,800	N/A
	Actual transaction amounts	17,119,000	10,400,000	N/A	6,430,000

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		For the year ended 31 December 2019	For the year ended 31 December 2020	For the year ending 31 December 2021	For the first six months ended 30 June 2021
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Products sold by Ouye Lianjin to the Group

Products sold by Ouye Lianjin to the Group, including	Existing annual caps	3,282,400,000	7,508,500,000	10,513,900,000	N/A
scraps finished products	Actual transaction amounts	3,075,593,000	5,499,820,000	N/A	6,598,400,000

Under the Chemical Energy Company Continuing Connected Transaction Agreement, the existing annual caps (tax exclusive) of the products for the years ended/ending 31 December 2019, 31 December 2020 and 31 December 2021 and the actual transaction amounts (tax exclusive) of the products for the years ended 31 December 2019, 31 December 2020, and the first six months ended 30 June 2021 are set out as below:

RMB

		For the year ended 31 December 2019	For the year ended 31 December 2020	For the year ending 31 December 2021	For the first six months ended 30 June 2021
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Products sold by the Group to Chemical Energy Company

Products sold by the Group to Chemical Energy Company, including	Existing annual caps	1,788,762,800	1,818,842,800	1,849,522,800	N/A
electricity, gas, industrial treated water, coke oven gas, steam, compressed air raw coke oven gas, other gases, scrubbing oil, spare parts and materials	Actual transaction amounts	1,754,513,000	1,498,870,000	N/A	826,400,000

Products sold by Chemical Energy Company to the Group

Products sold by Chemical Energy Company to the Group, including coke oven gas and tar, etc.	Existing annual caps	1,962,750,000	1,990,970,000	2,019,740,000	N/A
	Actual transaction amounts	1,450,774,000	1,302,760,000	N/A	633,820,000

LETTER FROM THE BOARD

Under the K. Wah Company Continuing Connected Transaction Agreement, the existing annual caps (tax exclusive) of the products for the years ended/ending 31 December 2019, 31 December 2020 and 31 December 2021 and the actual transaction amounts (tax exclusive) of the products for the years ended 31 December 2019, 31 December 2020, and the first six months ended 30 June 2021 are set out as below:

RMB

		For the year ended 31 December 2019	For the year ended 31 December 2020	For the year ending 31 December 2021	For the first six months ended 30 June 2021
Products sold by the Group to K. Wah Company					
Products sold by the Group to K. Wah Company, including electricity and water slag	Existing annual caps	738,012,600	921,384,600	921,384,600	N/A
	Actual transaction amounts	N/A	419,140,000	733,723,000	688,140,000

Under the Existing Energy Saving and Environmental Protection Agreement (as amended by the Energy Saving and Environmental Protection Supplemental Agreement), the existing annual caps (tax exclusive) of the products for the years ended/ending 31 December 2019, 31 December 2020 and 31 December 2021 and the actual transaction amounts (tax exclusive) of the products for the years ended 31 December 2019, 31 December 2020, and the first six months ended 30 June 2021 are set out as below:

RMB

		For the year ended 31 December 2019	For the year ended 31 December 2020	For the year ending 31 December 2021	For the first six months ended 30 June 2021
Products sold by the Group to Anhui Xinchuang					
Power, energy medium and finished products sold by the Group to Anhui Xinchuang	Existing annual caps	79,000,000	80,000,000	190,460,000	N/A
	Actual transaction amounts	N/A	62,710,000	55,988,000	67,390,000

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Under the Sale and Purchase of Ore Agreement, the existing annual caps (tax exclusive) of the products for years ended/ending 31 December 2019, 31 December 2020 and 31 December 2021 and the actual transaction amounts (tax exclusive) of the products for the years ended 31 December 2019, 31 December 2020, and the first six months ended 30 June 2021 are set out as below:

RMB

		For the year ended 31 December 2019	For the year ended 31 December 2020	For the year ending 31 December 2021	For the first six months ended 30 June 2021
Products sold by the Parent Group to the Group					
Ore sold by the Parent Group	Existing annual caps	5,232,820,000	5,368,260,000	5,761,700,000	N/A
to the Group, including electricity and water slag	Actual transaction amounts	N/A	2,709,400,000	4,099,308,000	4,091,630,000

Under the Integrated Support Services Agreement, from 1 January 2019 to 31 December 2019, the existing annual caps (tax exclusive) of the related products and the actual transaction amounts (tax exclusive) of the related products are set out as below:

RMB

**From 1 January
2019 to 31
December 2019**

Products sold by the Group to the Parent Group

Products sold by the Group to the Parent Group, including energy, spare parts and related products, etc.	Existing annual caps	20,000,000
	Actual transaction amounts	1,384,000

Products sold by the Parent Group to the Group

Products sold by the Parent Group to the Group, including raw materials and related products, etc.	Existing annual caps	20,000,000
	Actual transaction amounts	4,728,000

LETTER FROM THE BOARD

Proposed Annual Caps

The proposed annual caps for the transactions (tax exclusive) contemplated under the Sale and Purchase of Products Agreement for the years ending 31 December 2022, 31 December 2023 and 31 December 2024 are set out below:

RMB

	For the years ending 31 December 2022	For the years ending 31 December 2023	For the years ending 31 December 2024
Products sold by the Group to China Baowu			
Products sold by the Group to China Baowu, including steel, steel ingot, coke powder, iron oxide, metallurgical accessories, materials (stainless steel belt, cable, tools, etc.) and other products (labor insurance, office Supplies, etc.); electricity, domestic water, industrial treated water, blast furnace gas, coke oven gas, converter gas, steam, compressed air, other gases and water slag, etc.	13,859,277,400	15,149,577,600	15,952,495,300
Products sold by China Baowu Group to the Group			
Products sold by China Baowu Group to the Group, including ores, lime, scraps, refractory materials, auxiliary materials, complete equipment, non-standard prepared parts and other commodities (coke, coal, alloys, oil, gas, etc.)	<u>39,451,969,700</u>	<u>39,524,488,400</u>	<u>39,941,462,000</u>
Total	<u><u>53,311,247,100</u></u>	<u><u>54,674,066,000</u></u>	<u><u>55,893,957,300</u></u>

The proposed annual caps in respect of the Sale and Purchase of Products Agreement for the term commencing 1 January 2022 and ending 31 December 2024 will be determined with 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 products to China Baowu Group and the Group's anticipated demand for China Baowu Group's products to meet its production plan; and (iv) China Baowu Group's anticipated demand for the Group's products and China Baowu Group's anticipated capacity to provide the products to the Group.

LETTER FROM THE BOARD

Products sold by the Group to China Baowu

The proposed caps for the products sold by the Group to China Baowu Group comprise mainly of (i) energy mediums (power, electricity and gas); (ii) steel products; and (iii) water slag, and in total account for over 90% of the annual caps Cap for the sales of products for the year ended 31 December 2022, 2023 and 2024. The remaining cap is made up of by-products from the production of steel.

For energy mediums, the estimated amounts were RMB4,365 million, RMB5,021 million and RMB5,261 million for the year ended 2022, 2023 and 2024 respectively, accounting for approximately 31% of the annual cap for the sales of products for 2022 and 33% of the annual cap for the sales of products for 2023 and 2024 respectively. As to steel products, the estimated amounts are RMB7,647 million, RMB8,137 million and RMB8,599 million for 2022, 2023 and 2024, respectively, making up approximately 55% of the annual cap for 2022 and 54% of the annual cap for 2023 and 2024. The demand was derived based on the business plan of China Baowu Group to develop new markets leading to additional needs for steel products. Lastly, as to water slag, the estimated transaction amount was RMB858 million for, RMB908 million and RMB908 million, respectively, representing approximately 6% of the annual caps for 2022, 2023 and 2024. The demand was estimated having considered (i) the historical demand for water slag from China Baowu Group of around 5 million tonnes from 2019 to 2021; and (ii) the slight buffer for any anticipated rise in demand from China Baowu Group.

Taking into account (i) the recent historical demand of China Baowu Group; (ii) the respective production capacities of the Group; and (iii) the recent market price (with certain buffer for upward price adjustment, if applicable), the Board is of the view that the estimation of the annual cap for products sold by the Group to China Baowu Group is acceptable.

Products sold by China Baowu Group to the Group

The annual cap for purchase of product from China Baowu Group comprise mainly purchase of (i) auxiliary materials for steel production; (ii) scrap metals; (iii) slabs, and (iv) ore products which amount to in total over 84% of the annual cap for the year ended 31 December 2022, 2023 and 2024.

In relation to the estimation of the transaction amount of scrap metals, it was determined with reference to the increase in demand of the Group and the estimated price of scrap metals for the coming three years. The estimated amount was RMB11,352 million, RMB11,920 million, and RMB12,278 million, respectively, amounting to 29%, 30% and 31% of the annual caps for purchase of products for 2022 and 2023 and 2024. The estimated demand from the Group was 3.2 million tonnes for each of 2022 to 2024, which was the same as that in 2020.

LETTER FROM THE BOARD

As to auxiliary products, in 2020, China Baowu Group established a subsidiary for the purpose of centralizing procurement auxiliary products for its group companies to obtain better terms via commercial negotiation for purchase of bulk volume. In view of the situation, the Company anticipated that pricing offered by China Baowu Group for auxiliary products would be more favourable compared to direct purchasing from independent third parties by the Group. Taking into account its previous demand from both through China Baowu Group and independent third parties during the 2019 and 2020, the Company estimated that the transaction amount for 2022, 2023 and 2024 shall amount to approximately RMB5,121 million, RMB5,311 million and RMB5,322 million, respectively, accounting for approximately 13% of the annual cap for each of 2022, 2023 and 2024.

In relation to the estimation of the transaction price for slab, it was determined having considered the Company's demand and estimated price for slab in the coming 2022 to 2024. The demand for slab is around 960,000 tonnes for each of 2022 to 2024. As the Group did not identify suitable slab from independent third parties for 2022–2024, the Company decided to procure slab from China Baowu Group after considering their production capacity estimated that around 1 million tonnes of slab would be available to fulfil the Group's demand. The estimated slab price was RMB5,386 million to RMB5,482 million for 2022, 2023 and 2024 is within or slightly higher than the range of the market prices quoted on www.steelhome.cn of RMB5,347 per tonne to RMB5,467 per tonne within the month before the date of the relevant announcements (i.e. 29 September 2021). The estimated transaction amount of RMB5,171 million, RMB5,228 million and RMB5,263 million for 2022, 2023 and 2024, respectively and representing approximately 13% of the annual caps for all three years.

Lastly, in determining the estimated transaction amounts for imported iron ore products, the Company took into account the estimated demand of approximately 4.5 million tonnes of imported iron ore products for each of the 2022, 2023 and 2024 and estimated price of RMB1,144, RMB1,071 and RMB1,064 per tonne for 2022, 2023 and 2024, respectively. The transaction amounts of RMB5,150 million, RMB5,229 million and RMB5,482 million respectively and account for approximately 13% of annual caps of 2022 and 12% for 2023 and 2024 of the purchasing products.

Having considered that the annual caps for purchasing of products have taken into account the estimated procurement demand and the recent market price and pricing trend of products, the Board considers that the estimated transaction amount mentioned above of annual cap for purchasing of products from China Baowu Group are acceptable.

LETTER FROM THE BOARD

Reasons for, and benefits of, the Sale and Purchase of Products Agreement

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

(ii) Acceptance and Provision of Services Agreement

The Existing Services Continuing Connected Transaction Agreements entered into by the Company and China Baowu and the Parent Group will expire on 31 December 2021. On 29 September 2021, the Company and China Baowu entered into the Acceptance and Provision of Services Agreement, pursuant to which during the period from 1 January 2022 to 31 December 2024, the Group agreed to continue to provide services to China Baowu Group, and China Baowu Group agreed to continue to provide services to the Group. The principal terms of the Agreement are set out below:

Date

29 September 2021

Parties

- (1) The Company; and
- (2) China Baowu

Subject matter

The Company agreed to provide products to China Baowu, including entrusted steel billets processing, metering, inspection, rental services, railway transport, etc.

China Baowu itself and China Baowu Group agreed to provide products to the Company, including infrastructural and technological renovation projects, energy conservation and environmental protection projects, contract energy management, custodial operations, major/medium maintenance of equipment, road transportation, waterway transportation, integrated port services, maintenance and preservation of equipment (facilities), automated/information operation and maintenance services and renovation; receiving inspection and repair services for electrical, electric and transformer works and other services (vehicle repair, monitoring and diagnostic services, etc.) Wheel processing, scrap steel processing, waste water treatment, gas processing, warehousing/distribution services, etc.; training, communication, printing, archiving, office rental, agency services and other specialized services.

LETTER FROM THE BOARD

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 Acceptance and Provision of Services Agreement. The terms of products (including but not limited to pricing and payment) to be provided by the Group to China Baowu shall not be more favourable than those to the independent third parties provided by the Group for similar categories of products. The terms of the products (including but not limited to pricing and payment) to be provided by China Baowu to the Group shall not be less favourable than those provided by the independent third parties to the Group for similar categories of products.

During the term of the Acceptance and Provision of Services 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 Acceptance and Provision of Services 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 shall be based on normal commercial terms.

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

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

LETTER FROM THE BOARD

In accordance with the current price standards, the price benchmarks adopted in other transactions under the Acceptance and Provision of Services Agreement are as follows:

Category	Principle of Pricing	Items
Services provided by the Group to China Baowu	Market price	Provide entrusted steel billets processing, provide metering, inspection services, etc.
Services received by the Group from China Baowu	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.

Pricing of services provided by the Group to China Baowu

The market price of billet processing is determined with reference to the Company's benchmark price and the duration of business development; the market price of measuring and metering is determined with reference to national metallurgical pricing.

Pricing of services received by the Group from China Baowu

The market price of infrastructure technical and renovation engineering services is determined by the bidding prices; the market price of water transportation is determined by the bidding prices and the standard pricing of management fees; the market price of port comprehensive services, energy management and custody operation services are determined by benchmark pricing; the market price of other services are determined by arm's length negotiations between the parties.

LETTER FROM THE BOARD

Payment

Regarding the payment of entrusted steel billets processing, metering, inspection services, etc., it shall be paid by China Baowu Group to the Group and settlement will be done on a monthly basis.

The payment of Infrastructure Technical and Renovation Engineering Services provided by China Baowu Group to the Group 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 China Baowu Group within 30 business days after the Group shall have verified the quality.

Condition precedent

Acceptance and Provision of Services Agreement is conditional upon the Independent Shareholders approving the Acceptance and Provision of Services Agreement and respective proposed annual caps at the EGM.

Duration

Subject to the fulfillment of the aforementioned condition precedent, the Acceptance and Provision of Services Agreement shall be for a term of three years commencing 1 January 2022 and ending 31 December 2024.

LETTER FROM THE BOARD

Existing Annual Caps and actual transaction amounts of the Existing Services Continuing Connected Transaction Agreements

The Existing Annual Caps (tax exclusive) for Services under the Original Magang Group CCT Agreement (as amended by Existing Magang Group Supplemental Agreement and New Magang Group Supplemental Agreement) for the years ended/ending 31 December 2019, 31 December 2020, 31 December 2021 and the actual transaction amounts (tax exclusive) of Services for the years ended 31 December 2019, 31 December 2020 and the first six months ended 30 June 2021 are set out as below:

RMB

		For the year ended 31 December 2019	For the year ended 31 December 2020	For the year ending 31 December 2021	For the first six months ended 30 June 2021
Services provided by the Group to the Parent Group					
Service provided by the Group to the Parent Group, including entrusted steel billets processing, metering, inspection, rental services, railway transport, etc.	Existing annual caps	83,874,000	83,874,000	83,874,000	N/A
	Actual transaction amounts	13,666,000	27,630,000	N/A	1,230,000

LETTER FROM THE BOARD

		For the year ended 31 December 2019	For the year ended 31 December 2020	For the year ending 31 December 2021	For the first six months ended 30 June 2021
Services provided by the Parent Group to the Group					
Services provided by the Parent Group to the Group, including infrastructural and technological improvement projects, energy conservation and environmental protection projects, contract energy management, custodial operations, major/medium maintenance of equipment, road transportation, waterway transportation, integrated port services, maintenance and preservation of equipment (facilities), automated/information operation and maintenance services and renovation; receiving inspection and repair services for electrical, electric and transformer works and other services (vehicle repair, monitoring and diagnostic services, etc.) Wheel processing, scrap steel processing, waste water treatment, gas processing, warehousing/distribution services, etc.; training, communication, printing, archiving, office rental, agency services and other specialized services	Existing annual caps	4,094,340,800	5,602,740,100	5,302,970,000	N/A
	Actual transaction amounts	3,312,795,000	3,939,090,000	N/A	1,895,400,000

LETTER FROM THE BOARD

The Existing Annual Caps (tax exclusive) for Services under Previous Ordinary Related Transaction Agreement and Original Ordinary Related Transaction Agreement as amended by the Existing China Baowu Supplemental Agreement and the New China Baowu Supplemental Agreement for the terms during from 19 September 2019 to 31 December 2019, for the two years ended 31 December 2020 and the actual transaction amounts (tax exclusive) of Services for the years ended 31 December 2019, 31 December 2020 and the first six months ended 30 June 2021 are set out as below:

RMB

		From 19 September 2019 to 31 December 2019	For the year ended 31 December 2020	For the year ending 31 December 2021	For the first five months ended 30 June 2021
Services provided by the Group to China Baowu Group					
Services provided by the Group to China Baowu Group, including technical services, testing services, etc.	Existing annual caps	12,158,000	81,810,000	122,160,000	N/A
	Actual transaction amounts	683,000	7,170,000	N/A	3,810,000
Services provided by China Baowu Group to the Group					
Services provided by China Baowu Group to the Group, including infrastructure and renovation services, commissioning agency, transportation, inspection and repair, commissioning processing, transportation loading and unloading, training, communication, printing, filing, newspaper, TV feature film production, office rental, singleton flat rental and other related services	Existing annual caps	75,000,000	3,350,120,000	4,753,560,000	N/A
	Actual transaction amounts	39,861,000	845,270,000	N/A	497,880,000

LETTER FROM THE BOARD

Under the Original Ouye Lianjin CCT Agreement (as amended by the Existing Ouye Lianjin Supplemental Agreement and the Existing Original Ouye Lianjin CCT Agreement), the existing annual caps (tax exclusive) of the products for the years ended/ending 31 December 2019, 31 December 2020 and 31 December 2021 and the actual transaction amounts (tax exclusive) of the products for the years ended 31 December 2019, 31 December 2020 and the first six months ended 30 June 2021 are set out as below:

RMB

		For the year ended 31 December 2019	For the year ended 31 December 2020	For the year ending 31 December 2021	For the first six months ended 30 June 2021
Products sold by Ouye Lianjin to the Group					
Products sold by Ouye Lianjin to the Group, including scrap steel agency purchase and scrap steel processing	Existing annual caps	36,163,600	43,680,600	53,502,500	N/A
	Actual transaction amounts	31,367,000	8,250,000	N/A	–

Under the Chemical Energy Company Continuing Connected Transaction Agreement, the existing annual caps (tax exclusive) of the products for years ended/ending 31 December 2019, 31 December 2020 and 31 December 2021 and the actual transaction amounts (tax exclusive) of the products for the year ended 31 December 2019, 31 December 2020 and the first six months ended 30 June 2021 are set out as below:

RMB

		For the year ended 31 December 2019	For the year ended 31 December 2020	For the year ending 31 December 2021	For the first six months ended 30 June 2021
Services provided by Chemical Energy Company to the Group					
Services provided by Chemical Energy Company to the Group, (including waste water treatment service, etc.)	Existing annual caps	7,190,000	8,320,000	8,910,000	N/A
	Actual transaction amounts	1,982,000	6,900,000	N/A	–

LETTER FROM THE BOARD

Under the Existing Energy Saving and Environmental Protection Agreement (as amended by the Energy Saving and Environmental Protection Supplemental Agreement), the existing annual caps (tax exclusive) of the products for years ended/ending 31 December 2019, 31 December 2020 and 31 December 2021 and the actual transaction amounts (tax exclusive) of the products for the years ended 31 December 2019, 31 December 2020 and the first six months ended 30 June 2021 are set out as below:

RMB

		For the year ended 31 December 2019	For the year ended 31 December 2020	For the year ending 31 December 2021	For the first six months ended 30 June 2021
Services provided by Anhui Xinchuang to the Group					
Provision of energy saving and environmental protection caps	Existing annual	906,100,000	916,100,000	946,100,000	N/A
construction and services by Anhui Xinchuang to the Group)	Actual transaction amounts	638,593,000	778,570,000	N/A	347,610,000

Under the Integrated Support Services Agreement, from 1 January 2019 to 31 December 2019, the existing annual caps (tax exclusive) of the related products and the actual transaction amounts (tax exclusive) of the products are set out as below:

RMB

**From
1 January 2019
to 31 December
2019**

Services provided by the Group to the Parent Group

Services provided by the Group to the Parent Group, including, technical services and related services, etc.	Existing annual caps	9,000,000
	Actual transaction amounts	1,050,000

Services provided by the Parent Group to the Group

Integrated services provided by the Parent Group to the Group, including the training, communication, printing, filing, newspaper, TV feature film production, office rental, singleton flat rental, property and building services, etc.	Existing annual caps	282,000,000
	Actual transaction amounts	95,136,000

LETTER FROM THE BOARD

Proposed Annual Caps

The proposed annual caps for the transactions (tax exclusive) contemplated under Acceptance and Provision of Services Agreement for the years ending 31 December 2022, 31 December 2023 and 31 December 2024 are set out below:

RMB

	For the years ending 31 December 2022	For the years ending 31 December 2023	For the years ending 31 December 2024
Services provided by the Group to China Baowu Group			
Service provided by the Group to China Baowu Group, including entrusted steel billets processing, metering, inspection, rental services, railway transport, etc.	272,589,100	311,487,100	331,972,900
Services provided by China Baowu Group to the Group			
Services provided by China Baowu Group to the Group, including infrastructural and technological improvement projects, energy conservation and environmental protection projects, contract energy management, custodial operations, major/medium maintenance of equipment, road transportation, waterway transportation, integrated port services, maintenance and preservation of equipment (facilities), automated/information operation and maintenance services and renovation; receiving inspection and repair services for electrical, electric and transformer works and other services (vehicle repair, monitoring and diagnostic services, etc.) Wheel processing, scrap steel processing, waste water treatment, gas processing, warehousing/distribution services, etc.; training, communication, printing, archiving, office rental, agency services and other specialized services	11,694,097,000	12,032,859,300	12,036,864,500
Total	11,966,686,100	12,344,346,400	12,368,837,400

LETTER FROM THE BOARD

The proposed annual caps in respect of the Acceptance and Provision of Services Agreement for the term commencing 1 January 2022 and ending 31 December 2024 will be determined with 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 products to China Baowu Group and the Group's anticipated demand for China Baowu Group's products to meet its production plan; and (iv) China Baowu Group's anticipated demand for the Group's products and the China Baowu Group's anticipated capacity to provide the products to the Group.

Services provided by the Group to China Baowu Group

The annual cap in relation to the services provided by the Group to China Baowu Group is comprise mainly of provision of (i) entrusted steel billets processing services; and (ii) OEM services, which in total make up approximately 84% of the annual Cap for each of 2022, 2023 and 2024.

In relation to the processing services, the Group will process slabs of other steelmakers and produce steel products on their behalf and obtain a processing fee. The estimated amount of the processing services is RMB173 million for 2022 and RMB174 million for 2023 and 2024 make up 63%, 56% and 52% of the annual cap for 2022, 2023 and 2024, respectively.

Considering that China Baowu Group has an increased number of production units which would require OEM services, the Company expects that the demand of the OEM services would be approximately 3 million to 6 million tonnes. The estimated amount is RMB53 million, RMB88 million and RMB106 million and makes up 19%, 28% and 32% of the annual cap for 2022, 2023 and 2024. The pricing of the OEM services of approximately RMB18 per tonne was determined as the ball park estimated figure having considered the historical pricing of OEM contracts entered into during 2020, which were in the range of RMB15 to RMB20 per tonne.

Taking into account the above calculation, the Board considers that the estimation of the proposed annual cap for services provided to China Baowu Group is reasonable.

Services provided by China Baowu Group to the Group

The annual cap in relation to the services provided by China Baowu Group to the Group comprised mainly of (i) construction services; (ii) transportation service; (iii) environmental services; and (iv) repair and maintenance services, which in total make up approximately almost 90% of the annual caps.

LETTER FROM THE BOARD

For construction service, the estimated transaction amount is RMB2,908 million, RMB 2,690 million and RMB2,378 million and 25%, 22% and 20% of the annual cap for 2022, 2023 and 2024, respectively. As to transportation services, the estimated amounts of transportation services are RMB2,251 million, RMB2,300 million and RMB2,341 million for 2022, 2023 and 2024, respectively, making up approximately 19% of the annual cap for each year. As to environmental services, the estimated amounts of environmental services are RMB2,208 million, RMB2,407 million and RMB2,411million for 2022, 2023 and 2024, accounting for approximately 19% to 20% of the annual cap for each year. Lastly, in relation to the repair and maintenance services, it is related to the regular repair and maintenance of the Group's production plants and its estimated amounts are RMB2,969 million, RMB3,459 million and RMB3,722 million for 2022, 2023 and 2024, respectively, representing approximately 25% to 31% of the annual cap for each year. The estimated amount is determined in accordance with the historical transaction amount of the Group. During 2019 and 2020, the Group recorded repair and maintenance works amounting to RMB2,766 million and RMB3,026 million.

Taking into account the above calculation, the Board considers that the estimation of the proposed annual cap for services provided by China Baowu Group is reasonable.

Reasons For and Benefits of the Acceptance and Provision of Services Agreement

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

(iii) New Financial Services Agreement

The Original Financial Services Agreement for the years from 2019 to 2021 between the Finance Company and the Parent Group signed on 15 August 2018 will expire on 31 December 2021. On 29 September 2021, the Finance Company and the Parent Group entered into the New Financial Services Agreement for the years from 2022 to 2024, pursuant to which, the Finance Company agrees to provide the Parent Group and its subsidiaries with, among other things, loan services subject to the terms and conditions provided therein. The principal terms of the Agreement are set out below:

Date

29 September 2021

LETTER FROM THE BOARD

Parties

- (1) The Finance Company; and
- (2) The Parent Group

Duration

The New Financial Services Agreement shall be for a term commencing from 1 January 2022 to 31 December 2024.

Loan services under the New Financial Services Agreement

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 RMB4,900,000,000 (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 set by the PBOC. The PBOC is implementing the reform of interest rate marketization. It no longer set floating range of interest rate for loan services and no longer set binding requirements on the loan interest rates announced by the financial institutions in the market.

LETTER FROM THE BOARD

Services under the Original Financial Services Agreement

Other than loan services, the services provided by the Finance Company to the Parent Group under the Original Financial Services Agreement are as follows:

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 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.

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.

LETTER FROM THE BOARD

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.

Review of historical figures

Loan services

Set out below are actual highest daily loan outstanding balance in respect of the provision of loans to the Parent Group by the Finance Company for the year 2019, 2020 and the first half year of 2021:

	For the year ended 31 December		For the six months
	2019	2020	ended 30 June
	<i>RMB ('000)</i>	<i>RMB ('000)</i>	<i>RMB ('000)</i>
Maximum day-end balance of loan amount (including interest)	3,170,000	3,170,000	3,170,000
Highest day-end balance of loan amount	2,700,870	2,921,000	2,875,000
Highest utilization rate	85.2%	92.1%	90.7%

The highest total borrowing of the Parent Group had reached 85.2% of the maximum day-end balance of loan amount for 2019 and continued to increase to over 90% for 2020 and for the first half year of 2021. The day-end balance of the loan amounts was still within the maximum day-end limit and less than the deposit placed by the Parent Group at the Finance Company.

LETTER FROM THE BOARD

Deposit services

Set out below are the actual transaction amounts in respect of the provision of deposit services to the Parent Group by the Finance Company for the year 2019, 2020 and the first half year of 2021:

	For the year ended 31 December		For the six months ended 30 June
	2019	2020	2021
	RMB ('000)	RMB ('000)	RMB ('000)
Deposit services			
Actual transaction amount	5,311,000	8,566,000	8,212,000

Given that the deposit services provided by the Finance Company to the Parent Group under the Original Financial Services Agreement is conducted on normal commercial terms or better, and is not secured by the assets of the Parent Group, it is fully exempt from reporting, announcement, annual review and Independent Shareholders' approval and all disclosure requirements under Rule 14A.90 of the Listing Rules. Accordingly, it is not necessary to set an annual cap for deposit services under the Original Financial Services Agreement.

Other financial services

Set out below are the historical caps and the actual transaction amounts in respect of the provision of other financial services to the Parent Group by the Finance Company for the year 2019, 2020 and the first half year of 2021:

	For the year ended 31 December		For the six months ended 30 June
	2019	2020	2021
	RMB ('000)	RMB ('000)	RMB ('000)
Other financial services			
Maximum annual amount for			
other financial services	200,000	200,000	200,000
Actual transaction amount for			
other financial services	158,000	156,000	84,000
Highest utilization rate	79%	78%	42%

In relation to the financial services provided to the Parent Group by the Finance Company, the existing annual cap for the year ended 31 December 2019 and 2020 had a high utilization rate of 79% and 78%. The utilization rate for first half of 2021 on a six months pro-rata basis was 42%. In view of the rapid growth of the amount of financial services, it is expected that there will be a substantially high utilization rate for the whole year of 2021.

LETTER FROM THE BOARD

Proposed annual cap for other financial services

	For the years ending 31 December		
	2022	2023	2024
	RMB ('000)	RMB ('000)	RMB ('000)
Maximum annual transaction amount (including interest)	250,000	250,000	250,000

The Board considered that the above proposed annual cap is fair and reasonable in view of the high utilization rate in 2019 and 2020 as demonstrated under the above heading “Review of historical figures”.

Assessment of the proposed daily cap

Set out below is the proposed daily cap regarding the provision of loan by the Finance Company to the Parent Group being proposed for the transactions contemplated under the New Financial Services Agreement for the three years ending 31 December 2022, 2023 and 2024:

	For the years ending 31 December		
	2022	2023	2024
	RMB ('000)	RMB ('000)	RMB ('000)
Maximum day-end balance of loan amount (including interest)	4,900,000	4,900,000	4,900,000

In determination of the daily cap of loan for the three years ending 31 December 2022, 2023 and 2024, which represent a maximum day-end balance of loan amount together with associated interests, the Board has considered the funding capacity of the Finance Company and the possible demand for loan services from the Parent Group. The monthly average daily deposit amount from the Parent Group maintained with the Finance Company was approximately RMB7.4 billion, RMB10.9 billion and RMB8.7 billion for 2019, 2020 and 2021, respectively. Given that the deposit balance of the Parent Group at the Finance Company exceeded RMB4,900,000,000 daily cap of loan, the Board is of the view that the Finance Company will have sufficient funding capacity to cover the proposed loans provided to the Parent Group. Accordingly, the Board considered that the proposed daily cap is reasonable.

LETTER FROM THE BOARD

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 related transactions between the Finance Company and the Parent Group, such related 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, China Baowu, 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. The ultimate beneficial owner of the Parent Company is China Baowu.

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

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 ultimate beneficial owner of the Anhui Xinchuang is China Baowu.

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. The ultimate beneficial owner of the Finance Company is China Baowu.

LETTER FROM THE BOARD

Internal Management of the Agreements

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

The connected transaction management committee of the Company, which directly reports to the Board, is responsible for the on-going monitoring of all the continuing connected transactions of the Company, which include the continuing connected transactions contemplated under the respective agreements. 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 and accounting department of the Company will report on quarterly basis to the connected transaction management committee regarding the actual amount of the continuing connected transactions conducted during the quarter and the estimated amount in the following quarter so as to facilitate the connected transaction management committee to (i) monitor the actual amount of continuing connected transactions carried out; and (ii) assess whether the annual cap of any continuing connected transactions will be exceeded. The continuing connected transaction management committee will then report to the Board on quarterly basis.

The 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 to the market principle. Market prices will be obtained through, among other things, open tenders/quotations from independent third party suppliers and service providers, recent transaction prices of the Group with independent third parties, pricing information obtained through subscription service and researches on industry websites. The market price information will be circulated by the department to other departments and companies of the Group to enable them to determine the prices for the continuing connected transactions.

LETTER FROM THE BOARD

Listing Rules Implications

As at the Latest Practicable Date, China Baowu is the controlling shareholder of the Parent Company, is indirectly interested in approximately 57.19% of the Company's share capital, and is a controlling shareholder and connected person of the Company. As at the Latest Practicable Date, the Finance Company is a 91% owned subsidiary of the Company and an indirect subsidiary of the Parent Company. Therefore, China Baowu, the Parent Company and the Finance Company are connected persons of the Company. Accordingly, the transactions under the Sale and Purchase of Products Agreement, the Acceptance and Provision of Services Agreement and the loan services under 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 under the Sale and Purchase of Products Agreement, the Acceptance and Provision of Services 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 and proposed annual caps 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, given that it is conducted on normal commercial terms or better, and is not secured by the assets of the Parent Group, it is fully exempt from reporting, announcement, annual review and Independent Shareholders' approval and all disclosure requirements under Rule 14A.90 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 exempted continuing connected transactions of the Company under Rule 14A of the Listing Rules and are exempt 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.

LETTER FROM THE BOARD

Board Approval of the CCT Supplemental Agreements, the Sale and Purchase of Products Agreement, the Acceptance and Provision of Services Agreement and the New Financial Services Agreement

In the 50th meeting of the nine session of the Board on 29 September 2021, the Board approved the CCT Supplemental Agreements, the Sale and Purchase of Products Agreement, the Acceptance and Provision of Services Agreement and the New Financial Services Agreement.

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

General Information

The EGM will be convened to consider and, if thought fit, to approve the CCT Supplemental Agreements, the Sale and Purchase of Products Agreement, the Acceptance and Provision of Services Agreement and the New Financial Services Agreement 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 CCT Supplemental Agreements, the Sale and Purchase of Products Agreement, the Acceptance and Provision of Services Agreement and the New Financial Services Agreement 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, Magang Group Investment Ltd. (馬鋼集團投資有限公司), Baosteel Hong Kong Investment Company Limited (寶鋼香港投資有限公司) and Mr. Mao Zhanhong, the deputy general manager of the Company will abstain from voting at the EGM. The result of the vote will be announced after the EGM.

LETTER FROM THE BOARD

The Independent Board Committee, will among others, consider and advise the Independent Shareholders in relation to the terms of the CCT Supplemental Agreements, the Sale and Purchase of Products Agreement, the Acceptance and Provision of Services Agreement and the New Financial Services Agreement and the transactions contemplated thereunder, including the respective proposed annual caps. Halcyon Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

4. EGM AND PROXY ARRANGEMENT

The notice of the EGM is set out on pages 154 to 156 of this circular. At the EGM, resolutions will be proposed to approve, inter alia, the CCT Supplemental Agreements, the Sale and Purchase of Products Agreement, the Acceptance and Provision of Services Agreement and the New Financial Services Agreement.

A form of proxy for use at the EGM is enclosed with this circular and such form of proxy is also published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.magang.com.hk). Whether or not you intend to attend the EGM, you are requested to complete and return (i) the enclosed reply slip in accordance with the instructions printed thereon not later than Tuesday, 9 November 2021 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.

5. 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.

LETTER FROM THE BOARD

6. 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
Secretary to the Board



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)****LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

12 November 2021

To the Independent Shareholders

Dear Sir or Madam,

Reference is made to the circular issued by the Company to the Shareholders dated 12 November 2021 (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 CCT Supplemental Agreements, the Sale and Purchase of Products Agreement, the Acceptance and Provision of Services Agreement and the New Financial Services Agreement and the transactions contemplated thereunder, including the respective proposed annual caps (the “**Subject Transactions**”). Halcyon Capital Limited has been appointed as the Independent Financial Adviser to advise you and us in this regard. Details of its advice, together with the principal factors and reasons it has taken into consideration in giving such advice, are set out on pages 69 to 149 of the Circular and the additional information is set out in the appendices thereto.

Having considered the CCT Supplemental Agreements, the Sale and Purchase of Products Agreement, the Acceptance and Provision of Services Agreement and the New Financial Services Agreement, and taking into account the independent advice of Halcyon Capital Limited, in particular the principal factors, reasons and recommendations set out in its letter on pages 69 to 149 of the Circular, we consider that (i) the Subject Transactions are entered into in the ordinary course of business of the Group; (ii) the terms of the Subject Transactions are normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole; and (iii) the proposed annual caps under the CCT Supplemental Agreements, the Sale and Purchase of Products Agreement, the Acceptance and Provision of Services Agreement and the New Financial Services Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend you to vote in favor of the ordinary resolutions to be proposed at the EGM.

Yours faithfully,

The Independent Board Committee

Zhang Chunxia, Zhu Shaofang, Wang Xianzhu

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



11/F, 8 Wyndham Street
Central
Hong Kong
12 November 2021

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

**(1) CONTINUING CONNECTED TRANSACTIONS
AMENDMENTS TO TERMS OF CCT AGREEMENTS; AND
(2) CONTINUING CONNECTED TRANSACTIONS
SALE AND PURCHASE OF SERVICES AGREEMENT, ACCEPTANCE AND
PROVISION OF SERVICES AGREEMENT AND NEW FINANCIAL SERVICES
AGREEMENT**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the revision of the annual caps (the “**Adjusted Annual Caps**”) for the financial year ended 31 December 2021 (“**FY2021**”) stipulated under (i) the New Ouye Lianjin Supplemental Agreement; (ii) the New Magang Group Supplemental Agreement; (iii) the New China Baowu Supplemental Agreement; and (iv) the Supplemental Energy Saving and Environmental Protection Agreement (together the “**CCT Supplemental Agreements**”); and the streamlining and renewal of continuing connected transactions expiring by the end of 2021 stipulated under (v) the Sale and Purchase of Product Agreement; (vi) the Acceptance and Provision of Services Agreement; and (vii) the New Financial Services Agreement (together the “**CCT Renewal Agreements**”) (the “**Proposed Transactions**”), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 12 November 2021 (the “**Circular**”) of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

As at the Latest Practicable Date, the Parent Company is interested in approximately 47.59% of the Company's share capital and is a controlling shareholder and therefore a connected person of the Company. The Parent Company also holds 69.83% equity interests of Ouye Lianjin, meaning that Ouye Lianjin is a subsidiary of the Parent Company. China Baowu is the controlling shareholder of the Parent Company, and via the Parent Company in aggregate holds 57.19% equity interests of the Company. Anhui Xinchuang is a company controlled by the Parent Company. According to Rule 14A of the Listing Rules, the Parent Company, Ouye Lianjin, China Baowu and Anhui Xinchuang are connected persons of the Company, and therefore the transactions under the CCT Supplemental Agreements and the CCT Renewal Agreements constitutes continuing connected transactions under Chapter 14A of the Listing Rules. As the applicable percentage ratios under the Listing Rules in respect of (i) the Adjusted Annual Caps for the transactions contemplated under the CCT Supplemental Agreements; and (ii) the proposed annual caps stipulated under the CCT Renewal Agreements (the “**Renewal Annual Caps**”) (together, the “**Proposed Annual Caps**”) are more than 5%, such continuing connected transactions, the Proposed Annual Caps are subject to requirements including reporting, announcements, annual review and Independent Shareholders' approval under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising all 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 (i) the continuing connected transactions contemplated under the CCT Supplemental Agreements and the CCT Renewal Agreements are entered into in the ordinary course of business of the Group; (ii) the terms of the CCT Supplemental Agreements and the CCT Renewal Agreements are normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole; and (iii) the Proposed Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. We, Halcyon Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

BASIS OF OUR OPINION

Except for this appointment as the Independent Financial Adviser and normal professional fees paid or payable to us in connection therewith, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. We are hence independent from the Company pursuant to Rule 13.84 of the Listing Rules.

In formulating our opinion and recommendation, we have relied on the information, financial information and facts included in the Circular and supplied to us, and the representations expressed by the Directors and/or management of the Group (the “**Management**”), and have assumed that all such information, financial information, facts and any representations made to us, or referred to in the Circular, in all material aspects, were true, accurate and complete as at the time they were made and as at the Latest Practicable Date, have been properly extracted from the relevant underlying accounting records (in the case of financial information) and made after due and careful inquiry by the Directors and/or the Management. The Directors and/or the Management have confirmed that, having made all reasonable enquiries and to the best of their knowledge and belief, all relevant information has been supplied to us and that no material facts have been omitted from the information supplied and representations expressed to us. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable. We have no reason to doubt the completeness, truth or accuracy of the information and representations provided and we are not aware of any facts or circumstances which would render such information provided and representations made to us untrue, inaccurate or misleading.

Our review and analyses were based upon, among others, the information provided by the Group including the announcements of the Company dated 29 September 2021 (the “**Announcements**”), financial reports of the Company and the Circular. We have also discussed with the Directors and/or the Management with respect to the terms of and reasons for the transactions contemplated under the CCT Supplemental Agreements (including the Adjusted Annual Caps) and the CCT Renewal Agreements (including the Renewal Annual Caps) and considered that we have reviewed sufficient information to reach an informed view and to justify reliance on the information provided and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information included in the Circular and supplied to us by the Directors and/or the Management nor have we conducted any form of in-depth investigation into the businesses, affairs, financial position, profitability or prospects of the Group (including the Finance Company), the Parent Company, Ouye Lianjin, China Baowu, K. Wah Company, and Anhui Xinchuang and each of their respective associates, and the parties involved in the transactions contemplated under the CCT Supplemental Agreements and the CCT Renewal Agreement.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the CCT Supplemental Agreements and the CCT Renewal Agreements including the Adjusted Annual Caps, the Renewal Annual Caps and the transactions contemplated thereunder, we have considered the following principal factors and reasons:

I. BACKGROUND OF THE GROUP

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

During the year ended 31 December 2020 (“FY2020”), despite the impacts of COVID-19 on the global economy, the production volume of the Group recorded a stable increase and produced 18.55 million tonnes of pig iron, 20.97 million tonnes of crude steel and 19.86 million tonnes of steel, representing a year-on-year increase of 2.49%, 5.70% and 5.81%, respectively. During the six months ended 30 June 2021 (“HY2021”), amidst the recovery of the PRC economy and in turn the steel market, the Group produced 9.41 million tons of pig iron, 11.21 million tons of crude steel, and 10.75 million tons of steel, representing increases of 1.62%, 9.90%, and 11.05% respectively on a year-on-year basis.

i. Financial performance of the Group

Set out below is the summary of consolidated income statement of the Group for (i) each of the three years ended 31 December 2020, which are extracted from the annual reports of the Group; and (ii) the six months ended 30 June 2020 and 2021, which are extracted from the interim report of the Group:

	For the year ended 31 December			For the six months ended 30 June	
	2020	2019	2018	2020	2021
	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	81,614.15	78,262.85	81,951.81	37,429.04	56,863.61
Profit before tax	3,080.86	2,297.76	8,238.92	1,220.59	6,283.61
Net profit	2,577.98	1,713.92	7,057.99	997.62	5,037.84
Net profit attributable to the owners	1,982.64	1,128.15	5,943.29	812.34	4,643.79

For the year ended 31 December 2020

During FY2020, the Group recorded an increase in revenue from RMB78,262.85 million for the financial year ended 31 December 2019 (“**FY2019**”) to RMB81,614.15 million, representing an increase of approximately 4.28%. The growth was mainly due to the rise in steel sales. The net profit of the Group for FY2020 also increased by approximately 50.4% from RMB1,713.92 million to RMB2,577.98 million, which was attributable to (i) the stable and efficient production and a year-on-year increase in the sales and output volume of the Group; (ii) the implementation of cost-efficient measures; and (iii) receiving government subsidies for land purchasing and storage. Net profit attributable to non-controlling interests on the other hand increased by 112.68% as compared to the corresponding period last year, mainly due to the increase in the profitability of certain non-wholly owned subsidiaries from the corresponding period in FY2019.

For the year ended 31 December 2019

For FY2019, the Group recorded a revenue of RMB78,262.85 million, which decreased by approximately 4.5% as compared to the revenue of the financial year ended 31 December 2018 (“**FY2018**”) of RMB81,951.81 million due to a drop in steel price. For FY2019, the Group recorded a net profit of RMB1,713.92 million, representing a 75.7% drop compared to RMB7,057.99 million in FY2018. Net profit attributable to non-controlling interests also recorded a decrease of 81.0% as compared to that of FY2018. Such decreases were resulted from the rapid rising raw material price (including fuels) and the decrease in steel price and gross margin of steel products in FY2019 which brought on a decrease in the Group’s profitability.

II. NEW OUYE LIANJIN SUPPLEMENTAL AGREEMENT

1. Background to and reasons for the entering into the New Ouye Lianjin Supplemental Agreement

On 15 August 2018, the Company entered into the Original Ouye Lianjin CCT Agreement with Ouye Lianjin, agreeing that, from 1 January 2019 to 31 December 2021, the Group would continue to sell or provide products and services to Ouye Lianjin and Ouye Lianjin would continue to sell or provide products and services to the Group.

Due to the encouragement of green transformation of the iron and steel industry by the PRC government, the Group has pledged to use more scrap metals which release lower levels of emission compared to iron ore products. Therefore scrap products purchased by the Group increased substantially in early 2020 and as such, on 7 May 2020, the Company entered into the Existing Ouye Lianjin Supplemental Agreement with Ouye Lianjin, proposing to increase the annual cap of 2020 and 2021 for the products to be sold by Ouye Lianjin (including steel scrap products) to the Group.

As set out in the annual report of the Company for FY2020 (the “**2020 Annual Report**”), the Group intends to complete its ultra-low emission transformation in 2021 and has been increasing the utilisation of scrap metals. Coupled with the development of the steel production business of the Group, the demand for scrap products during the first six months of 2021 has exceeded the expected level as stipulated in the relevant annual cap for 2021. Furthermore, the pricing of scrap materials has been recording a continuous upward trend for the past year. It is expected that as a result of the continuous demand of scrap products and price increase for the remaining of 2021, the annual caps under the Existing Ouye Lianjin Supplemental Agreement will not meet the original expectation.

Taking into consideration the long term relationship between Ouye Lianjin and the Group, and according to the Management, the Group had been able to obtain reliable products and services from Ouye Lianjin at terms no less favourable to the Group, to govern the on-going purchase from Ouye Lianjin for the remaining months in 2021, on 29 September 2021, the Company entered into the New Ouye Lianjin Supplemental Agreement with Ouye Lianjin, proposing to increase the annual cap for the products sold by Ouye Lianjin to the Group for 2021.

Information of Ouye Lianjin

Ouye Lianjin is a specialised supplier in steel scrap metals with over 10 years of experience in the industry. It is a state-owned holding enterprise and is mainly engaged in recycling, processing and sales of scrap metal, sales and storage of raw iron and domestic trade agency services. As at the Latest Practicable Date, the Parent Company holds approximately 69.83% equity interest in Ouye Lianjin.

The Directors considered that the New Ouye Lianjin Supplemental Agreement provides flexibility but not an obligation to the Group to purchase products from Ouye Lianjin whenever appropriate in the remaining period of 2021. Furthermore, having considered that the transactions between the Group and Ouye Lianjin have been carried out in their respective ordinary and usual course of businesses and the continuing business relationship between the Group and Ouye Lianjin, we considered that the entering into of the New Ouye Lianjin Supplemental Agreement is in the ordinary and usual course of business of the Group.

2. Principal terms of the New Ouye Lianjin Supplemental Agreement

The principal terms of the New Ouye Lianjin Supplemental Agreement are summarised as follows:

Subject Matter: Ouye Lianjin agreed to, inter alia, sell or provide products to the Group including steel scrap products.

Both parties agreed to adopt an appropriate, reasonable and fair pricing in accordance with the principal of fairness in formulating the transactions under the New Ouye Lianjin Supplemental Agreement. The terms of the products and services (including but not limited to pricing and payment) to be provided by Ouye Lianjin 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 implementation of New Ouye Lianjin Supplemental Agreement, the Company may decide, at its discretion, whether to enter into agreement with any independent third parties in respect of the transactions contemplated under the Ouye Lianjin Supplemental Agreement.

Consideration: Based on current pricing standards, the sales of products from Ouye Lianjin to the Group shall be based on the pricing of market price, which shall be determined through open tenders, price comparisons, arm's length negotiations between the parties, based on normal commercial terms and comparable market. In practice, steel scrap products will be priced with reference to market price obtained through market research on industry websites including "SteelHome" (<http://www.steelhome.cn>) and "MySteel" (www.mysteel.com) which are commonly recognised sources of data for the iron and steel industry.

The pricing regarding the services and products to be provided by Ouye Lianjin 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.

Payment: For the payment of products or services provided by Ouye Lianjin to the Group, the Group shall pay for such products or services within 10 business days after the Group shall have received such products or services and completed the procedures of financial settlement.

Duration: For the period from the approval of the Independent Shareholders at the EGM to be convened and expires on 31 December 2021.

Condition precedent: The New Ouye Lianjin Supplemental Agreement is conditional upon the Independent Shareholders approving the New Ouye Lianjin Supplemental Agreement and the relevant proposed annual caps at the EGM.

Principal terms of the New Ouye Lianjin Supplemental Agreement are set out in the section headed "New Ouye Lianjin Supplemental Agreement" in the "Letter from the Board" contained in the Circular.

For internal control policies governing the on-going continuing connected transactions stipulated under the New Ouye Lianjin Supplemental Agreement, please refer to section headed "Internal control measures and review of continuing connected transactions" below.

3. Comparison of terms with independent third parties

As set out in the Circular and in the terms of the New Ouye Lianjin Supplemental Agreement above, according to the current pricing principles of the Group, in practice, scrap products will be priced with reference to market price obtained through market research on industry websites including “SteelHome” and “Mysteel”.

We understand that the Company publishes a monthly internal price guide of different types of scrap metals at the beginning of each month. The Management advised that the prices in the relevant internal price guide are derived from the average monthly prices of benchmark scrap materials in the proximate area of the Group’s operations extracted from public domains such as www.steelhome.cn and mysteelhome.cn (the “**Websites**”) with adjustments of including but not limited to certain transportation fees and storage fees of not more than 3%. The Websites which the Management refer to as mentioned above, are research platform for the steel industry in the PRC which provide commonly recognised sources of data for the iron and steel industry (including pricing) and are subscribed by global steel manufacturers. The market data quoted in the two research platforms are updated daily with latest market data. We further understand from the Management that the prices of scrap materials purchased from both independent third parties and Ouye Lianjin are determined by referencing to the price guide.

We have also randomly reviewed certain transaction documents with monthly coverage during the 1 January 2019 to 30 June 2021 (the “**Review Period**”). We noted that the prices stipulated in the relevant guide during the Review Period are at par with that of the then market prices quoted in the Websites. Furthermore, the transaction prices for purchasing scrap materials from both Ouye Lianjin and independent suppliers were both comparable to the relevant internal price guide. Based on the review of the sample documents, we noted that the prices and payment terms of those sample transactions were in accordance to the pricing policies of the Group and are no less favourable than those transactions with independent third parties.

For payment terms, we noted that the normal credit terms of the Group’s trade payables are within three months as stated in the 2020 Annual Report. As such, the credit terms for the transactions contemplated under the New Ouye Lianjin Supplemental Agreement of within 10 business days after the Group shall have received such products or services and completed the procedures of financial settlement which according to Management normally around 5-10 days is within range of the Group’s normal credit terms and are no less favourable to the Group.

4. Basis of the Ouye Cap

The transactions contemplated under the New Ouye Lianjin Supplemental Agreement are subject to the Listing Rules' requirements and conditions as further discussed under the section headed "Reporting requirements and conditions of the Proposed Transactions" below. In particular, the Proposed Transactions are also subject to the annual cap as discussed below.

In assessing the reasonableness of the annual cap for transaction continued the New Ouye Lianjin Supplemental Agreement (the "**Ouye Cap**"), we have discussed with the Management the basis and assumptions underlying the projections pursuant to the New Ouye Lianjin Supplemental Agreement entered into between the Company and Ouye Lianjin for the purpose of determining the relevant annual cap.

(i) Review of the historical figures

Set out below are the existing annual caps (tax exclusive) (the "**Existing Ouye Caps**") for FY2019, FY2020 and FY2021 and the actual transaction amount (tax exclusive) in respect of the products provided by Ouye Lianjin to the Group under the Original Ouye Lianjin CCT Agreement and Existing Ouye Lianjin Supplemental Agreement for FY2019 and FY2020:

Products provided by Ouye Lianjin to the Group

	For the year ended 31 December 2019 RMB ('000)	For the year ended 31 December 2020 RMB ('000)	For the year ending 31 December 2021 RMB ('000)
Existing annual caps	3,282,400	7,508,500	9,592,500
Actual Transaction amounts	3,075,590	5,499,820	N/A
Utilisation Rate	93.70%	73.25%	N/A

The Existing Ouye Cap for FY2020 and FY2019 had also record a high utilisation rate of 93.70% and 73.25%, respectively. Furthermore, the Company had also increased its annual cap for FY2020 under the Existing Ouye Lianjin Supplemental Agreement in May 2020. We also note that the actual transaction amounts generated in HY2021 amounted to RMB6,598.4 million, which has already utilised 68.7% of the Existing Ouye Cap for FY2021. The utilisation rates as mentioned above indicated that the Company has been taking a prudent approach in the estimation of the transaction amounts and there is a need to increase the annual cap for FY2021. During HY2021, we understand from the Management that the Company already purchased 2.22 million tonnes of scrap metal amounting to RMB6,598.4 million which represented an increase of 19.97% in purchase value as compared to RMB5,499.8 million for the whole of FY2020.

(ii) Assessment of the Ouye Cap

When assessing the reasonableness of the Ouye Cap, we have discussed with the Management the basis and assumptions underlying the projection of the Ouye Cap. Set out below is the Ouye Cap being proposed for the transactions contemplated under the New Ouye Lianjin Supplemental Agreement for FY2021:

Products provided by Ouye Lianjin to the Group

	For the year ending 31 December 2021 RMB ('000)
Existing annual caps	9,592,500
Proposed Ouye Cap	10,513,900

The proposed Ouye Cap in respect of the New Ouye Lianjin Supplemental Agreement for the FY2021 are determined with reference to (i) the market price of scrap metals; (ii) the Group's anticipated demand for Ouye Lianjin's products to meet its production plan; and (iii) Ouye Lianjin's anticipated capacity to provide the products to the Group.

We understand from the Management that based on the Company's internal procurement plan of each department, the Group intends to purchase 290,000 tonnes of scrap metals for the remaining period in 2021 to facilitate the development of the Group's steel production business. By taking into account such procurement amounts and the market price of each types of scrap metals, the Management estimated the proposed Ouye Cup would have to be increased to RMB10,513.9 million in order to satisfy the demand of scrap metals for the remaining period in 2021.

For the estimated prices of the scrap material in the range of RMB3,161 and RMB3,369 depending on its required specifications adopted by the Management, we noted that they are determined with reference to the latest price of scrap metals before the date of the Announcements as set out in the monthly internal price guides compiled by the Group's purchasing department with reference to the recent market transactions of benchmark scrap materials on the Websites.

We have also checked the estimated price adopted by the Management against industry websites "www.steelhome.cn" and noted that the estimated prices ranging from RMB3,161 per tonne to RMB3,369 per tonne adopted are lower than the market price range quoted from industry websites "www.steelhome.cn" of RMB3,773 per tonne and RMB3,834 per tonne one month before the date of the Announcements of the Company.

Given estimated purchasing prices of the scrap material adopted by the Management are lower than the market price range and have taken into account, the actual demand of scrap material for December 2021, we consider the estimate of the proposed Ouye Cap to be acceptable.

III. NEW MAGANG GROUP SUPPLEMENTAL AGREEMENT

1. Background to and reasons for the entering into the New Magang Group Supplemental Agreement

On 15 August 2018, the Company entered into the Original Magang Group CCT Agreement with the Parent Company, agreeing that, from 1 January 2019 to 31 December 2021, the Group would continue to sell or provide products and services to the Parent Group, and the Parent Group would continue to sell or provide products and services to the Group.

In 2020, due to the impact of (i) the postponement of construction period of certain projects and the addition of other projects, the caps in relation to the infrastructure technical and renovation engineering services provided by the Parent Group under the Original Magang Group CCT Agreement could not meet the expectation; (ii) the delay in construction progress resulting in the contract amount expected to be incurred in 2019 originally would be incurred in 2020; and (iii) the latest regulatory requirements on environmental protection imposed by the PRC government, which resulted in more infrastructure technical and renovation engineering services would be required to upgrade the existing production facilities of the Group, the annual cap in relation to the Original Magang Group CCT Agreement became insufficient and on 7 May 2020, the Company entered into the Existing Magang Group Supplemental Agreement with the Parent Company to adjust the annual cap for the year 2020 and 2021.

As a result of the increase in demand for services and the surge in prices for product and services, the annual caps for 2021 under the Existing Magang Group Supplemental Agreement will not be sufficient to cater for (i) sales of product to the Parent Group by the Group; and (ii) obtaining of services from the Parent Group, thus the Group entered into the New Magang Group Supplemental Agreement with the Parent Company to increase the annual caps for 2021 to govern the on-going transactions as mentioned above with the Parent Group for December 2021.

2. Principal terms of the New Magang Group Supplemental Agreement

The principal terms of the New Magang Group Supplemental Agreement are summarised as follows:

Subject Matter:	The Company through itself and the Group) agreed to sell or provide products to the Parent Group including (i) finished products and relevant commodities, such as steel, steel ingot, accessories, materials (stainless steel band, cable, tool, etc.), coke powder, iron scales and other products (labour protection and office supplies, etc.); and (ii) 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.
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The Parent Company through itself or the Parent Group agreed to sell or provide services to the Group, including 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 Magang Group Supplemental 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 provided by the Group to the independent third parties 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 Magang Group Supplemental Agreement, the Company may decide, at its discretion, whether to enter into agreement with any independent third parties in respect of the transactions contemplated under the New Magang Group Supplemental Agreement.

Consideration:

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

Meanwhile, the price of 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 products and services 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.

According to the current pricing standards, the pricing principle for each of the transactions under the New Magang Group Supplemental Agreement is as follows:

Category	Pricing principle	Items
Products to be sold by the Group to Parent Group	State-prescribed price	Electricity/living water/industrial treated water
	Market price	Blast furnace gas/coke oven gas/converter gas/steam/compressed air/other gases/steel/ingot/coke/iron oxide/metallurgical accessories/materials (stainless steel belt, cable, tools, etc.)/labor insurance, office supplies, etc.
Subject services provided by the Parent Group to the Group	Market price	Water and land transportation and related services, including highway transportation, waterway transportation, 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.

Please refer to the Letter from the Board for further details on the pricing of the products to be sold by the Group to the Parent Group and for the subject services provided by the Parent Group to the Group.

Payment:

Payment by the Parent Group to the Group

Regarding the payment of electricity, living water, industrial treated water, blast furnace gas, coke oven gas, converter gas, steam, compressed air, other gases, etc. to be sold by the Group to the Parent Group, the amount of the sales in the previous month shall be paid by the Parent Group to the Group at the beginning of each month on a monthly basis. For the payment of steel, ingot, coke, iron oxide and other products (labour insurance, office supplies, etc.), the Parent Group shall pay to the Group the estimated amount in advance for the sales of the following month on a monthly basis. As for the payment of accessories and materials (stainless steel belts, cables, tools, etc.), the amount of the sales in the previous month shall be paid by the Parent Group to the Group on a monthly basis.

Payment by the Group to the Parent Group

As for the payment of subject 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 has verified the quality.

Term:

For the period from the approval of the Independent Shareholders at the EGM to be convened and expires on 31 December 2021.

Condition precedent:

The New Magang Group Supplemental Agreement is conditional upon the Independent Shareholders approving the New Magang Group Supplemental Agreement and the relevant proposed annual caps at the EGM.

Principal terms of New Magang Group Supplemental Agreement are set out in the section headed “New Magang Group Supplemental Agreement” in the “Letter from the Board” contained in the Circular.

For internal control policies governing the on-going continuing connected transactions stipulated under the New Magang Group Supplemental Agreement, please refer to section headed “Internal control measures and review of continuing connected transactions” below.

3. Comparison of terms with independent third parties

We have discussed with the Management, and reviewed sample documents obtained from the Company with respect to transactions under the Existing Magang Group Supplemental Agreement during the Review Period conducted with the Parent Group and comparable transactions conducted with independent third parties during a similar period.

Obtaining of services

The obtaining of services (mainly logistic services) mainly comprises mostly of (i) sales transportation of finished steel products from the Group's production plant to its customers; (ii) purchase transportation of raw materials from the Group's suppliers; and (iii) internal transportation within the production facilities.

Regarding the obtaining of services, from FY2019 up until July 2020, the logistic services were obtained from independent third parties for each project, and from August 2020 onwards, for better cost control, the Group decided to subcontract all transportation services to one logistic service provider. According to the Management and as noted from relevant documents regarding engaging a logistic services provider, only the Parent Group shown interest for such sub-contracting work. As such, by comparing the price offered by the Parent Group to the average logistic cost in previous periods, the price offered by the Parent Group was more favourable.

Upon entering into the subcontracting agreements in FY2020 and FY2021, we understand from the Management that the pricing adopted in FY2020 was RMB46.2 per tonne which was determined based on the historical average transportation cost in FY2019 of RMB47.86 per tonne and application of a 3% discount. The pricing adopted for FY2021 was RMB44.34 which was determined by applying a further 3% discount on the FY2020 price. We have reviewed the month end statement for the transportation fees covering each month during the Review Period and note that the transportation services obtained from the Parent Group are charged according to the terms of the subcontracting agreement. We also noted from records of the Management, that the Management and the Parent Group will periodically compare the logistic pricing adopted with pricing obtained by the China Baowu Group from independent third parties in ensuring the logistic price adopted is no less favourable to the then market price.

In relation to the purchase transportation services, we understand that the Group identified service providers through tender process during the Review Period. We have randomly reviewed the tender documents of certain project covering each month of the Review Period and note that the price and payment terms quoted by the Parent Group for projects awarded to them, are more favourable to the Group than that quoted by independent third parties.

It was advised by the Management that the Group did not engage independent third parties for the provision of internal transportation during the Review Period, however as also noted from records of the Management, the Management and the Parent Group will periodically compare the logistic pricing adopted with pricing obtained by the China Baowu Group from independent third parties in ensuring the logistic price adopted is no less favourable to the then market price.

In view of the above, we concur with the Management that, the price offered by the Parent Group were no less favourable than those offered by independent third parties.

Sales of products

In relation to the sales of products to the Parent Group, which mainly comprise of steel products, according to the pricing policy of the Group on its steel products, the prices of steel products are determined with reference to the arithmetic average price of monthly average daily transaction on the Websites.

We note that the Group will issue a monthly price guide of its major steel products at the beginning of each month. The prices are determined with reference to average monthly market pricing of benchmark steel products produced in the same region as the Group's production plants extracted from the Websites. The price of steel products sold by the Group to both independent third parties and the Parent Group are then determined according to the internal price guide.

We have also randomly reviewed certain transaction documents covering each month of the Review Period and note that the prices of the major steel products stipulated in the price guide during the Review Period are close to the then market prices. In addition, the steel products sold by the Group to both independent third parties and the Parent Group were priced according to the same internal price guide.

Based on the review of sample documents in which pricing and payment terms details were shown and as confirmed by the Company, we note that the prices and payment terms of those sample transactions were no less favourable than those of the transactions with independent third parties (for both (i) obtaining services from Parent Group; and (ii) sales of products by the Group to the Parent Group).

4. Basis of the Magang Caps

The transactions contemplated under the New Magang Group Supplemental Agreement are subject to the Listing Rules' requirements and conditions as further discussed under the section headed "Reporting requirements and conditions of the Proposed Transactions" below. In particular, the Proposed Transactions are also subject to the annual caps as discussed below.

In assessing the reasonableness of the annual caps for the New Magang Group Supplemental Agreement (the "**Magang Caps**"), we have discussed with the Management the basis and assumptions underlying the projections pursuant to the New Magang Group Supplemental Agreement entered into between the Company and the Parent Group for the purpose of determining the relevant annual cap.

(i) Review of the historical figures

Set out below are the existing annual caps (tax exclusive) (the "**Existing Magang Caps**") for FY2019, FY2020 and FY2021 and the actual transaction amount (tax exclusive) in respect of the products provided by the Group to the Parent Group under the Original Magang Group CCT Agreement and the Existing Magang Group Supplemental Agreement for FY2019, FY2020 and HY2021:

(a) Obtain of services from the Parent Group

	For the year ended 31 December 2019 RMB ('000)	For the year ended 31 December 2020 RMB ('000)	For the year ending 31 December 2021 RMB ('000)
Existing annual caps	2,744,340.8	2,902,740.1	3,010,140.3
Actual transaction amounts	2,010,303.0	2,420,420.0	N/A
Utilization rate	73.25%	83.38%	N/A

As shown above, for the annual cap for obtaining services from the Parent Group, during FY2019 and FY2020, the actual transaction had also recorded a high utilisation rate of 73.25% and 83.38%, of the Existing Magang Cap for FY2019 and FY2020 respectively. Furthermore, the actual transaction amount of RMB1,538.7 million for HY2021 already recorded a utilisation rate of 51.1% over the Existing Magang Caps for FY2021. Taking into account the increase in need for services obtained from the Parent Group, it is necessary to increase the annual cap for FY2021.

(b) Sale of goods to the Parent Group

	For the year ended 31 December 2019 RMB ('000)	For the year ended 31 December 2020 RMB ('000)	For the year ending 31 December 2021 RMB ('000)
Existing annual caps	965,297.0	1,061,345.7	1,165,371.4
Actual transaction amounts	475,760.0	472,030.0	N/A
Utilization rate	49.29%	44.47%	N/A

In relation to the sales of good, we note that the actual transaction amount for FY2019 and FY2020 recorded a utilisation rate of 49.29% and 44.47% of the Existing Magang Cap, respectively. We also note that the actual transaction amount for HY2021 was RMB439 million, which represents 37.7% of the Existing Magang Cap for FY2021.

(ii) Assessment of the Magang Caps

When assessing the reasonableness of the Magang Caps, we have discussed with the Management the basis and assumptions underlying the projection of the Magang Caps.

According to the Management, the Magang Caps for 2021 are determined by reference to (i) the historical transaction amounts; (ii) 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.

Set out below is the Magang Cap regarding obtaining of services from the Parent Group being proposed for the transactions contemplated under the New Magang Group Supplemental Agreement for FY2021:

(a) *Obtain of services from the Parent Group*

**For the year
ending
31 December
2021
RMB ('000)**

Existing annual cap for obtaining of services from the Parent Group	3,010,140.3
Proposed Magang Cap regarding obtaining of services from the Parent Group	3,402,970.3

The proposed Magang Cap regarding obtaining services from Parent Group for FY2021 estimated by the Directors represented an increase of 13.05% as compared to the Existing Magang Cap for obtaining services from Parent Group. By applying the actual transaction amount in the HY2021, the proposed Magang Cap for sales of products to Parent Group for FY2021 have been utilised by 45.22%.

The transportation services obtained from the Parent Group mainly comprise of (i) sales transportation of finished steel products from the Group's production plant to its customers; (ii) purchase transportation of raw materials from the Group's suppliers; and (iii) internal transportation within the area of the Group's facilities. The increase in the proposed Magang Cap for FY2021 is mainly attributable to the demand in transportation for sales of finished steel products.

When estimating the proposed Magang Cap regarding obtaining services from Parent Group, the Directors took into account (i) the services demanded from each department and member companies of the Group for December 2021; (ii) estimated price for transportation services of which was estimated to be around RMB44.10 per tonne according to the latest agreement after negotiation between the Parent Group and the Group. According to the Management, when estimating the price of RMB44.10 per tonne, the Management took into account the average fee paid for all transportation channels (i.e. waterway, land route, airway) in the previous year which was amounted to RMB46.42 per tonne); and (iii) by applying a 3% discount of the average fee of RMB46.42 per tonne, and came up with price of around RMB44.10 per tonne.

The anticipated increase in the proposed Magang Cap regarding obtaining services from Parent Group was mainly contributed by (i) the increase in services demand in FY2021 of two additional subsidiaries of the Group which commenced obtaining logistic services from the Parent Group from FY2021 onwards; and; (ii) the transition in co-operation model of Parent Group as subcontractor for the Group's required logistic services. Taking into account the above, the Management was of the view that obtaining logistic services from the Parent Group would be reasonable.

Set out below is the Magang Cap regarding sales of products to the Parent Group being proposed for the transactions contemplated under the New Magang Group Supplemental Agreement for FY2021:

(b) *Sales of Products to the Parent Group*

	For the year ending 31 December 2021 RMB ('000)
Existing annual cap regarding sales of products to Parent Group	1,165,371.4
Proposed Magang Cap regarding sales of products to Parent Group	1,550,371.4

The proposed Magang Cap regarding sales of products to Parent Group for FY2021 estimated by the Directors represented an increase of 33.04% as compared to the Existing Magang Cap regarding sales of products to Parent Group. By applying the actual transaction amount for HY2021, the proposed Magang Cap regarding sales of products to Parent Group for FY2021 have been utilised by approximately 28.3%.

We understand from the Management, that based on their discussion with the Parent Group, they have successfully tendered for four construction projects which will require approximately 70,000 tonnes of steel products including but not limited to H beam steel, hot rolled plats and rebars which will be required to be delivered on or before December 2021. Based on the anticipated demand, and the Management's estimated pricing of the steel products at an average price of RMB5,500 per tonne, the proposed Magang Cap in relation to the sales of products to the Parent Group will be required to increase by RMB385 million to RMB1,550 million.

In relation to the price of the steel products, we note that the price is arrived based on the latest internal price guide for various type of steel products produced and sold by the Group before the Announcements. As discussed above, the guide is compiled by the purchase department of the Group monthly based on recent market transactions of the month. We understand from the Management that the sale price of steel products to all parties including connected and independent third parties are required to adhere to the price guide. We have reviewed the pricing of relevant steel products on the internal price guide against the recent transaction on the industry website www.steelhome.cn and note that the price for steel products sold is ranged from RMB5,280 to RMB5,931 per tonne based on its specification during the month prior to the date of the Announcements. As such the estimated average price of RMB5,500 is within the range of the market prices.

IV. NEW CHINA BAOWU SUPPLEMENTAL AGREEMENT

1. Background to and reasons for the entering into the New China Baowu Supplemental Agreement

The PRC has been pushing for the mergers and acquisitions of iron and steel enterprises to promote consolidation of the steel industry in China. Such consolidation aims to eliminate the overcapacity of PRC's steel mills and at the same time create globally competitive conglomerates. The PRC government also issued a guided opinion in 2016 to prompt the reform of the industry by developing PRC's top ten iron and steel enterprise to achieve a total concentration capacity of the PRC's iron and steel industry by 60% by the end of 2025.

On 30 December 2019, the Company entered into the Original Ordinary Related Transaction Agreement with China Baowu, agreeing that, from 1 January 2020 to 31 December 2020, the Group continued to sell or provide products and services to China Baowu Group, and China Baowu Group would sell or provide products and services to the Group. Due to the continuous increase in demand of products and services between the Company and China Baowu, on 7 May 2020, the Company entered into the Existing China Baowu Supplemental Agreement with China Baowu to increase the annual caps for FY2020 and to set the annual cap of the products and services for FY2021.

As the Company continued to actively develop its business, its production capacity has grown during FY2021 and was able to meet the increased demand of China Baowu Group. At the same time, to support its production scale, the Group's demand for raw materials has also increased accordingly. As such, it is expected that the annual caps for FY2021 under the Existing China Baowu Supplemental Agreement will be insufficient in respect of (i) the sales of steel products to China Baowu Group by the Group; and (ii) the purchase of products by the Group for the China Baowu Group. In view of the above, on 29 September 2021, the Company entered into the New China Baowu Supplemental Agreement, proposing to increase the cap of FY2021(i) for the products sold by China Baowu Group to the Group; and (ii) for the products sold by the Group the China Baowu Group.

Information of China Baowu

China Baowu is a state-owned capital investment company controlled and held by the State-owned Assets Supervision and Administration Commission of the State Council. It is mainly engaged in operating state-owned assets within the scope authorized by the State Council. China Baowu Group is also one of the largest steel suppliers in the PRC. As at the Latest Practicable Date, China Baowu is the controlling shareholder and indirectly holds 57.19% equity interest of the Company.

Taking into account that (i) the terms of transactions entered into between China Baowu Group and the Group are no less favourable than that provided by independent third parties; and (ii) engaging China Baowu Group as one of the Group's suppliers will ensure a stable supply of products or spare parts for the Group's operation, the Directors are of the view that entering into the New China Baowu Supplemental Agreement will be beneficial to the Group as a whole. Furthermore, having considered that the transactions between the Group and China Baowu have been carried out in their respective ordinary and usual course of businesses and the continuing business relationship between the Group and China Baowu, we considered that the entering into of the New China Baowu Supplemental Agreement is in the ordinary and usual course of business of the Group.

2. Principal terms of the New China Baowu Supplemental Agreement

The New China Baowu Supplemental Agreement was entered into on 29 September 2021. The principal terms of the New China Baowu Supplemental Agreement are summarised as follows:

- Subject Matter:
- (i) The Group agrees to sell products to China Baowu Group, among others, including steel products, billet, energy, spare parts and related products, etc; and
 - (ii) China Baowu Group agrees to sell products to the Group, among others, including iron ores, limestones, scraps, spare parts, auxiliary materials, etc.

The spare parts provided by China Baowu Group to the Group are currently spare parts for rolls and cold rolling equipment, while there was not any sale of spare parts by the Group to China Baowu Group currently. However, in case China Baowu Group has urgent needs for certain spare parts which the Group could provide, the Group could arrange the sale of such products to China Baowu Group as part of the collaboration and cooperation between the Group and China Baowu Group.

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

During the term of the New China Baowu Supplemental Agreement, the Company may decide, at its discretion, whether to enter into agreement with any independent third parties in respect of similar transactions contemplated under the New China Baowu Supplemental Agreement.

Consideration:

The pricing for energy medium (i.e. electricity, living water, industrial treated water and natural gas) shall be based on the state-prescribed price. For other products and services and 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. The Company will also obtain the market price through 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 and researches on industry websites.

Meanwhile, the price regarding the products to be provided by the Group to China Baowu Group shall not be lower than the price of the same categories of products provided by the Group to independent third parties. The terms of the sale of energy medium by the Group to independent third parties would be based on state-prescribed price, while that of other products and services sold by the Group to independent third parties would be based on market price.

The price regarding the products to be provided by China Baowu Group to the Group shall not be higher than the price of the same type of products provided by the independent third parties to the Group.

In accordance with the current pricing standards, the pricing principle for each of the transactions under the New China Baowu Supplemental Agreement are as follows:

Category	Pricing principle	Items
Products sold by the Group to China Baowu Group	Market pricing	Steel products, billet, spare parts and related products, etc.
	State-prescribed pricing	Energy
Products purchased by the Group from China Baowu Group	Market pricing	Iron ores, limestones, scraps, spare parts, auxiliary materials, etc.

Please refer to the “Letter from the Board” for further details on the pricing of the products to be sold by the Group to China Baowu Group and for products purchased by the Group from China Baowu Group.

Payment terms:

The payment and settlement will be based on two-party or three-party agreements executed by different parties of the transactions; control of the procedures and settlement of finances will be conducted in accordance with the respective agreements.

The payment method for each of the items under the New China Baowu Supplemental Agreement is as follows:

Category	Payment method
Products provided by the Group to China Baowu Group	
Energy medium provided by the Group to China Baowu Group	The sum for the sales with respect to the previous month shall be paid by China Baowu Group to the Group at the beginning of each month and settlement will be done on a monthly basis
Steel products, billet, spare parts and related products, etc. provided by the Group to China Baowu Group	At the end of each month, China Baowu 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
Products provided by China Baowu Group to the Group	
Products provided by China Baowu Group to the Group	For the payment of products sold or provided by the China Baowu 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

Condition precedent: The New China Baowu Supplemental Agreement is conditional upon the Independent Shareholders approving the New China Baowu Supplemental Agreement and the relevant proposed annual cap at the EGM.

Duration: For the period from the approval of Independent Shareholders at the EGM to be convened and expires on 31 December 2021.

Principal terms of the New China Baowu Supplemental Agreement are set out in the section headed “New China Baowu Supplemental Agreement” in the “Letter from the Board” contained in the Circular.

For internal control policies governing the on-going continuing connected transactions stipulated under the New China Baowu Supplemental Agreement, please refer to the sections headed “Internal control measures and review of continuing connected transactions” below.

3. Comparison of terms with independent third parties***Sales of steel products***

The sales of products from the Group to China Baowu Group comprise mainly of steel. We have discussed with the Management and randomly obtained sample documents from the Company with respect to the transactions under the Existing China Baowu Supplemental Agreement covering each month during the Review Period conducted with China Baowu Group as well as independent third parties. Please refer to the section “Comparison of terms with independent third parties” under the New Magang Group Supplemental Agreement for our analysis on the historical sales of steel products during the Review Period.

Purchase of goods

We understand that the purchase of goods by the Group from China Baowu Group comprise mostly of slabs, iron ore products, pellets and small amount of auxiliary materials and spare parts.

Slabs

In relation to the purchase of slab, we understand that the Group and China Baowu Group negotiated the pricing by referring to recent transaction prices on the market which was obtained through tender or transactions with independent third parties. As the Group does not purchase slabs every month, we have randomly obtained sample transaction documents covering each quarter where the Group has made purchases during the Review Period. Based on our review, we note that pricing of slabs purchased from China Baowu Group is more favourable than those offered by independent third parties during the Review Period.

Iron Ore products

We note that the Group would identify its imported ore supplier through a tender process. We have randomly obtained sample documents which covered each month of the Review Period and note that (i) the Group would award the tender to the bidder which can offer the most favourable pricing and terms to the Group; and (ii) the pricing offered by China Baowu Group in tenders which are awarded to them are the most favourable to the Group.

Based on the review of sample documents which set out the pricing and payment terms of the transactions and were confirmed by the Company, we note that the prices and payment terms of those sample transactions with China Baowu Group were priced no less favourable than that with independent third parties.

Pellets

Regarding the purchase of pellets from China Baowu Group, we have discussed with the Management and understand that the Group did not identify other suitable independent third-party suppliers in the proximity of the Group's production plants, which are able to produce pellets up to standards required by the Group. We further understand that the Management will obtain terms of transactions entered into between China Baowu Group and its independent customers to compare pricing offered to both independent third-party customers and the Group. It is noted that that the pricing offered by China Baowu Group is derived from the Platts index and further adjusted by the exchange rate and certain fixed pelletizing and transportation cost, and that the pelletizing and transportation cost charged to the Group is lower than that charged to independent third parties.

We understand that Group only purchased pellets in January 2020 during FY2020 and certain months in FY2021. We have randomly reviewed the sample documents for January 2020 and those covering each quarter of FY2021, and note that the pricing of pellets during the said period is calculated based on the Platts index with adjustments of exchange rate and fixed pelletizing and transportation costs. Furthermore, we note that transactions between China Baowu Group and both the Group and independent third parties are derived from the same formula, but the fixed pelletizing and transportation costs offered to the Group is lower. As such the terms offered by China Baowu Group to the Group is more favourable than that offered to independent third parties.

Regarding the payment terms, we note that the normal credit terms of the Group's trade receivables were within thirty to ninety days and the normal credit terms of the Group's trade payables were within three months as stated in the annual report of the Group for FY2020. As such, the credit terms for the transactions contemplated under the New China Baowu Supplemental Agreement were within range of the Group's normal credit terms and are no less favourable to the Group.

4. Basis of the Baowu Caps

The transactions contemplated under the New China Baowu Supplemental Agreement are subject to the Listing Rules' requirements and conditions as further discussed under the section "Reporting requirements and conditions of the Proposed Transactions" below. In particular, the Proposed Transactions are also subject to the annual cap as discussed below.

In assessing the reasonableness of the annual cap for the New China Baowu Supplemental Agreement, we have discussed with the Management the basis and assumption underlying the projections pursuant to the New China Baowu Supplemental Agreement into between the Company and China Baowu for the purpose of determining the relevant caps:

(i) Review of historical figures

Set out below are (i) the existing annual caps (tax exclusive) for FY2019, FY2020 and FY2021 and the actual transaction amount (tax exclusive) in respect of the products sold by Group to China Baowu Group the (“**Existing Baowu Sales Cap**”) and the products purchased by Group from China Baowu Group the (“**Existing Baowu Purchase Cap**”) under the Original Ordinary Related Transaction Agreement and Existing China Baowu Supplemental Agreement for FY2019, FY2020 and HY2021;

(a) Sales of products to China Baowu Group

	For the period from 9 September 2019 to 31 December 2019 RMB ('000)	For the year ended 31 December 2020 RMB ('000)	For the year ending 31 December 2021 RMB ('000)
Existing Baowu Sales			
annual caps	30,000	448,120	232,920
Actual transaction			
amounts	12,158	194,240	N/A
Utilisation Rate	40.53%	43.35%	N/A

We note that the Existing Baowu Sales Cap for FY2021 was smaller than that of FY2020. It was advised by the Management that at the time of determining the Existing Baowu Sales Cap for FY2021, the management of China Baowu Group estimated that there would be fewer numbers of projects carried out during 2021, hence a smaller cap was obtained. However, as it turned out, the demand in the steel industry during FY2021 was strong and both the Group and China Baowu Group has actively increased their production scale, as such, there was an increase in China Baowu Group’s demand of the Group’s steel products and at the same time the Group possess sufficient production capacity to meet the increased demand. It is also worth noting that the Company has increased its annual caps for FY2020 and FY2021 under the Existing China Baowu Supplemental Agreement in May 2020. Furthermore, the actual transaction amount for HY2021 was RMB162.8 million, which already recorded a utilisation rate of almost 70% of the Existing Baowu Sales Cap for FY2021. Taking into account China Baowu Group’s increased demand, there is a need to obtain a larger annual cap for FY2021.

(b) Purchase of products from China Baowu Group

	For the period from 9 September 2019 to 31 December 2019 RMB ('000)	For the year ended 31 December 2020 RMB ('000)	For the year ending 31 December 2021 RMB ('000)
Existing Baowu Purchase			
annual caps	220,000	7,241,650	14,784,450
Actual transaction amounts	142,473	1,944,900	N/A
Utilisation Rate	64.76%	26.86%	N/A

Regarding the purchase of products by the Group from China Baowu, as illustrated in the table above, the utilisation rate for the Existing Baowu Purchase Cap for FY2020 was 26.86%. We understand from the Management that during the calculation of the Existing Baowu Purchase Cap for FY2020, the Management expected that there will be an increased demand for the products due to a new tentative project and upward adjusted the annual caps in 2020, however such projects were subsequently cancelled. The utilisation rate for first half of FY2021 represents 28.3% of the Existing Baowu Purchase Cap for FY2021 and was already higher than the utilisation rate of that in FY2020.

*Assessment of the Baowu Cap**Products sold by the Group to China Baowu Group*

When assessing the reasonableness of the Baowu Cap in relation to the products provided by the Group to China Baowu Group (the “**Baowu Sales Cap**”), we have discussed with the Management the basis and assumptions underlying the projection of the Baowu Sales Cap.

Set out below is the Baowu Sales Cap being proposed contemplated under the New China Supplemental Agreement for FY2021:

**For the year
ending
31 December 2021
RMB ('000)**

Existing annual caps	232,920
Baowu Sales Cap	1,176,530

Baowu Sales Cap are determined with reference to (i) the state-prescribed price or in its absence, the market price regarding the continuing connected transactions; (ii) China Baowu Group's anticipated demand for products to meet its production plan; and (iii) the anticipated capacity in providing products to the China Baowu Group.

Through our discussion with the Management, we understand that based on the purchase plan provided by China Baowu, the China Baowu Group intend to take on certain new projects which will commence in latter November or December 2021 and will require at least approximately 130,000 tonnes of different types of steel metals in the remaining month of 2021. Having considered the purchase amount pursuant to the purchase plan and the market price of each type of steel metal, the Management estimated that the Baowu Sales Cap in relation to the sales of products by the Group to China Baowu Group will amount for FY2021, plus a 10% buffer, to RMB1,176.53 million.

We note that the Management has derived the estimated price of the relevant steel materials in the range of RMB5,000 per tonne to RMB9,550 per tonne depending on the specifications of the steel products required based on the latest internal price guide prior to the date of the Announcements as mentioned above. We have compared the relevant estimated steel prices set out in the internal price guide with the recent transaction prices on www.steelhome.cn and noted that the prices were comparable. We also note that prices of transactions conducted with both independent third parties and connected parties of the Group were determined with reference to the same price guide.

Products sold by China Baowu Group to the Group

Set out below is the Baowu Cap being proposed for transactions relating to the products provided by the Group to China Baowu Group (the “**Baowu Purchase Cap**”) contemplated under the New China Supplemental Agreement for FY2021:

	For the year ending 31 December 2021 RMB ('000)
Existing annual cap	14,784,450
Baowu Purchase Cap	18,764,450

The proposed annual caps of the products sold by China Baowu Group to the Group are determined after taking into account (i) the state-prescribed price or in its absence the market price regarding the continuing connected transactions; (ii) the Group’s anticipated demand for products from China Baowu Group to meet its production plan; and (iii) the anticipated capacity of China Baowu Group in providing products to the Group.

We have obtained a procurement plan for December 2021 from the Management and understand that the Company intends to purchase approximately 140,000 tonnes of slabs and approximately 2.04 million tonnes of iron ore products and various auxiliary materials and spare parts which are required for the production process to support the Group’s rapid development of steel business. Taking into account of the purchase amount according to the Company’s procurement plan and the market price of each type of product, the Management estimated that the Baowu Purchase Cap would amount to approximately RMB18,764.5 million for FY2021.

Slab

In relation to the estimated price of slab, the Management has derived the price based on the recent market pricing and took into reference the price trend of the semis price index on www.steelhome.cn before the date of the Announcements. We have checked the estimated price against the said semis price index during the month prior to the date of the Announcements and note that the Management's estimated price of RMB5,500 per tonne to RMB6,000 per tonne is slightly above range of the market prices quoted on www.steelhome.cn of RMB5,359 per tonne to RMB5,467 per tonne during the month prior to the date of the Announcements. We have further discussed with the Management regarding the reason for marking a higher price per tonne. We understand that due to the fact that slab price may differ depending on its specification and can be volatile and has rose to RMB5,885 per tonne during May 2021, the Management believes that it is crucial to account for such potential pricing movements when estimating price.

Imported Ores

The Group intends to purchase 1.84 million of imported ores. The Management has estimated that the price shall be RMB1,200 per tonne (equivalent to approximately USD185.8 per tonne) which is arrived at having considered the market price of iron ore products on www.steelhome.cn and the movement of the Platts Index from the start of 2021 to the date of the Announcements. We have checked the price trend of the Platts Index from the start of 2021 to the date of the Announcements and noted that the average price for the period was RMB1,200 per tonne. The prices recorded a significant rise from USD163 per tonne in April 2021 to USD218 per tonne in May 2021 but dropped rapidly to USD119 per tonne in the recent weeks before the date of the Announcements. We discussed with the Management and understood that as the price of iron ore products are volatile, they are of the view that RMB1,200 per tonne which is the average price of iron ore products from the start of 2021 to the date of the Announcements would be the best available estimate for determining the Baowu Purchase Cap for 2021 to allow certain buffer should the price soar again in the remaining period of 2021.

Pellets

As for pellets, they are produced from iron ore products and their prices are linked to the same price trend. The Group intends to purchase approximately 200,000 tonnes of pellets. The estimated price of approximately RMB1,300 per tonne is derived from the Platts index and further adjusted by the exchange rate and certain fixed pelletizing and transportation cost. Please refer to the paragraph “Comparison of terms with independent third parties” in this section for our consideration on the terms of the price estimation of pellets.

Regarding the purchase of auxiliary items and various auxiliary materials and spare parts, we note that due to the increase in anticipated production volume, the Group will require an increased amount of miscellaneous equipment and materials to support its production.

V. SUPPLEMENTAL ENERGY SAVING AND ENVIRONMENT PROTECTION AGREEMENT

1. Background to and reasons for entering into the Supplemental Energy Saving and Environmental Protection Agreement

The Company has been attempting to reduce the impact of its activities on the environment since 2017 and is committed to create a “Green Magang”. As such, on 30 December 2018, the Company and Anhui Xinchuang entered into the Existing Energy Saving and Environmental Protection Agreement, agreeing that from 1 January 2019 to 31 December 2021, Anhui Xinchuang shall provide energy saving and environmental protection construction and services to the Group to reduce emissions from the Group’s production activities and in turn the Group shall sell power, energy medium and finished products to Anhui Xinchuang to facilitate their services.

The Company has continued to adhere to its environmental protection goal and as set out in the annual report of the Company for FY2020, it was one of the strategic missions of the Company for 2021 to fully promote green and low-carbon actions. One of the ways to reduce emissions is through desulphurization and denitrification of waste and power mediums are key components to facilitate process. Anhui Xinchuang currently manages 16 systems out of 45 environmental systems of the Group and may manage more systems commencing from December 2021 and 2022. As the requirement for the desulphurization and the denitrification services has increased, the demand of power medium from the Group has also soared accordingly.

Anhui Xinchuang has been cooperating with the Company for renovation and management of the Group's system since 2013. Taking into consideration that Anhui Xinchuang is familiar with the Group's operations, possess expertise and has provided satisfactory services to the Group at a competitive pricing, the Board is of the view that it is in the interest of the Group to continue to engage the services of Anhui Xinchuang in relation to the management of its facilities and in turn provide power mediums for their operations.

In view of the factors mentioned above resulting in the increase in demand of power medium, the cap for sales of gas by the Group to Anhui Xinchuang under the Existing Energy Saving and Environmental Protection Agreement could not meet the expected increase in transaction value. As such, the Company and Anhui Xinchuang entered into the Supplemental Energy Saving and Environmental Protection Agreement, proposing to adjust the annual cap for FY2021 for power, energy medium and finished products to be sold by the Group to Anhui Xinchuang.

Information of Anhui Xinchuang

Anhui Xinchuang is a state-owned holding enterprise and mainly 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. It possesses 8 years of experience in the industry. As at the Latest Practicable Date, Anhui Xinchuang is controlled by the Parent Company and the Company is also interested in 16.34% of Anhui Xinchuang's share capital.

2. Principal terms of the Supplemental Energy Saving and Environment Protection Agreement

The principal terms of the Supplemental Energy Saving and Environment Protection Agreement are summarised as follows:

Subject Matter:	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.
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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 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 the sales of power, energy medium, finished product shall not be lower than the price of same categories of power, energy medium and finished product sold by the Group to independent third parties.

Payment terms: The payment in respect of power, energy medium and finished product shall be paid by the Company on monthly basis by the end of each month.

Condition precedent: 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 relevant proposed annual caps at the EGM.

Duration: For the period from the approval of the Independent Shareholders at the EGM to be convened and expires on 31 December 2021.

Principal terms of the Supplemental Energy Saving and Environment Protection Agreement are set out in the section headed "Supplemental Energy Saving and Environment Protection Agreement" in the "Letter from the Board" contained in the Circular.

For internal control policies governing the on-going continuing connected transactions stipulated under the Supplemental Energy Saving and Environment Protection Agreement, please refer to the sections headed "Internal control measures and review of continuing connected transactions" below.

3. Comparison of terms with independent third parties

Regarding the sales of power to Anhui Xinchuang, we have randomly reviewed sample documents obtained from the Company with respect to transactions under the Energy Saving and Environment Protection Agreement conducted with Anhui Xinchuang and independent third parties covering each month of the Review Period. We understand from the Management that price of energy medium is determined according to state prescribed price as set out below:

Water	Notice of Maanshan Municipal People's Government on Adjusting Water Resources Fees and Sewage Treatment Fees (馬鞍山市人民政府關於調整水 資源費和污水處理費標準的通 知)	http://zwgk.mas.gov.cn/openness/detail/ content/613b29e6d1da9b24178b4567. html
Electricity	Anhui Province Development and Reform Commission on Adjusting the Price of Electricity Sales in the Province Anhui Province Development and Reform Commission on Adjusting the Price of Electricity Sales in the Province (安徽省發 展改革委關於調整我省銷售電 價有關事項的通知皖發改價格)	https://www.wuhu.gov.cn/openness/ public/6604551/29704691.html
Gas	Notice on Adjusting the Sales Price of Natural Gas for Non- Residential Use in the City (關於調整我市非居民用天然氣 銷售價格的通知)	http://zwgk.mas.gov.cn/openness/detail/ content/61302485d1da9baf468b4567. html

Based on the review of sample documents in which pricing and payment terms details are shown and as confirmed by the Company, we note that the prices and payment terms of those sample transactions with both independent third parties and connected parties were based on state prescribed prices and transactions with connected parties were no less favourable than those of the transactions with independent third parties.

Regarding the payment terms, we note that the normal credit terms of the Group's trade receivables is within thirty to ninety days and the normal credit terms of the Group's trade payables is within three months as stated in the annual report of the Group for FY2020. As such, the credit terms for the transactions contemplated under Energy Saving and Environment Protection Agreement is within range of the Group's normal credit terms and are no less favourable to the Group.

4. Basis of the Xinchuang Cap

The transactions contemplated under the Supplemental Energy Saving and Environment Protection Agreement are subject to the Listing Rules' requirements and conditions as further discussed under the section "Reporting requirements and conditions of the Proposed Transactions" below. In particular, the Proposed Transactions are also subject to the annual cap as discussed below.

In assessing the reasonableness of the annual cap for the Supplemental Energy Saving and Environment Protection Agreement (the "**Xinchuang Cap**"), we have discussed with the Management the basis and assumption underlying the projections pursuant to the Supplemental Energy Saving and Environment Protection Agreement entered into between the Company and Anhui Xinchuang for the purpose of determining the relevant cap:

(i) Review of the historical figures

Set out below are the existing annual caps (tax exclusive) (the "**Existing Xinchuang Cap**") for FY2019, FY2020 and FY2021 and the actual transaction amount (tax exclusive) in respect of power, energy medium, and finished product provided by the Group to Anhui Xinchuang under the Existing Energy Saving and Environmental Protection Agreement for FY2019, FY2020 and HY2021:

Products sold by the Group to Anhui Xinchuang

	For the year ended 31 December 2019 RMB ('000)	For the year ended 31 December 2020 RMB ('000)	For the year ending 31 December 2021 RMB ('000)
Existing annual caps	79,000	80,000	81,000
Actual transaction amounts	55,990	67,390	N/A
Utilization rate	70.87%	84.24%	N/A

As shown above, the Existing Xinchuang Cap for the sale of products to Anhui Xinchuang has a high utilisation rate of 70.87% and 84.24% for FY2019 and FY2020, respectively. Furthermore, the actual transaction amount of approximately RMB62.7 million for HY2021 has recorded an utilisation rate of 77% of the Existing Xinchuang Cap for FY2021. The above utilisation rate indicated that the Company has previously taken a prudent approach in the calculation of the Existing Xinchuang Cap which had been insufficient to meet the increase in demand for 2021.

(ii) Assessment of the Xinchuang Cap

When assessing the reasonableness of the Xinchuang Cap, we have discussed with the Management the basis and assumptions underlying the projection of the Xinchuang Cap.

Set out below is the Xinchuang Cap regarding sales of products to Anhui Xinchuang being proposed for the transactions contemplated under the Supplemental Energy Saving and Environment Protection Agreement for FY2021:

Products sold by the Group to Anhui Xinchuang

	For the year ending 31 December 2021 RMB ('000)
Existing Xinchuang Cap for sales of products to Anhui Xinchuang	81,000
Proposed Xinchuang Cap regarding sales of products to Anhui Xinchuang	190,460

The proposed Xinchuang Cap regarding sales of products to Anhui Xinchuang for FY2021 estimated by the Directors represented an increase of 135% as compared to the Existing Xinchuang Cap. As discussed in the section “Background to and reasons for entering into the Supplemental Energy Saving and Environmental Protection Agreement” above we understand that the sales of power medium to Anhui Xinchuang is to facilitate Anhui Xinchuang’s management of the Group’s environmental system. The National 14th Five-Year Plan published by the PRC government in March 2021 encouraged, among others, steel industries, to push forward their green transformation and upgrade of facilities, thus increasing requirements to adhere to more stringent emission standards since 2021. It was not possible back in 2018 to foresee the increase in need for power mediums to facilitate the desulphurisation and denitrification process when determining the Existing Xinchuang Cap.

The Xinchuang Cap in relation to the sale of products to Anhui Xinchuang is determined after taking into account the demand of power mediums from Anhui Xinchuang and their relevant state prescribed price. After taking into account the latest demand estimates, the Management is of the view that an upward adjustment of the annual cap in relation to the sale of products to Anhui Xinchuang of approximately RMB109.45 million would be required for December 2021.

The estimated demand of power mediums was arrived based on (i) the possible engagement of Anhui Xinchuang for additional environmental facilities; (ii) the increased demand for power medium for the remaining period in 2021; and (iii) a 10% buffer in the event of extreme weather conditions or any possible pricing adjustment which would occurred in 2021.

We understand from the Management that considering the increased requirement to meet environmental regulations, the Group are negotiating with Anhui Xinchuang for the possible engagement for management of four additional environmental systems in December 2021 which will require additional usage of power mediums. Furthermore, an increase in demand for energy mediums have also been brought on by the wider utilisation of the existing systems managed by Anhui Xinchuang during the remaining months of FY2021, which together with the estimated 10% buffer made up the estimated increase amount of annual cap for sale of products to Anhui Xinchuang of RMB109.5 million in the coming December 2021.

In determining the price of power mediums, the Management made reference to the state prescribed price stated in (i) the “Notice of Anhui Provincial Development and Reform Commission on Adjusting Electricity Sales Price in Our Province” and Market-based Pricing Principles” (2020 654 號文《安徽省發展改革委關於調整我省銷售電價有關通知》及市場化定價原則) which came into on 1 January 2021 for the pricing of gas and electricity and; (ii) the Notice of the People’s Government of Ma An Shan City on Adjusting the Standards of Water Source Fees and Sewage Treatment Fees (《馬鞍山市人民政府關於調整水源費和污水處理費標準通知》) for pricing of water, details of which is set out previously on page 108.

VI. SALE AND PURCHASE OF PRODUCT AGREEMENT**1. Background to and reasons for entering into the Sale and Purchase of Product Agreement**

China Baowu and a number of members of China Baowu Group had entered into a number of sales and purchase of products agreements in the past to govern the on-going supply and procurement of products between members of the Group and members of China Baowu Group. As most of the sales and purchase of products agreements constituted continuing connected transaction of the Company will expire by end of 2021, to streamline and better govern the ongoing supply and procurement of products transaction between members of the Group and member of China Baowu Group, the Group and the China Baowu Group decided to enter into a consolidated Sale and Purchase of Products Agreement to govern all on-going supply and procurement of products transactions between members of the Group and members of China Baowu Group.

Upon the entering into of the Sale and Purchase of Product Agreement, (i) the Original Magang Group CCT Agreement (as amended by the Existing Magang Group Supplemental Agreement and the New Magang Group Supplemental Agreement); (ii) the Previous Ordinary Related Transaction Agreement and the Original Ordinary Related Transaction Agreement (as amended by the Existing China Baowu Supplementary Agreement and the New China Baowu Supplementary Agreement), (iii) the Original Ouye Lianjin CCT Agreement (as amended by the Existing Ouye Lianjin Supplemental Agreement and the New Ouye Lianjin CCT Agreement), (iv) the Chemical Energy Company Continuing Connected Transaction Agreement; (v) the K. Wah Company Continuing Connected Transaction Agreement; (vi) the Existing Energy Saving and Environmental Protection Agreement (as amended by the Energy Saving and Environmental Protection Supplementary Agreement); (vii) the Sale and Purchase of Ore Agreement; and (viii) the Integrated Support Services Agreement which had been expired or will expire by end of 2021 (the “**Previous CCT Agreements**”), would not be renewed and all the sales and purchaser of products transaction contemplated under the above mentioned agreements will be consolidated to the Sale and Purchase of Product Agreement.

The Directors are of the view that, given members of the Group and members of China Baowu Group has provided products to each other for several years, therefore, both parties were able to fully understand the business and operating needs of each other.

For product sales, the Company believes that by maintaining a stable products sale channel is of utmost importance to the Group's current and future production and operations. The price of products provided by the members of the Group to members of China Baowu Group are no less favorable than the price of products provided to independent third parties by us. In view of such, the Directors considered that the supply of products to members of China Baowu Group is beneficial to the Company.

For product procurement, members of the Group have from time to time procured various products from a number of suppliers including members of China Baowu Group and members of China Baowu Group had been supplying products to the Group for a number of years. Given the price of products provided by members of China Baowu Group were no less favorable than the price of products provided by independent third parties to the Group, the Directors considered that the steady supply of products from members of China Baowu Group would be beneficial to the Group's operation.

The Directors considered that the Sale and Purchase of Product Agreement provides flexibility, but not an obligation, to the Group or China Baowu Group to engage each other in their respective business operation whenever their respective directors considered appropriate and necessary. Furthermore, considering the long-term co-operation between the Group and China Baowu Group, the Directors are of the view that the entering into the Sale and Purchase of Product Agreement provided an opportunity to the Group to continue the collaboration with China Baowu Group as and when necessary.

2. Principal terms of the Sale and Purchase of Product Agreement

Subject Matter: The Company agreed to sell products to China Baowu Group through itself and the Group, including steel, ingot, coke, iron oxide, metallurgical accessories and materials (stainless steel belt, cable, tools, etc.) and other products (labor insurance, office supplies, etc.), electricity, domestic water, industrial treated water, blast furnace gas, coke oven gas, converter gas, steam, compressed air, other gases and slag, etc.

China Baowu itself agreed to sell products to the Company Group through itself and China Baowu Group, including ore, lime, scrap steel, steel billets, refractory materials, spare parts, complete equipment, non-standard spare parts and other commodities (coke, coal, alloy, oil, gas, etc.).

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 Sale and Purchase of Product Agreement. The terms of the products (including but not limited to pricing and payment) to be sold by the Group to China Baowu Group shall not be more favourable than those to the independent third parties provided by the Group for similar categories of products. The terms of the products (including but not limited to pricing and payment) to be sold by China Baowu 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.

During the term of the Sale and Purchase of Product 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 Sale and Purchase of Product 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 to be sold by the Group to China Baowu Group shall not be lower than the price of the same categories of products sold by the Group to independent third parties.

The pricing regarding products to be sold by China Baowu Group to the Group shall not be higher than the pricing of the same categories of products sold by the independent third parties to the Group.

In accordance with the current price standards, the price benchmarks adopted in other transactions under the Sale and Purchase of Product Agreement are as follows:

Category	Principle of Pricing	Items
Products sold by the Group to China Baowu 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
Products purchased by the Group from China Baowu Group	Market price	Ore/lime/scrap steel/steel billets/refractory materials/spare parts and complete equipment/non-standard spare parts, etc.
	Market price	Other commodities (coke, coal, oil, etc.)

Please refer to the Letter from the Board for further details on the pricing of products sold by the Group to China Baowu Group and products purchased by the Group from China Baowu Group.

Payment terms: Regarding the payment of electricity, domestic water, industrial treated water, blast furnace gas, coke oven gas, converter gas, steam, compressed air, other gases and slag, etc. sold by the Group to China Baowu Group, the sum for the sales with respect to the previous month shall be paid by China Baowu 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, China Baowu 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 metallurgical 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 China Baowu Group to the Group and settlement shall be done on a monthly basis.

For the payment of products sold by China Baowu 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.

Condition precedent: The Sale and Purchase of Product Agreement is conditional upon the Independent Shareholders approving the Sale and Purchase of Product Agreement and respective proposed annual caps at the EGM.

Duration: Subject to the fulfillment of the aforementioned condition precedent, the Sale and Purchase of Product Agreement shall be for a term of three years commencing 1 January 2022 and ending 31 December 2024.

Principal terms of the Sale and Purchase of Product Agreement are set out in the section headed “Sale and Purchase of Product Agreement” in the “Letter from the Board” contained in the Circular.

For internal control policies governing the on-going continuing connected transactions stipulated under the Sale and Purchase of Product Agreement, please refer to the sections headed “Internal control measures and review of continuing connected transactions” below and in the “Letter from the Board” contained in the Circular.

3. Comparison of terms with independent third parties

As most of the historical transactions of the Sale and Purchase of Product Agreement were carried out pursuant to the terms of the Previous CCT Agreements, we have discussed with the Management, and reviewed sample documents obtained from the Company with respect to transactions under certain Previous CCT Agreements, for details please refer to sections II, III, IV and V above. In relation to transactions which have not been discussed above, set out below is the comparison of terms for the sales of slag and purchase of auxiliary products and domestic iron ore products:

Sales of Water Slag

We understand from the Management that there were no sales of water slag to independent third parties during the Review Period as other steel production companies located near by the Group has their own supply of water slag from its own production plant. We further understand that the Group will conduct research by obtaining pricing of water slag set by various water slag suppliers in the China Baowu Group sold to independent third parties monthly to ensure the price of water slag is comparable to the market price and is not less favourable to the Group.

We have reviewed the research documents updated monthly for sales of water slag conducted by the Group and reviewed randomly certain transaction documents in relation to the sales of slag covering each month during the Review Period. We note that the pricing of water slag set by the Group is higher than or in the top range of the pricing set by other water slag suppliers and as such, we are of the view that the pricing of water slag is above the market.

Purchase of Auxiliary products

Regarding the purchase of auxiliary products, we understand the Group did not make a purchase each month during the Review Period. As such, we have randomly reviewed certain transaction documents covering each quarter of the Review Period and note that the pricing of auxiliary products purchased from China Baowu Group is comparable to that quoted by independent third parties.

Purchase of domestic iron ore

The Group did not conduct transactions in relation to the purchase of domestic iron ore products with independent third parties during the Review Period.

As such, we understand from the Management that the purchase department will reference the market price by obtaining quotations from independent third parties suppliers which are not within such close proximity of the Group's facilities or in its absence, refer to benchmark market pricing of similar ore products produced by larger independent third party mines situated farther away as extracted from the Websites in respect of similar or comparable products to compare the terms with those offered by China Baowu Group.

We have randomly reviewed certain transaction documents in this regard covering each month of the Review Period. We note that it is beneficial to the Group to purchase from China Baowu Group as (i) the pricing offered by China Baowu Group is lower than market prices; and (ii) it is more cost efficient to purchase from a supplier within close proximity to avoid transportation costs. Having considered the above, we are of the view that the terms offered by China Baowu Group are no less favourable to the Group than those offered by independent third parties.

4. Basis of the Product Caps

The transactions contemplated under the Sale and Purchase of Product Agreement are subject to the Listing Rules' requirements and conditions as further discussed under the section "Reporting requirements and conditions of the Proposed Transactions" below. In particular, the Proposed Transactions are also subject to the annual cap as discussed below.

In assessing the reasonableness of the annual cap for the Sale and Purchase of Product Agreement (the "**Product Caps**"), we have discussed with the Management the basis and assumption underlying the projections pursuant to the Sale and Purchase of Product Agreement entered into between the Company and China Baowu Group for the purpose of determining the relevant cap:

(i) Review of the historical figures

Set out below are actual transaction amount (tax exclusive) in respect of sales and purchase of products between the Group and China Baowu Group for FY2019, F2Y2020 and HY2021:

	For the year ended		For the six
	31 December		months ended
	2019	2020	30 June
	<i>RMB ('000)</i>	<i>RMB ('000)</i>	<i>RMB ('000)</i>
Sales of products to China			
Baowu Group	3,038,488.4	2,931,084.0	1,916,944.6
Purchase of product from			
China Baowu Group	10,158,629.8	14,629,872.1	15,595,211.8

Sales of products to China Baowu Group recorded a slight decrease of 3.5% for FY2020 as compared to that in FY2019 mainly attributable to the expiry of K. Wah Company Continuing Connected Transaction Agreement in which no electricity and water slag were sold to K. Wah Company for FY2020. Transaction value for HY2021 already reached 65% of the total transaction value for FY2020 and the Management anticipated that the transaction value will be larger as compared to that of in FY2020 due to expansion of the Group's production scale.

Purchase of products from China Baowu Group increased substantially by 44.0% from 2019 to 2020, due to increase in purchase of scrap steel as the Group transits to ultra-low emission. As the Group aims to complete its transformation in 2021, there was an increase in purchase of additional scrap metals during the year. During HY2021, the actual transaction value for purchase of products from China Baowu Group reached approximately RMB15.6 billion which exceeded the full year actual purchase amount in from China Baowu Group in FY2020.

(ii) Assessment of the Products Caps

When assessing the reasonableness of the Products Caps, we have discussed with the Management the basis and assumptions underlying the projection of the Products Caps.

Product Caps	For the years ending 31 December		
	2022	2023	2024
	RMB ('000)	RMB ('000)	RMB ('000)
Sales of products to China			
Baowu Group	13,859,277	15,149,577	15,952,495
Purchase of product from China			
Baowu Group	39,451,969	39,524,488	39,941,462

Sales of products to China Baowu Group

The Products Cap for sales of product from the Group to China Baowu Group comprise mainly of (i) energy mediums (power, electricity and gas); (ii) steel products; and (iii) water slag, and in total account for over 90% of the Products Cap for the sales of products for the FY2022, FY2023 and FY2024. The remaining cap is made up of by-products from the production of steel. Their demand for FY2022, FY2023 and FY2024 is similar to their historical demand during the Review Period.

Energy mediums

We understand from the Management that in relation to the calculation of the estimated transaction amount of energy mediums, it was determined after taking into account (i) the Company's anticipated production capacity for such power; (ii) the estimated demand from China Baowu Group; and (iii) the anticipated state prescribed price for such energy mediums. The estimated amounts were RMB4,365 million, RMB5,021 million and RMB5,261 million for FY2022, FY2023 and FY2024 respectively, accounting for approximately 31% of the Product Cap for the sales of products for FY2022 and 33% of the Product Cap for the sales of products for FY2023 and FY2024 respectively. The Company has its own water and electricity generator and produces gas as a by-product during its steel production process. The energy mediums can be sold to other users and generate a profit.

The demand for the said energy medium were estimated between the Management and China Baowu Group taking into account the expected demand of China Baowu Group. The sales of energy mediums for FY2022, FY2023 and FY2024 was estimated to increase comparing to FY2020, due to the expected rise in demand driven by the increase in number of environmental facilities as discussed in the section "Background to and reasons for entering into the Supplemental Energy Saving and Environmental Protection Agreement" above to be operated by China Baowu Group for the Group in the coming years. The estimated price of the energy mediums was determined according to the latest state prescribed price before the date of the Announcements.

Steel products

In relation to the calculation of estimated transaction amount of steel products, the Management considered that the (i) China Baowu Group's anticipated demand of 1.24 million tonnes to 1.36 million tonnes and (ii) the estimated price of steel products in the coming three years in the range of RMB6,173 to RMB6,306 per tonne. The estimated amounts are RMB7,647 million, RMB8,137 million and RMB8,599 million for FY2022, FY2023 and FY2024, respectively, making up approximately 55% of the Products Cap for FY2022 and 54% of the Products Cap for FY2023 and FY2024. The demand was derived based on the business plan of China Baowu Group to develop new markets leading to additional needs for steel products.

In relation to the price of steel materials, we note that the price is arrived based on the latest internal price guide for all types of steel products produced by the Group before the date of the Announcements. The price guide is compiled by the purchase department of the Group monthly based on recent market transactions of the month. We understand from the Management that the sale price of steel products to all parties including connected and independent third parties are required to adhere to the price guide and are determined according their specifications. We have compared the estimated prices with prices on industry websites and note that they are comparable.

Water slag

Water slag is a by-product generated during the steel production process. Regarding the estimated transaction amount of water slag, the Company has considered the demand of China Baowu Group to be 5.2 million tonnes for FY2022 to 5.5 million tonnes for FY2023 and FY2024 and the pricing of the water slag of RMB165 per tonne. The estimated transaction amount was RMB858 million for, RMB908 million and RMB908 million, respectively, representing approximately 6% of the annual caps for FY2022, FY2023 and FY2024. The demand was estimated having considered (i) the historical demand for water slag from China Baowu Group of around 5 million tonnes from FY2019 to FY2021; and (ii) the slight buffer for any anticipated rise in demand from China Baowu Group.

In relation to the calculation of the estimated price of water slag, we understand from the Management that the pricing is reviewed monthly after taking into consideration the price of cement and mineral power during the month and the prices of neighbouring water slag providers charged to independent third parties. The price of RMB165 per tonne was determined in accordance to average of the monthly price of water slag from January 2021 to August 2021 with a buffer of around 5%.

Considering that the determination of the above estimation has taken into account (i) the recent historical demand of China Baowu Group; (ii) the respective production capacities of the Group; and (iii) the recent market price (with certain buffer for upward price adjustment, if applicable), we are of the view that the estimated transaction amount mentioned above of Product Cap for sales of products to China Baowu Group is acceptable.

Purchase of product from China Baowu Group

The Products Cap for purchase of product from China Baowu Group comprise mainly purchase of (i) auxiliary materials for steel production; (ii) scrap metals; (iii) slabs; and (iv) ore products which amount to in total around 84% of the Products Cap for each of FY2022, FY2023 and FY2024.

Scrap metals

Regarding the estimated transaction amount of scrap metals, we understand it was determined with reference to the increase in demand of the Group and the estimated price of scrap metals for the coming three years. The estimated amount was approximately RMB11,352 million, RMB11,920 million, and RMB12,278 million, respectively, amounting to 29%, 30% and 31% of the Products Cap for purchase of products for FY2022 and FY2023 and FY2024. The estimated demand from the Group was around 3.2 million tonnes for each of 2022 to 2024, which was similar as that in FY2020.

The price of scrap metals was estimated at approximately RMB3,530 per tonne for FY2022, RMB3,706 per tonne for FY2023 and RMB3,891 per tonne for FY2024. The price was arrived at having considered (i) the latest price of scrap metals before the date of the Announcements as set out in the monthly internal price guides compiled by the Group's purchasing department with reference to the recent market transactions on public domain such as www.steelhome.cn and (ii) a slight growth rate of up to 5% in price for scrap materials in FY2023 and FY2024. We have noted from the price index of scrap materials on www.steelhome.cn that market price during the month before the date of the Announcements was in the range of RMB3,773 to RMB3,834 per tonne, which is higher than the estimated price of RMB3,530 per tonne for FY2022. Given we noted an increasing trend in 2021, we consider factoring in a 5% increase for scrap material price in FY2022 and FY2023 is acceptable.

Auxiliary products

In relation to the estimated price of auxiliary products, it was arrived based on the historical transaction amount of the Group. We understand that from the Management, the Group previously purchased less than one fifth of required auxiliary products from China Baowu Group during FY2019 amounting to approximately RMB700 million and the remaining demand of auxiliary products were fulfilled by independent third-party suppliers and amounted to RMB4,151 million for FY2019 and RMB3,817 million for FY2020. As advised from the Management, in FY2020, China Baowu Group established a subsidiary for the purpose of centralizing procurement of auxiliary products for its group companies to obtain better terms via commercial negotiation for purchase of bulk volume. In view of such, the Management anticipated that pricing offered by China Baowu Group for auxiliary products would be more favourable compared to direct purchasing from independent third parties by the Group. Taking into account its previous demand from both through China Baowu Group and independent third parties during the FY2019 and FY2020, the Management estimated that the transaction amount for FY2022, FY2023 and FY2024 shall amount to approximately RMB5,121 million, RMB5,311 million and RMB5,322 million, respectively, accounting for approximately 13% of the annual cap for each of FY2022, FY2023 and FY2024.

Slab

Regarding the estimated transaction price for slab, we understand that it was determined having considered the Company's demand and estimated price for slab in the coming FY2022 to FY2024. The demand for slab is around 960,000 tonnes for each of FY2022 to FY2024. We understand from the Management that slab is a semi metal which through processing can be developed into steel products. The Group has planned to fully utilise their steel production line, however the slab product capacity of the Group has yet to meet to required slab volume needed to maximize the steel production of the Group. As such, the Company had to reach out to source slab from other parties. According to the Management, as the Group did not identify suitable slab from independent third parties from FY2022 to FY2024, the Management after considering their production capacity, decided to procure slab from China Baowu Group and estimated that around 1 million tonnes of slab would be available to fulfil the Group's demand. The estimated slab price was approximately RMB5,386 million to RMB5,482 million for FY2022, FY2023 and FY2024 which was based on the recent market price of slabs before the date of the Announcements. We have checked the estimated price against the said semis price index and note that the Management's estimated price of is within or slightly higher than the range of the market prices quoted on www.steelhome.cn of RMB5,347 per tonne to RMB5,467 per tonne within the month before the date of the Announcements. The estimated transaction amount of RMB5,171 million, RMB5,228 million and RMB5,263 million for FY2022, FY2023 and FY2024, respectively and representing approximately 13% of the Products Cap for all three years.

Iron ore products

Imported Ores

In determining the estimated transaction amounts for imported iron ore products, the Management took into account the estimated demand of approximately 4.5 million tonnes of imported iron ore products for each of the FY2022, FY2023 and FY2024 and estimated price of RMB1,144, RMB1,071 and RMB1,064 per tonne for FY2022, FY2023 and FY2024, respectively. The transaction amounts of RMB5,150 million, RMB5,229 million and RMB5,482 million respectively account for approximately 13% of the Product Caps for FY2022 and 12% of the Product Caps for FY2023 and FY2024 of the for purchasing products.

In relation to the demand of imported iron ore products, the Group expects they will require 18 million tonnes of imported iron ore products to support its annual steel production for the coming three years. The Company had identified a stable supply of approximately 14 million tonnes from its own subsidiaries, but would require an additional of around 4.5 million tonnes to ensure a stable production. The Group intends to identify suppliers for the said addition iron ore products through tendering process and expects that China Baowu Group will be one of the suppliers to submit tender for the project. Although the award of the tender to China Baowu Group will depends on the final result of the tendering process, the Management is of the view that it is necessary to ensure there is sufficient annual cap to award the project to China Baowu Group should China Baowu Group be selected in the tendering process.

The estimated price of iron ore products of FY2022 of RMB1,144 per tonne is calculated by applying an approximately 10% discount on the historical average price of iron ore products in FY2021 up to the date of the Announcements, while the price estimated for FY2023 of RMB1,071 per tonne and FY2024 of RMB1,064 per tonne were based on further discount of approximately 6% on the estimated price of FY2022. We have discussed with the Management and noted from the iron ore price index on www.steelhome.cn that starting from mid-July 2021, iron ore price decrease from around RMB1,500 per tonne to RMB937 per tonne before the date of the Announcements in late September 2021. With such fluctuation and decreasing iron ore prices in recent months coupled with market speculation that the prices will continue to drop, the Management expected that prices will gradually return to a lower level in the coming three years.

Domestic Ores

In addition to the above, the Group also procures domestic iron ore products in the nearby Ma An Shan region to facilitate its production process. In determining the estimated transaction amounts for domestic iron ore products, the Management took into account the estimated demand of domestic iron ores and ore prices. The transaction amount of RMB6,220 million, RMB6,129 million and RMB6,081 million accounts for approximately 16% for each of FY2022 and FY2023 and 15% for FY2024 of the Product Caps for purchasing products.

As the ore mines of China Baowu Group is located next to the production centre of the Group, the Group may from time-to-time procure domestic iron ore products from the China Baowu Group for ease of logistic arrangements. When deciding the expected demand for domestic ores, the Company took into account its production plan for the next three years and the existing demand for domestic ore and predicts 6.7 million tonnes, 6.8 million tonnes and 7.0 million tonnes of domestic iron ores required for FY2022, FY2023 and FY2024, respectively. The pricing is determined by referring to the pricing trend of domestic ore products from January 2021 up to the date of the Announcements and is estimated to price at around RMB928, RMB900, RMB866 per tonne for FY2022, FY2023 and FY2024. As at the date of the Announcements, the average price for domestic iron ore products is around RMB990 per tonne. The price trend of domestic iron ore products are similar to imported ore products. As the pricing of ores were unusually volatile in 2021 and has started to decrease in mid-July 2021, the Management is of the view that it is fair to predict a continuing decreasing price trend of domestic iron ore products for the coming years.

Having considered that the Product Caps for purchasing of products have taken into account the estimated procurement demand and the recent market price and pricing trend of products, we consider that the estimated transaction amount mentioned above of Product Cap for purchasing of products from China Baowu Group are acceptable.

VII. ACCEPTANCE AND PROVISION OF SERVICES AGREEMENT

1. Background to and reasons for entering into the Acceptance and Provision of Services Agreement

China Baowu and a number of members of China Baowu Group had entered into a number of provisions of services agreement in the past to govern on the on-going acceptance and provision of services between members of the Group and members of China Baowu Group. As most of the provisions of services agreements which constituted continuing connected transaction of the Company will expire by end of 2021, to streamline and better govern the ongoing acceptance and provision of services between members of the Group and members of China Baowu Group, the Group and the China Baowu Group decided to enter into a consolidated Acceptance and Provision of Services Agreement to govern all the going acceptance and provision of services transactions between members of the Group and members of China Baowu Group.

Upon the entering into of the Acceptance and Provision of Services Agreement, (i) the Original Magang Group CCT Agreement (as amended by Existing Magang Group Supplemental Agreement and New Magang Group Supplemental Agreement); (ii) Original Ordinary Related Transaction Agreement as amended by the Existing China Baowu Supplemental Agreement and the New China Baowu Supplemental Agreement, (iii) the Original Ouye Lianjin CCT Agreement (as amended by the Existing Ouye Lianjin Supplemental Agreement and the Existing Original Ouye Lianjin CCT Agreement), (iv) the Chemical Energy Company Continuing Connected Transaction Agreement; (v) the Existing Energy Saving and Environmental Protection Agreement (as amended by the Energy Saving and Environmental Protection Supplementary Agreement) and (vi) the Integrated Support Services Agreement which had been expired or will be expired by end of 2021 (i.e. the Previous CCT Agreements), would not be renewed and all the provision and obtaining of services transactions contemplated under the above mentioned agreements will be consolidated to the Acceptance and Provision of Services Agreement.

The Directors are of the view that, given members of the Group and members of China Baowu Group have provided services to each other for several years, therefore, both parties are able to fully understand the business and operating needs of each other.

The Directors considered that the Acceptance and Provision of Services Agreement provides flexibility, but not an obligation, to the Group or China Baowu Group to engage each other in their respective business operation whenever their respective directors considered appropriate. Furthermore, taking into account the long-term co-operation between the Group and China Baowu Group, the Directors are of the view that the entering into the Acceptance and Provision of Services Agreement provided an opportunity to the Group to continue the collaboration with China Baowu Group as and when necessary.

2. Principal terms of the Acceptance and Provision of Services Agreement

Subject Matter: The Company agreed to provide services to China Baowu, including entrusted steel billets processing, metering, inspection, rental services, railway transport, etc

China Baowu itself and China Baowu Group agreed to provide services to the Company, including infrastructural and technological renovation projects, energy conservation and environmental protection projects, contract energy management, custodial operations, major/medium maintenance of equipment, road transportation, waterway transportation, integrated port services, maintenance and preservation of equipment (facilities), automated/information operation and maintenance services and renovation; receiving inspection and repair services for electrical, electric and transformer works and other services (vehicle repair, monitoring and diagnostic services, etc.) Wheel processing, scrap steel processing, waste water treatment, gas processing, warehousing/distribution services, etc.; training, communication, printing, archiving, office rental, agency services and other specialized 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 Acceptance and Provision of Services Agreement. The terms of products (including but not limited to pricing and payment) to be provided by the Group to China Baowu shall not be more favourable than those to the independent third parties provided by the Group for similar categories of products. The terms of the products (including but not limited to pricing and payment) to be provided by China Baowu to the Group shall not be less favourable than those provided by the independent third parties to the Group for similar categories of products.

During the term of the Acceptance and Provision of Services 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 Acceptance and Provision of Services 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 services to be provided by the Group to China Baowu Group shall not be lower than the price of the same categories of services provided by the Group to independent third parties.

The pricing regarding the services to be provided by China Baowu Group to the Group shall not be higher than the pricing of the same categories of 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 Acceptance and Provision of Services Agreement are all subject to market price.

Category	Principle of Pricing	Items
Services provided by the Group to China Baowu	Market price	Provide entrusted steel billets processing, provide metering, inspection services, etc.
Services received by the Group from China Baowu	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.

Please refer to the Letter from the Board for further information on the pricing of services provided by the Group to China Baowu and services received by the Group from China Baowu.

Payment terms:

Regarding the payment of entrusted steel billets processing, metering, inspection services, etc., it shall be paid by China Baowu Group to the Group and settlement will be done on a monthly basis.

The payment of Infrastructure Technical and Renovation Engineering Services provided by China Baowu Group to the Group 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 China Baowu Group within 30 business days after the Group shall have verified the quality.

Condition precedent:

Acceptance and Provision of Services Agreement is conditional upon the Independent Shareholders approving the Acceptance and Provision of Services Agreement and respective Proposed Annual Caps at the EGM.

Duration:

Subject to the fulfillment of the aforementioned condition precedent, the Acceptance and Provision of Services Agreement shall be for a term of three years commencing 1 January 2022 and ending 31 December 2024.

3. Comparison of terms with independent third parties

As the historical transactions of the Acceptance and Provision of Services Agreement were carried out pursuant to the terms of the Previous CCT Agreements, we have discussed with the Management, and reviewed sample documents obtained from the Company with respect to transactions under certain Previous CCT Agreements. For services obtained or provided to China Baowu Group not covered in the previous sections, the following comparisons had been carried out:

Provision of processing services

We understand that the Group commenced its processing business in FY2021 and only provides such services to members in the China Baowu Group. We further noted from our discussion with the Management that the processing fee during FY2021 is calculated on a cost-plus profit margin approach as there were no comparable transaction with independent third parties. We have reviewed randomly certain transaction documents covering each month during Review Period and note from the calculation stipulated in the transaction documents and as confirmed by the Management, that the minimum gross profit margin for processing services during FY2021 noted was at least 22%, which is higher than the profit margin of the Group of 9% and 10% during FY2019 to FY2021.

Provision of OEM services

As for provision of OEM services, we understand that the OEM services are provided in accordance with the internal guide “OEM Management Measures for Steel Products” (鋼材產品代工管理辦法) of the Company. We have randomly reviewed the transaction documents covering each month of the Review Period in relation to OEM services provided to both connected and independent parties and note that the price, payment and service terms stipulated in the documents were no less favourable than those transactions with independent third parties.

Obtaining construction services

Regarding the procurement of construction services for production facilities and upgrade services of environmental facilities from the China Baowu Group, we understand that the Company had conducted tender process in selecting units in the China Baowu Group in its previous projects. We have randomly reviewed the tender documents covering each quarter during the Review Period and note that the price and payment terms quoted by China Baowu Group for projects awarded to them are more favourable to the Group than that quoted by independent third parties.

Obtaining management services of environmental systems

In relation to obtaining management services of environmental systems we understand that that the management fees comprise of (i) energy costs; (ii) labour costs; (iii) management fee; and (iv) certain mark-up. Energy costs are mostly from demand of power mediums, which will be calculated according to state-prescribed price. We have reviewed sample transactions documents of the Group and note that the power mediums were determined in accordance with state-prescribed prices.

Regarding the comparison of services fees, we understand that the Group only engaged China Baowu Group for obtaining management services in the past three years. The Group did identify an independent supplier situated in the proximity of the Group's facilities which possesses speciality required for management of the environment systems to obtain quotation. From our discussion with the Management and as noted in the quotation, we understand that the labour costs, management fees and mark-ups of China Baowu Group are lower than those noted in the quotation from the independent third party. As such, the terms provided by China Baowu Group was more favourable than that quoted by the independent third-party supplier. We have randomly reviewed sample transaction documents covering each quarter during the Review Period and note that the labour costs, management fees and mark-ups offered by China Baowu Group are lower than those quoted by independent third-party suppliers.

Obtaining Repair and Maintenance Services

(i) Maintenance Services

As advised by the Management, the maintenance fees are charged according to industry guide price stipulated in the "Pricing Guide for Maintenance Services for Iron and Steel Enterprises" (鋼鐵企業檢修工程預算定額) issued by the China and Steel Association, a regulator of the PRC steel industry with effect from 2019. We have randomly reviewed certain transaction documents covering each quarter of the Review Period and note that the pricing of maintenance fees adopted by China Baowu Group and independent third parties are in accordance with the industry guide price and the term of the maintenance services offered by China Baowu Group is not less favourable than that offered by independent third parties.

(ii) Repair Services

Repair fees comprise of labour costs and supply costs. We understand that the Group only engaged China Baowu Group as they offered a more competitive pricing compared to independent service providers. We have randomly obtained certain transaction documents covering each quarter of the Review Period in relation to repair services provided by China Baowu Group to the Group and their independent customers and note that the pricing terms offered by China Baowu Group to the Group is lower than the price offered to their independent customers. As such, the terms offered by China Baowu Group to the Group is more favourable than that offered to independent third parties.

4. Basis of the Services Caps

The transactions contemplated under the Acceptance and Provision of Services Agreement are subject to the Listing Rules' requirements and conditions as further discussed under the section "Reporting requirements and conditions of the Proposed Transactions" below. In particular, the Proposed Transactions are also subject to the annual cap as discussed below.

In assessing the reasonableness of the annual cap for the Acceptance and Provision of Services Agreement (the "**Services Caps**"), we have discussed with the Management the basis and assumption underlying the projections pursuant to the Acceptance and Provision of Services Agreement into between the Company and China Baowu Group for the purpose of determining the relevant cap:

(i) Review of the historical figures

Set out below are actual transaction amount (tax exclusive) in respect of the provision and acceptance of services between the Group and China Baowu Group for FY2019, FY2020 and FY2021:

	For the year ended		For the
	31 December		six months
	2019	2020	ended
	RMB ('000)	RMB ('000)	30 June
Actual transaction amounts			2021
			RMB ('000)
Provision of services to China			
Baowu Group	14,716.5	34,791.7	5,038.9
Obtain services to China Baowu			
Group	4,079,872.7	5,578,090.0	2,740,887.1

The provision of services to China Baowu Group increased by 136.4% from RMB14.7 million for FY2019 to RMB34.8 million for FY2020. The increase was primarily due to provision of OEM services and processing services to additional numbers of production units in the China Baowu Group which required such services from the Group. For obtaining of services from China Baowu Group, it increased by 36.7% from RMB4,079.9 million for FY2019 to RMB5,578.1 million for FY2020. The increase was due to (i) construction services for the upgrade of a number of environmental systems to expedite the Group's ultra-low emission transformation; (ii) the increased logistic services provided by the Parent Group to the Group; and (iii) a larger repair and maintenance fee from the regular maintenance of the blast furnace of the Group which occurs every three to four years.

(ii) Assessment of the Services Caps

When assessing the reasonableness of the Services Caps, we have discussed with the Management the basis and assumptions underlying the projection of the Services Caps.

Set out below is the Services Cap regarding the provision and acceptance of services between the Group and China Baowu Group being proposed for the transactions contemplated under the Acceptance and Provision of Services Agreement for the three years ending 31 December 2022, 2023 and 2024:

	For the years ending 31 December		
	2022	2023	2024
Service Caps	<i>RMB ('000)</i>	<i>RMB ('000)</i>	<i>RMB ('000)</i>
Provision of services to China			
Baowu Group	272,589.1	311,487.1	331,972.9
Obtain services to China Baowu			
Group	11,694,097.0	12,032,859.3	12,036,864.5

Provision of services to China Baowu Group

The Services Cap in relation to obtaining services from China Baowu Group is comprise mainly of provision of (i) entrusted steel billets processing services; and (ii) OEM services, which in total make up approximately 84% of the Services Cap for each of FY2022, FY2023 and FY2024. The increase in the service cap from FY2022 to FY2023 and FY2024 is mainly attributable to the increase in demand of OEM services which will be discussed below.

Entrusted steel billets processing services

In relation to the processing services, the Group will process slabs of other steelmakers and produce steel products on their behalf and obtain a processing fee. The estimated amount of the processing services is RMB173 million for FY2022 and RMB174 million for FY2023 and FY2024 make up 63%, 56% and 52% of the Service Cap or FY2022, FY2023 and FY2024, respectively.

As set out in above in the section “Assessment of the Products Caps” under the Sales and Purchase of Product Agreement, the Group aims to fully utilize its production capacity. We understand from the Management that should there be any remaining steel production capacity, the Group will also provide processing services for steel productions for other steel manufacturers including China Baowu Group. As such, having taken into account (i) China Baowu Group anticipated demand for such processing services; and (ii) in the Group’s remaining steel production capacity for providing processing services, in order to fully utilize the Group’s production line, the Management expects it has the capacity to process approximately 260,000 tonnes to 263,000 tonnes of slab for each of FY2022, FY2023 and FY2024 for China Baowu Group.

In terms of pricing for processing services, according to the Group’s latest pricing before the date of the Announcements, steel processing which are subject to more complicated processing procedure due to more stringent specifications will be charged at a fixed price of RMB3,000 per tonne, whereas products requiring simple processing procedure will be charged at a fixed price of RMB300 per tonne. The estimated annual caps in respect of processing services took into account the estimated demand volume of both types of processing required by China Baowu Group. We understand that the processing fee was estimated based on a cost-plus margin basis. The margin adopted for FY2022 to FY2024 is estimated to be above 15%, depending on the complexity of the processing procedure. We also note that the gross profit margin of the Group recorded during FY2019 and FY2020 was approximately 9% and 10%, respectively. Taking into account that the profit margin estimated to be adopted for future processing services is higher than the gross profit margin of the Group during FY2019 and FY2020, we are of the view that the estimation of the processing fees to be acceptable.

OEM services

The OEM services are demanded by certain production units in the China Baowu Group which have the ability to produce steel products up to standards of the Group and possess presence in markets which the Group have not yet entered into. The Group would provide OEM services by which steel products of the production units upon passing the relevant quality control procedures will be sold under the Group’s brand to leverage on the Group’s reputation in the industry. The OEM services will (i) allow the Group to utilize the market channels of the production units; and (ii) generate additional profit for the Group. We understand from the Management that such arrangements are industry norms as the arrangements would also increase the Group’s market share in the industry and generate extra profit for the Group. The Management has also confirmed that OEM products will not be sold to existing clients of the Group or in markets which the Group has sales networks.

As China Baowu Group has an increased number of production units which would require such services, the Management expects that the demand of the OEM services would be approximately 3 million to 6 million tonnes. The estimated amount is RMB53 million, RMB88 million and RMB106 million and makes up 19%, 28% and 32% of the Services Cap for FY2022, FY2023 and FY2024. The pricing of the OEM services of approximately RMB18 per tonne was determined as the ball park estimated figure having considered the historical pricing of OEM contracts entered into during FY2020, which were in the range of RMB15 to RMB20 per tonne.

Obtain services from China Baowu Group

The Services Cap in relation to obtaining services from China Baowu Group comprised mainly of obtaining (i) construction services; (ii) transportation service; (iii) environmental services; and (iv) repair and maintenance services, which in total make up approximately almost 90% of the annual Services Cap.

Construction Services

The construction services are related to the upgrade and modification of the Groups' infrastructural and technological renovation projects and energy conservation and environmental protection projects. The estimated transaction amount is RMB2,908 million, RMB2,690 million and RMB2,378 million and accounts for 25%, 22% and 20% of the Services Cap for FY2022, FY2023 and FY2024, respectively.

When estimating the transaction amount for construction services for FY2022, the Group took into account (i) the transaction values of construction services to be carried out in FY2022 for projects that have commenced prior to FY2022 and will be continued in FY2022 amounted to RMB446 million; and (ii) the estimated transaction amount for projects intended to invite tender and kick-start in FY2022 which in aggregate amounted to RMB2,908 million. As certain project period may stretch over one financial year, the remaining estimated transaction amount was made up of progress fees for projects which have commenced in the prior years yet still on-going will have to be accounted for in the coming years. We understand from the Management that for FY2022, it is estimated that progress fees of approximately RMB446 million will be payable for projects which have commenced in FY2021 but with on-going work to be carried out in FY2022.

For FY2023 and FY2024, the estimated transaction amounts will take into consideration the estimated intention to invite tender in FY2022 (for construction period estimated to last for more than one financial year), FY2023 and FY2024 with an aggregate sum of approximately RMB16,000 million.

The estimated transaction value for FY2022 to FY2024 also take into account a 25% winning rate of China Baowu Group participating in the tendering process. We understand from the Management that between FY2019 to FY2021, approximately 25% of construction works were awarded to connected parties via tendering process, as such the Group also took into account such success rate in estimating the transaction values of construction services to be provided by China Baowu Group.

Although the award of the tender to China Baowu Group will depend on the final result of the tendering process, the Management is of the view that it is necessary to ensure there is sufficient annual cap to award the projects to China Baowu Group, should China Baowu Group be selected in the tendering process.

Transportation Services

The transportation services are obtained from China Baowu Group mostly comprise (i) the transportation of steel products from the Group's production plants to their end users; (ii) the transportation of raw materials; and (iii) internal transportation within the production plants. The estimated amounts are RMB2,251 million, RMB2,300 million and RMB2,341 million for FY2022, FY2023 and FY2024, respectively, making up approximately 19% of the Services Cap for each year.

When calculating the estimated transaction amount for sales transportation, the Directors took into account (i) logistic services demanded from and the anticipated production capacity of each department and member companies of the Group or FY2022, FY2023 and FY2024; and (ii) estimated prices for transportation services of which was arrived by application of a 3% discount to the services fee charged at RMB44.10 per tonne during FY2021 which is calculated as the average fee paid for all transportation channels (i.e. waterway, land route, airway) in the previous year. We understand from the Management that they were of the view that the Group was capable of obtaining a competitive pricing by paying a unified fee for all types of transportation channel by way of sub-contracting the Group's logistics services to the Parent Group. Considering the above, the Management considered that obtaining logistic services from the Parent Group would be reasonable and appropriate.

In relation to the purchase transportation, the Company considered (i) the historical demand and growth trend each year during the Review Period; and (ii) the average pricing during the Review Period when calculating the estimated demand and transaction amount for FY2022 to FY2024. We understand that the Group intends to identify suppliers for such transportation services through tendering process and expects that China Baowu Group will be one of the service providers to submit tender for the project. As for the obtaining of internal transportation services, when calculating the estimated transaction amount for FY2022 to FY2024, the Management expects that the anticipated transaction amount for FY2022 to FY2024 will be similar with that during the Review Period as the historical and pricing has remained constant in the past.

Environmental Services

The environmental services are obtained from Anhui Xinchuang, a company controlled by China Baowu for the management of the Group's desulphurization and denitrification systems. The estimated amounts are RMB2,208 million, RMB2,407 million and RMB2,411 million for FY2022, FY2023 and FY2024, accounting for approximately 19% to 20% of the Services Cap for each year.

The increase in services provided by Anhui Xinchuang is due to the environmental guidelines issued by the PRC which require ultra-low emissions from waste as discussed in the section "Background to and reason for entering into of the Energy Saving and Environmental Protection Agreement" on page 105. Currently, the Group has set up 45 projects and 16 projects are managed by Anhui Xinchuang. As the requirements are getting more stringent, the Group intends to allocate more facilities to Anhui Xinchuang for their management. We understand that the management fees comprise of energy costs and service fees. The energy costs are mostly from demand of various power mediums such as water, electricity, and gas, which will be calculated according to state-prescribed price. The estimated service fees are determined by a cost-plus profit margin approach by applying a 5% margin on the labour cost and maintenance fees in respect of the services provided. As advised by the Management, the labour costs are estimated to be RMB75,000 per person per year for FY2022 to FY2024 and the maintenance fees will be charged at 4-6% of the environmental system's construction fees. We have compared the terms of labour costs and maintenance fees determined by the Group with a recent quotation obtained from the independent supplier and note that their calculation is same with that of the Group and the estimated labour cost and maintenance fees adopted by the China Baowu Group will be lower than that quoted by the independent supplier.

Repair and maintenance services

Regarding the repair and maintenance services, it is related to the regular repair and maintenance of the Group's production plants and its estimated amounts are RMB2,969 million, RMB3,459 million and RMB3,722 million for FY2022, FY2023 and FY2024, respectively, representing approximately 25% to 31% of the Service Cap for each year. The estimated amount is determined in accordance with the historical transaction amount of the Group. During FY2019 and FY2020, the Group recorded repair and maintenance works amounting to RMB2,766 million and RMB3,026 million.

As the repair and maintenance works are regularly required by the Group, the Management's estimation of the transaction amount for each of coming three years are similar to the preceding years. We note that the annual cap for FY2023 and FY2024 is larger than that of FY2022, we have discussed with the Management and understand that the Company may undergo a larger scale of repair of the blast furnace every 3 years. As the previous repair works were conducted in FY2020, the recurring works may fall on FY2023 or FY2024 depending on the usage of the production plants.

As advised by the Management, maintenance fees are charged according to industry guide price stipulated in the "Pricing Guide for Maintenance Services for Iron and Steel Enterprises" (鋼鐵企業檢修工程預算定額) issued by the China and Steel Association, a regulator of the PRC steel industry with effect from 2019, while repair fees comprise of labour fees and a supply cost. We note that the composition of the repair fees is same from the independent third-party's quotation. Having considered that the maintenance fee is set according to an industry guide price and the repair fee is lower than that quoted by independent customers. we note that the terms offered by China Baowu Group to the Group is more favourable than that offered to independent third parties.

VIII. NEW FINANCIAL SERVICES AGREEMENT**1. Background to and reasons for entering into the New Financial Services Agreement**

Magang Group Finance Company Limited (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. Among all the services provided by the Finance Company, 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 loan services and Daily Loan Cap (as defined below) 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.

Since 2017, the Finance Company and the Parent Group entered into a number of financial services agreements to govern and regulate the financial services to be provided by the Finance Company to the Parent Group from time-to-time.

The financial services agreement which was effective as at the Latest Practicable Date, was entered into on 15 August 2018, which will expire on 31 December 2021. As such on 29 September 2021, the Finance Company and the Parent Group entered into the New Financial Services Agreement for the years from 2022 to 2024, 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 Directors considered that 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 transaction principles and the risk control system in relation to the connected transactions between the Finance Company and the Parent Group as set out below, the provision of financial services to the Parent Group will not cause any adverse impact to the Company.

2. Principal terms of the New Financial Services Agreement in relation to the provision of loan services

Duration: The New Financial Services Agreement shall be for a term commencing from 1 January 2022 to 31 December 2024.

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 New Financial Services Agreement, the daily cap of the loans to be provided by the Finance Company to the Parent Group and its subsidiaries shall be RMB4.9 billion (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 terms: 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; 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 RMB2,500 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 with borrower of similar credit risk under similar term charged to the Parent Group by other independent commercial banks or financial institutions in the PRC; and (ii) other 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. Comparison of terms with independent third parties

We have noted from sample borrowing agreements of the Parent Group entered into with independent third party banks during FY2019, FY2020 and HY2021, that the borrowing rates offered to the Parent Group by the Finance Company were higher than those offered by the independent third party banks.

4. Basis of the Daily Loan Cap

The transactions contemplated under the New Financial Services Agreement are subject to the Listing Rules' requirements and conditions as further discussed under the section "Reporting requirements and conditions of the Proposed Transactions" below. In particular, the Proposed Transactions are also subject to the annual cap as discussed below.

In assessing the reasonableness of the annual cap for the New Financial Services Agreement (the “**Daily Loan Cap**”), we have discussed with the Management the basis and assumption underlying the projections pursuant to the New Financial Services Agreement into between the Finance Company and the Parent Group for the purpose of determining the relevant cap:

(i) *Review of the historical figures*

Set out below are actual highest daily loan outstanding balance in respect of the provision of loans to the Parent Group by the Finance Company for FY2019, FY2020 and HY2021:

	For the year ended 31 December		For the six months ended 30 June
	2019	2020	2021
	<i>RMB ('000)</i>	<i>RMB ('000)</i>	<i>RMB ('000)</i>
Maximum day-end balance of loan amount (including interest)	3,170,000	3,170,000	3,170,000
Highest day-end balance of loan amount	2,700,870	2,921,000	2,875,000
Highest utilization rate	85.2%	92.1%	90.7%

The highest total borrowing of the Parent Group had reached 85.2% of the maximum day-end balance of loan amount for FY2019 and continued to increase to over 90% for FY2020 and for HY2021. Nevertheless, according to the Directors, the day-end balance of the loan amounts was still within the maximum day-end limit and less than the deposit placed by the Parent Group at the Finance Company.

(ii) *Assessment of the Daily Loan Cap*

When assessing the reasonableness of the Daily Loan Cap, we have discussed with the Management the basis and assumptions underlying the projection of the Daily Loan Cap.

Set out below is the Daily Loan Cap regarding the provision of loan by the Finance Company to the Parent Group being proposed for the transactions contemplated under the New Financial Services Agreement for the three years ending 31 December 2022, 2023 and 2024:

	For the years ending 31 December		
	2022	2023	2024
	RMB ('000)	RMB ('000)	RMB ('000)
Maximum day-end balance of loan amount (including interest)	4,900,000	4,900,000	4,900,000

When determining the Daily Loan Cap for the three years ending 31 December 2024, which represent a maximum day-end balance of loan amount together with associated interests, the Directors have considered the funding capacity of the Finance Company and the possible demand for loan services from the Parent Group. As advised by the Management, the cash balance of the Finance Company was amounted to approximately RMB87.95 billion as at 30 June 2021. According to the information provided by the Management, the monthly average daily deposit amount from the Parent Group maintained with the Finance Company was approximately RMB7.4 billion, RMB10.9 billion and RMB8.7 billion for FY2019, FY2020 and HY2021, respectively. The Directors understand from the management of the Parent Group that the Parent Group will continue to develop and expand other operating segments. 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 Management estimated that the maximum daily deposit amount to be placed by the Parent Group for the three years ending 31 December 2024 to be approximately RMB4.9 billion. According to the Management, from their understanding of the Parent Group's internal policy, surplus cash of the Parent Group must be deposited in the Finance Company. Given the deposit balance of the Parent Group at the Finance Company exceeded the RMB4.9 billion Daily Loan Cap amount, the 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.

IX. INTERNAL CONTROL MEASURES AND REVIEW OF CONTINUING CONNECTED TRANSACTIONS**1. Internal control measures**

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

As confirmed by the Directors, the scope of the “Internal Control Management Measures of Connected Transactions” covers all the transactions contemplated under the CCT Supplemental Agreements and CCT Renewal Agreements.

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 Management 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) prevent the annual cap of any continuing connected transactions being exceeded, the finance department of the Company is responsible for (a) the counting and monitoring of the actual amount of continuing connected transactions at the end of each month; and (b) reporting to the Board on behalf of 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 (or more frequently if necessary). The continuing connected transaction management committee, after receiving the actual monetary amount for the preceding quarter, would compare such amount with the annual cap under the agreement. For example, as to transactions of amount which is normally stable on monthly basis, if it is discovered that the actual transaction amount of the first quarter, the first to second quarter or the first to third quarter exceeds 25%, 50% and 75% of the annual cap respectively, the continuing connected transaction

committee would discuss with the relevant operation department regarding (i) the expected transaction amount for the rest of the year and (ii) possible implementation of alternative measures, such as increasing the transaction with independent third parties instead of with the relevant connected persons.

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.

For market prices obtained through quotations, 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. The contract will be awarded to the supplier and service provider after assessment based on the same criteria as set out above.

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; and (c) the setup of connected transactions management committee.

2. Internal control measures in respect of provision of loan services to the Parent Group

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 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.

Having considered the above, we consider that are measures are in place to safeguard the credit risk level of the Finance Company.

3. 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 2019 and 2020 annual report (the "**Past Transactions**") in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. We understood from the Directors that the auditors 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.

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.

4. Reporting requirements and conditions of the Proposed Transactions

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

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

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

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

RECOMMENDATION

Having considered the above principal factors and reasons, we consider that (i) the terms of the CCT Supplemental Agreements, the terms of the CCT Renewal Agreements and the transactions contemplated thereunder, including the respective proposed annual caps are in the ordinary and usual course of business of the Group, on normal commercial terms, and in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Proposed Annual Caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Accordingly, we would recommend the Independent Shareholders, and advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolutions in respect of the CCT Supplemental Agreements (including the Adjusted Annual Caps), the CCT Renewal Agreements (including the Renewal Annual Caps) and the transactions contemplated thereunder at the EGM.

Yours faithfully,

For and on behalf of

HALCYON CAPITAL LIMITED

Terry Chu

Managing Director

Mr. Terry Chu is a person licensed under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and regarded as a responsible officer of Halcyon Capital Limited and has over 20 years of experience in corporate finance industry.

1. RESPONSIBILITY STATEMENT

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

2. INTERESTS OF DIRECTORS

As at the Latest Practicable Date, 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, who is also director of the Parent Group, none of the Directors is also a director or employee of a company which has an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

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

As at the Latest Practicable Date, none of the Directors and the Supervisors of the Company had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to the Company or are proposed to be acquired or disposed of by or leased to the Company since 31 December 2020, being the date to which the latest published audited accounts of the Company were made up.

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

4. SERVICE CONTRACT

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

5. COMPETING INTEREST

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

6. LITIGATION

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

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirmed that there was no material adverse change in the financial or operation position of the Group since 31 December 2020, being the date to which the latest published audited consolidated accounts of the Group were made up.

8. EXPERT'S QUALIFICATION AND CONSENT

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

Name	Qualification
Halcyon Capital Limited	A licensed corporation to conduct type 6 (advising on corporate finance) regulated activities under the SFO (Chapter 571 of the Laws of Hong Kong)

Halcyon 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) Halcyon Capital Limited did not have any interest, either direct or indirect, in any assets which had been, since 31 December 2020, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group; and (ii) Halcyon 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. MATERIAL CONTRACTS

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

- (a) the capital increase agreement entered into between Ma Steel (Hefei) Iron & Steel Co., Ltd (“**Ma Steel (Hefei)**”, Maanshan Cornerstone Intelligence Manufacturing Fund Limited (Limited Partnership), Jiangsu Suyan Guoxin Development Fund (Limited Partnership), Anhui Hi-tech Venture Capital Co., Ltd and PHIMA Intelligence Technology Co., Ltd. (“**PHIMA Intelligence**”) on 29 November 2019, under which Ma Steel (Hefei) agreed to subscribe for 65,696,500 shares of PHIMA Intelligence at the consideration of RMB199,999,855. For details, please refer to the announcement of the Company dated 29 November 2019.

10. MISCELLANEOUS

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

11. DOCUMENTS AVAILABLE ON DISPLAY

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

- (i) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out in page 68 of this circular;
- (ii) the written consent from Halcyon Capital Limited;
- (iii) the letter from Halcyon Capital Limited to the Independent Board Committee and the Independent Shareholders, the text of which is set out in pages 69 to 149 of this circular;
- (iv) the CCT Supplemental Agreements;
- (v) the Sale and Purchase of Products Agreement;
- (vi) the Acceptance and Provision of Services Agreement; and
- (vii) the New Financial Services Agreement.



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

(Stock Code: 00323)

**NOTICE OF
2021 FIRST EXTRAORDINARY GENERAL MEETING**

NOTICE IS HEREBY GIVEN that the 2021 First 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 Tuesday, 30 November 2021.

The EGM will consider the following resolutions:

ORDINARY RESOLUTIONS:

1. To consider and approve the Ordinary Related Transactions Supplemental Agreement newly entered into between the Company and China Baowu Steel Group Corporation Limited, in order to update the proposed transaction caps for the year of 2021 under the Ordinary Related Transactions Supplemental Agreement signed between the Company and it on 7 May 2020;
2. To consider and approve the Continuing Connected Transactions Supplemental Agreement newly entered into between the Company and Magang (Group) Holding Company Limited, in order to update the proposed transaction caps for the year of 2021 under the Continuing Connected Transactions Supplemental Agreement signed between the Company and it on 7 May 2020;
3. To consider and approve the Continuing Connected Transactions Supplemental Agreement newly entered into between the Company and Ouye Lianjin Renewable Resources Co., Ltd., in order to update the proposed transaction caps for the year of 2021 under the Continuing Connected Transactions Supplemental Agreement signed between the Company and it on 7 May 2020;
4. To consider and approve the Energy Saving and Environmental Protection Supplemental Agreement entered into between the Company and Anhui Xinchuang Energy Saving and Environmental Protection Technology Company Limited, in order to update the proposed transaction caps for the year of 2021 under the Energy Saving and Environmental Protection Agreement for the year of 2019 to 2021 signed between the Company and it on 15 August 2018;

5. To consider and approve the transactions and the proposed annual caps contemplated under the Sale and Purchase of Product Agreement for the year of 2022 to 2024 entered into between the Company and China Baowu Steel Group Corporation Limited;
6. To consider and approve the transactions and the proposed annual caps contemplated under the Acceptance and Provision of Services Agreement for the year of 2022 to 2024 entered into between the Company and China Baowu Steel Group Corporation Limited;
7. To consider and approve the transactions and the proposed annual caps contemplated under the Financial Services Agreement for the year of 2022 to 2024 entered into between Magang Group Finance Company Limited and Magang (Group) Holding Company Limited;
8. To consider and approve the resolution on capital injection into Baowu Water Technology Co., Ltd. by the Company;
9. To consider and approve the resolution on renewal of liability insurance of the Company for directors, supervisors and senior management.

Meeting details of the EGM will be published on the website of the Shanghai Stock Exchange (<http://www.sse.com.cn>) and the website of The Stock Exchange of Hong Kong Limited (<http://www.hkexnews.hk>) in due course.

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

14 October 2021
Maanshan City, Anhui Province, the PRC

As at the date of this announcement, the directors of the Company include executive directors Ding Yi and Ren Tianbao; and independent non-executive directors Zhang Chunxia, Zhu Shaofang and 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, 29 October 2021 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. H 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 on Tuesday, 9 November 2021 or before. If proxies are appointed by shareholders to attend the meeting, they shall, in addition to the aforementioned documents, deliver the proxy forms and copies of their own identity cards to the Company.
2. Shareholders can deliver the necessary documents for registration to the Company in one of the following ways: in person, by post or by facsimile. Upon receipt of such documents, the Company will complete the registration procedures for attending the EGM.

III. Appointing Proxies

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

IV. The Company's register of members for H shares will be closed from Monday, 1 November 2021 to Tuesday, 30 November 2021 (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, 29 October 2021. The address of the Registrar for the Company's H shares: Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. Share registration date for holders of A shares will be announced later.

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

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