



SOMERLEY CAPITAL LIMITED

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4 December 2024

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

**(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN
RELATION TO FORMATION OF JOINT VENTURES
AND
(2) CONTINUING CONNECTED TRANSACTIONS UPON COMPLETION OF
FORMATION OF JOINT VENTURES IN RELATION TO THE SLAB SUPPLY
ARRANGEMENT**

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect to the JV Formation and the Slab Supply Arrangement (including the proposed Slab Supply Annual Cap), details of which are set out in the letter from the Board ("**Letter from the Board**") of the circular of the Company dated 4 December 2024 (the "**Circular**"), of which this letter forms a part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 16 October 2024, the Company and ArcelorMittal entered into: (i) the Upstream JV Agreement, pursuant to which, among other things, the JV Partners conditionally agreed to establish the Upstream JV to engage in the production of HRC Substrates and other products jointly determined by the JV Partners; and (ii) the Downstream JV Agreement, pursuant to which the JV Partners conditionally agreed to establish the Downstream JV to engage in the production of NEMM products. Upon completion of the establishment of the JV Companies, each of the JV Companies will be owned as to 50% by the Company and 50% by ArcelorMittal. As of the Latest Practicable Date, the Company expected that the JV Companies will not become subsidiaries of the Company upon their establishment and their financial results will not be consolidated into the financial statements of the Group as subsidiaries of the Company. The JV Companies will be accounted for using the equity method in the Group's financial statements upon their establishment.



After the establishment of the Upstream JV, Jinxi Limited and the Upstream JV will enter into the Slab Supply Framework Agreement, pursuant to which Jinxi Limited shall supply Slab Products exclusively to the Upstream JV, for an initial term of three years.

As of the Latest Practicable Date, the Company was owned as to approximately 37% by ArcelorMittal, a substantial shareholder of the Company. Following completion of the establishment of the JV Companies, each of the JV Companies will be owned as to 50% by ArcelorMittal. Therefore, ArcelorMittal is, and the JV Companies will upon incorporation become, connected persons of the Company.

As the highest applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) in respect of the JV Formation exceeds 100% on an aggregated basis, the JV Formation constitutes a very substantial acquisition for the Company and is therefore subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14 of the Listing Rules. In addition, the JV Formation constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

Based on the proposed Slab Supply Annual Cap, the highest applicable percentage ratio in respect of the Slab Supply Arrangement is more than 25%. Therefore, the Slab Supply Arrangement constitutes a non-exempt continuing connected transaction for the Company under the Listing Rules and the Slab Supply Arrangement and the proposed Slab Supply Annual Cap are subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. WONG Man Chung Francis, Mr. WANG Bing, Dr. TSE Cho Che Edward, and Ms. Yu Fang Jing, has been established to advise the Independent Shareholders in relation to the JV Formation, the Slab Supply Arrangement and the proposed Slab Supply Annual Cap. We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in the same regard.

As at the Latest Practicable Date, we did not have any relationships with or interests in the Company, ArcelorMittal, Jinxi Limited or their respective core connected persons or associates that could reasonably be regarded as relevant to our independence as the Independent Financial Adviser. In the past two years prior to this appointment, there was no engagement between the Group and us. Apart from normal professional fees paid or payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, ArcelorMittal, Jinxi Limited or their respective core connected persons or associates. Accordingly, we are independent from the Company pursuant to Rule 13.84 of the Listing Rules and are considered eligible to give independent advice on the JV Formation, the Slab Supply Arrangement and the proposed Slab Supply Annual Cap.



In formulating our opinion and advice, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Company, which we have assumed to be true, accurate and complete in all material aspects. We have reviewed the information of the Company, among other things, (i) the annual reports of the Company for the years ended 31 December 2022 and 2023 (the “**2022 Annual Report**” and “**2023 Annual Report**” respectively) and the interim report of the Company for the six months ended 30 June 2024 (the “**2024 Interim Report**”); (ii) the announcement of the Company dated 16 October 2024 in relation to, among others, the JV Formation, the Slab Supply Arrangement and the proposed Slab Supply Annual Cap (the “**Announcement**”); and (iii) other information contained in the Circular. We also have sought and received confirmation from the Company that no material facts have been omitted from the information supplied and opinions expressed to us were not misleading in any material aspects. We consider that the information we have received is sufficient for us to reach our opinion and give our advice and recommendation set out in this letter. We have no reason to believe that any material information has been omitted or withheld, or to doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Company, ArcelorMittal, Jinxi Limited or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them, nor have we carried out any independent verification of the information supplied. We have also assumed that all representations contained or referred to in the Circular were true at the time they were made and at the date of the Circular and will continue to be true up to the time of the SGM, and Shareholders will be informed of any material change as soon as possible.

PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Information of the parties

1.1. Information of the Company

The Company is an investment holding company with trading of steel products and iron ore business. The Group is principally engaged in the manufacturing and sales of iron and steel products, trading of steel products, iron ore and related raw materials, sales of power equipment and real estate business.

Jinxi Limited is a company established in the PRC with limited liability and a 97.6% indirectly owned subsidiary of the Company. It is principally engaged in manufacturing and sales of steel products.



Set out below is the summary of the financial information of the Group for the years ended 31 December 2021, 2022 and 2023, and the six months ended 30 June 2023 and 2024 as extracted from the 2022 Annual Report, the 2023 Annual Report and the 2024 Interim Report:

	For the six months ended 30 June		For the year ended 31 December		
	2024	2023	2023	2022	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Audited)	(Audited)	(Audited)
Revenue					
- Manufacturing and sales of iron and steel products, trading of steel products, iron ore and related raw materials and sales of power equipment	22,541,958	21,975,108	46,013,691	48,323,595	51,913,674
- Development and sales of properties	23,382	83,623	246,047	296,737	43,883
	22,565,340	22,058,731	46,259,738	48,620,332	51,957,557
Gross profit	900,180	719,268	717,290	1,752,895	4,091,606
Operating profit/(loss)	248,267	401,869	(112,477)	1,075,834	3,219,913
Profit/(Loss) for the period/year attributable to owners of the Company	94,063	282,255	(159,692)	807,507	2,493,494

For the six months ended 30 June 2023 and 2024

For the six months ended 30 June 2023 and 2024, the Group recorded a revenue of approximately RMB22,058.7 million and approximately RMB22,565.3 million respectively, representing an increase of approximately 2.3%. Such increase was mainly driven by the increase in revenue from trading of steel products, iron ore and related raw materials and others of approximately 16.4%, from approximately RMB6,385 million for the six months ended 30 June 2023 to approximately RMB7,434 million for the six months ended 30 June 2024. Revenue from sales of self-manufactured steel products amounted to approximately RMB13,969 million and approximately RMB13,189 million for the six months ended 30 June 2023 and 2024, accounting for approximately 63.3% and approximately 58.4% of the total revenue, respectively. As disclosed in the 2024 Interim Report, the decrease in revenue from self-manufactured steel products of approximately 5.6% was primarily due to (i) the decrease in sales volume by approximately 3.1%; and (ii) the decrease in average selling price of the Group's steel products by approximately 2.6% to approximately RMB3,505 per tonne for the six months ended 30 June 2024 from approximately RMB3,599 per tonne for the corresponding period in 2023. The decrease in sales volume and average selling price of the Group's steel products was mainly due to a continuous sluggish downstream demand for the iron and steel products for the six months ended 30 June 2024.



The Group's gross profit for the six months ended 30 June 2023 and 2024 amounted to approximately RMB719.3 million and RMB900.2 million respectively, representing an increase of approximately 25.2%. Gross margin increased from approximately 3.3% for the six months ended 30 June 2023 to approximately 4.0% for the six months ended 30 June 2024. Such increase was mainly driven by the increase in gross profit margin of the self-manufactured steel products from approximately 4.0% for the six months ended 30 June 2023 to approximately 4.9% for the six months ended 30 June 2024.

The Group's profit attributable to owners of the Company for the six months ended 30 June 2023 and 2024 amounted approximately RMB282.3 million and approximately RMB94.1 million respectively, representing a decrease of approximately 66.7%. Such decrease was mainly attributable to the decrease in operating profit of the Group from approximately RMB401.9 million for the six months ended 30 June 2023 to approximately RMB248.3 million for the six months ended 30 June 2024, as a result of net other losses of approximately RMB111.4 million recorded for the six months ended 30 June 2024 as compared to net other gains of approximately RMB217.1 million recorded for the six months ended 30 June 2023.

For the two years ended 31 December 2022 and 2023

For the years ended 31 December 2022 and 2023, the Group recorded a revenue of approximately RMB48,620.3 million and approximately RMB46,259.7 million respectively, representing a decrease of approximately 4.9%. Revenue from sales of self-manufactured steel products amounted to approximately RMB28,220 million and approximately RMB27,508 million for the years ended 31 December 2022 and 2023, accounting for approximately 58.0% and approximately 59.5% of the total revenue, respectively. As disclosed in the 2023 Annual Report, the decrease in revenue from self-manufactured steel products was primarily due to the decrease in average selling price of the Group's steel products by 10.5% from RMB3,974 per tonne in 2022 to RMB3,557 per tonne in 2023. The considerable decrease in the average selling price of steel products of the Group was due to a continuous sluggish downstream product demand in the iron and steel industry for the year ended 31 December 2023.

The Group's gross profit for the year ended 31 December 2022 and 2023 amounted to approximately RMB1,752.9 million and approximately RMB717.3 million respectively, representing a decrease of approximately 59.1%. Gross margin decreased from approximately 3.6% for the year ended 31 December 2022 to approximately 1.6% for the year ended 31 December 2023. As disclosed in the 2023 Annual Report, the decrease in gross profit margin for the year ended 31 December 2023 was primarily attributable to the overall production costs of the Group remained at a relatively high level due to a slower price decreasing trend of the major raw materials of steel products than that of the steel products.

The Group turned from a profit attributable to owners of the Company of approximately RMB807.5 million for the year ended 31 December 2022 to a loss attributable to owners of the Company of approximately RMB159.7 million for the year ended 31 December 2023. Such decrease was mainly attributable to (i) the decrease in revenue; and (ii) the decrease in gross profit and gross margin.



For the two years ended 31 December 2021 and 2022

For the years ended 31 December 2021 and 2022, the Group recorded a revenue of approximately RMB51,957.6 million and approximately RMB48,620.3 million respectively, representing a decrease of approximately 6.4%. Revenue from sales of self-manufactured steel products amounted to approximately RMB35,088 million and approximately RMB28,220 million for the years ended 31 December 2021 and 2022, accounting for approximately 67.5% and 58.0% of the total revenue, respectively. As disclosed in the 2022 Annual Report, the decrease in revenue from self-manufactured steel products was primarily due to the decrease in sales volume by 10.9% from approximately 8.0 million tonnes in 2021 to approximately 7.1 million tonnes in 2022 and the decrease in average selling price of the Group's steel products by 9.7% from RMB4,401 per tonne in 2021 to RMB3,974 per tonne in 2022. The decrease in the sales volume and average selling price of steel products of the Group was due to continuous sluggish downstream demand resulted from slowdown in economic growth and resurgence of the COVID-19 epidemic in 2022.

The Group's gross profit for the year ended 31 December 2021 and 2022 amounted to approximately RMB4,091.6 million and RMB1,752.9 million respectively, representing a decrease of approximately 57.2%. Gross margin decreased from approximately 7.9% for the year ended 31 December 2021 to approximately 3.6% for the year ended 31 December 2022. As disclosed in the 2022 Annual Report, the decrease in gross profit margin for the year ended 31 December 2022 was primarily due to the decrease in the average selling price of the Group's steel products and the price trend of the major raw materials continued to be strong during 2022, leading to the overall production costs of the Group to be remained at high level.

The Group's profit attributable to owners of the Company for the year ended 31 December 2021 and 2022 amounted to approximately RMB2,493.5 million and RMB807.5 million respectively, representing a decrease of approximately 67.6%. Such decrease was mainly attributable to (i) the decrease in revenue; (ii) the decrease in gross profit and gross margin; (iii) the increase in operating expenses and provision for impairment of financial and contract assets; and (iv) the increase of finance costs.

Set out below is the summary of the financial position of the Group as at 31 December 2021, 2022 and 2023 and 30 June 2024 as extracted from the 2022 Annual Report, the 2023 Annual Report and the 2024 Interim Report:

	As at 30 June 2024 RMB'000 (Unaudited)	As at 31 December 2023 RMB'000 (Audited)	2022 RMB'000 (Audited)	2021 RMB'000 (Audited)
Total assets	52,214,879	50,030,172	48,023,590	52,119,178
Total liabilities	27,281,777	25,052,387	22,738,943	29,004,320
Net assets	24,933,102	24,977,785	25,284,647	23,114,858



As at 30 June 2024, the Group's total assets amounted to approximately RMB52,214.9 million, mainly comprised of (i) property, plant and equipment of approximately RMB14,407.6 million; (ii) restricted bank balances of approximately RMB6,556.3 million; (iii) financial assets of approximately RMB5,751.0 million; (iv) cash and cash equivalents of approximately RMB5,347.0 million; (v) inventories of approximately RMB4,906.2 million; (vi) prepayments, deposits and other receivables of approximately RMB4,134.6 million; and (vii) trade receivables of approximately RMB3,007.6 million.

As at 30 June 2024, the Group's total liabilities amounted to approximately RMB27,281.8 million, mainly comprised of (i) borrowings of approximately RMB18,498.9 million; (ii) trade payables of approximately RMB4,126.3 million; and (iii) accruals and other current liabilities of approximately RMB2,819.0 million.

The Group's net assets remained relatively stable at approximately RMB25,284.6 million, RMB24,977.8 million and RMB24,933.1 million as at 31 December 2022 and 2023 and 30 June 2024, respectively. The gearing ratio of the Group, calculated by dividing total liabilities by total assets, increased from approximately 47.3% as at 31 December 2022 to approximately 50.1% as at 31 December 2023, and further increased to approximately 52.2% as at 30 June 2024. The increases in gearing ratio were mainly attributable to the increase in the Group's bank borrowings.

In our view, based on the above analysis, the Group has retained a satisfactory financial position.

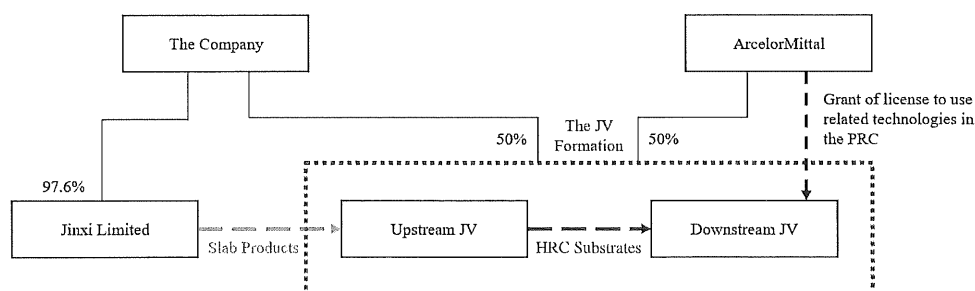
1.2. Information of ArcelorMittal

ArcelorMittal is a company incorporated under the laws of Luxembourg. It is, together with its subsidiaries, principally engaged in steelmaking and mining. ArcelorMittal or its certain affiliates are respectively listed on the stock exchanges of New York (MT), Amsterdam (MT), Paris (MT), Luxembourg (MT) and on the Spanish stock exchanges of Barcelona, Bilbao, Madrid and Valencia (MTS).

2. Background and reasons for the JV Formation and the Slab Supply Arrangement

2.1 Structure of the JV Formation and the Slab Supply Arrangement

For illustrative purposes, set out below is the structure of the JV Formation and the transactions contemplated under the Slab Supply Arrangement:





2.2 Reasons for and benefits of the JV Formation and the Slab Supply Arrangement

As stated in the Letter from the Board of the Circular, NEMM is a soft magnetic material with enhanced electromagnetic properties that are core materials for downstream high-end manufacturing in the steel industry and have been used in the cores of electrical equipment, for example motors of automobiles.

With respect to the automobile industry, in recent years, against the backdrop of the rapid growth of electric vehicle market and the competitive industry landscape, automobile manufacturers have invested heavily in development and manufacturing of electric vehicles. In particular, soft magnetic materials with ultra-premium grade or premium grade have been applied to increase power generation efficiency, improve motor performance and achieve better driving experiences for customers. In addition, in light of the regulatory requirements in relation to greenhouse gas emissions and consumers' increasing awareness for climate issues, various automobile manufacturers have set targets to decarbonise their supply chains.

Underpinned by the vision of embracing the enormous opportunities brought by the trend above, the Company and ArcelorMittal agreed to collaborate with each other to build the JV Companies to tap into the low-carbon production of soft magnetic materials in the PRC by entering into the JV Agreements and agreeing on other arrangements, including without limitation the Slab Supply Framework Agreement and the Technology Licensing Agreement. The Company and ArcelorMittal believe that their long-term investments in, and continued support to, the JV Companies pursuant to the JV Agreements and the arrangements discussed above will create greater synergy between the JV Partners in terms of local expertise and international technical know-how. The Group has accumulated extensive experience in the steel industry in the PRC while ArcelorMittal is a renowned global steel manufacturer and one of the few possessing technological know-how in the production of NEMM. The project features to be a high-tech, green and digital endeavour to satisfy the enormous market demand of soft magnetic materials in the PRC by fully applying the JV Partners' complimentary expertise and investment in green power projects. Therefore, it is expected that the JV Companies are well-positioned to leverage the respective strengths of the JV Partners to build the supply chain of the NEMM products in the PRC. Concurrently, the formation of the JV Companies and the Slab Supply Framework Agreement demonstrate the Company's commitment to development of high value-added products in new growing market segments, thereby enhancing the Group's long-term competitiveness and profitability.

In addition, as disclosed in the 2024 Interim Report of the Company, in May 2024, the NDRC, the MIIT, the Ministry of Ecology and Environment and other ministries of the PRC jointly issued the Special Action Plan for Energy Conservation and Carbon Reduction in the Iron and Steel Industry* (《鋼鐵行業節能降碳專項行動計劃》), under which iron and steel manufacturing enterprises are encouraged to lower their carbon emission, pursue secondary energy-recycling and power their production plants with renewable energy. The transactions contemplated under the JV Agreements represent a key step taken by the Group to continue adhering to the PRC governmental policy and working towards its goal of becoming a carbon neutral business by 2050.



2.3 Industry prospects

As advised by the management of the Company, NEMM produced by the JV Companies with green power supply is expected to be mainly applied in the automobile industry, in particular for new energy vehicles.

The following sets forth the wholesale volume of passenger new energy vehicles in the PRC in the past ten years:

Wholesale volume of passenger new energy vehicles in:

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
51,627	206,793	338,359	581,272	1,067,188	1,088,214	1,246,289	3,370,957	6,548,482	9,047,661

Source: Bloomberg

Based on the data from Bloomberg as set out above, the wholesale volume of passenger new energy vehicles in the PRC recorded growth rates of approximately 170.5%, 94.3% and 38.2% in 2021, 2022 and 2023 respectively and a three-year compound annual growth rate (CAGR) of approximately 93.6%. In October 2020, the State Council of the PRC published the “New Energy Vehicle Industry Development Plan (2021-2035)”《新能源汽车产业发展规划(2021-2035)》stipulating that the development of new energy vehicle is a must for the PRC to transform to a powerful automobile country. The State Counsel of the PRC has set the target to raise the penetration rate of new energy vehicles to 20% of the PRC passenger vehicle market by 2025, and battery electric vehicle is expected to become the mainstream new energy vehicle type among the new vehicles sold. According to the China Passenger Car Association, the penetration rate of passenger new energy vehicle in the PRC reached 53.7% in August 2024.

Furthermore, China’s commitment to peaking carbon emissions before 2030 and achieving carbon neutrality before 2060 demonstrates the nation’s determination to build a “green economy”. During the 14th Five-Year Plan period, “green development” has become a key focus for the Chinese government’s actions against climate change, aligned with the guiding principles and requirements of national policies, including the “Guiding Opinions on Energy Work in 2022”(《2022年能源工作指导意见》) and “Action Plan for Carbon Dioxide Peaking Before 2030”(《2030年前碳达峰行动方案》). The Upstream Green Electricity Projects, consisting of 150 MW onshore centralised photovoltaic project, 200 MW onshore centralised photovoltaic project, and 400 MW onshore wind power project, and the Downstream Green Electricity Project (being a 1 GW offshore wind power project), have demonstrated the Group’s dedication to green and sustainable development in the iron and steel industry.

Taking into account the above and the principal business of the Group and ArcelorMittal as set out in the section headed “1. Information of the parties” above, we concur with the view of the Directors that:(a) while the JV Formation is not conducted in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole; and (b) the Slab Supply Arrangement is in the ordinary and usual course of business of the Group, on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole.



3. The JV Formation

3.1 Principal terms of the Upstream JV Agreement

The principal terms of the Upstream JV Agreement are summarised as follows. Please refer to the section headed “*THE UPSTREAM JV AGREEMENT*” in the Letter from the Board for details.

Date

16 October 2024

Parties

- (a). The Company; and
- (b). ArcelorMittal, a substantial shareholder of the Company

Nature of Business

The principal business of the Upstream JV shall be designing, building and operating a hot strip mill in the PRC for production of HRC Substrates to be supplied to the Downstream JV and other products jointly determined by the JV Partners to be sold on the open market as the JV Partners may from time to time agree.

Term

The term of the Upstream JV shall be 50 years from the Upstream JV Establishment Date.

Government Investment and Green Electricity Projects

The JV Partners are entitled to enter into an investment agreement on behalf of the Upstream JV with the competent governmental agency with respect to the investment of the Upstream JV and any preferential treatments for the benefits of the Upstream JV (i.e. the Upstream JV Government Investment Agreement).

On 16 October 2024, the JV Partners and the Qianxi Government entered into the Upstream JV Government Investment Agreement, pursuant to which the Qianxi Government has conditionally agreed in principle to, among others, grant to and/or reserve for the Upstream JV through two phases, a land of approximately 1,200 Mu in total near the production base of Jinxi Limited located in the Qianxi County for production of the Upstream JV (i.e. the Upstream Land Acquisition). The Upstream Land Acquisition will be subject to bidding processes and the actual area of the land and other details of the grant of the land will be finalised and specified in separate contracts with respect to the grant of state-owned construction land use rights of the relevant land to be entered into between the competent government agency in Qianxi and the Upstream JV. The Qianxi Government has also



conditionally agreed to support the Upstream JV in a number of aspects, including but not limited to access to energy infrastructure, coordination in relation to environmental assessment and application for regulatory approvals and financial incentives, and the future investment by the Upstream JV in the Upstream Green Electricity Projects.

In addition, ArcelorMittal is entitled to negotiate, on behalf of the Upstream JV, with the relevant governmental agencies and certain state-owned energy investor(s) in the PRC with respect to participating in the development, investment, construction and operation of certain green electricity projects, in order to secure the green power supply for the operation of the Upstream JV (i.e. the Upstream Green Electricity Project(s)).

Subject to further negotiation and signing of the relevant investment agreement(s) regarding the Upstream Green Electricity Projects, it is contemplated under the Upstream JV Agreement that in principle, the Upstream Green Electricity Projects include the 150 MW onshore centralised photovoltaic project, 200MW onshore centralised photovoltaic project, and 400 MW onshore wind power project.

Please refer to the section headed “*THE UPSTREAM JV AGREEMENT — Government Investment and Green Electricity Projects*” in the Letter from the Board for detailed information.

Capital Commitment and Future Financing

The amount of total investment for the Upstream JV shall be US\$660 million, US\$314 million of which shall be the registered capital of the Upstream JV and will be funded by the JV Partners in cash equally. The JV Partners will obtain the remaining US\$346 million by debt financing. The consideration to be involved in the Upstream Land Acquisition has been included under such total investment, and the Company will not be required to invest additional amount when the Upstream Land Acquisition materialises and takes place in the future. For the avoidance of doubt, the aforementioned amount of the registered capital of the Upstream JV has not taken into account any potential increase of the registered capital of the Upstream JV due to the development of the Upstream Green Electricity Projects as set out in the sub-section headed “*THE UPSTREAM JV AGREEMENT — Government Investment and Green Electricity Projects*” in the Letter from the Board.

The estimated initial financing needs of the Upstream JV would be approximately US\$350 million but would not exceed US\$420 million. The Upstream JV shall first obtain debt financings to fund the foregoing financing needs to be secured by its own assets. If the Upstream JV fails to secure adequate financings, the Company shall provide support to the Upstream JV to enable the Upstream JV to secure financings at market conditions up to US\$420 million (i.e. the Upstream Initial Financing Support), including without limitation the provision by the Company of, or procuring the affiliates of the Company to provide, corporate guarantee, standby letter of credit or other security in favour of the Upstream JV to secure financings for the Upstream JV, provided that (a) if the Company is required to perform the guarantee obligation under the Upstream Initial Financing Support, as compensation, it will acquire the creditor’s right against the Upstream JV for the corresponding amount and shall have the right to dispose of the assets of the Upstream JV or the mortgage rights over such assets in favour of the Company; and (b) ArcelorMittal shall provide the Company with a letter of comfort that is reasonably acceptable to the Company in support of the Upstream JV’s ability



to perform its obligations under the foregoing debt financings ((a) and (b) being the Upstream Financing Support Conditions). The Upstream JV shall use its best endeavours to procure that the Upstream Initial Financing Support be released within two years after the commencement of full production of the Upstream JV.

After the release of the Upstream Initial Financing Support, to the extent that further funding is required by the Upstream JV and such funding cannot be obtained by the Upstream JV through debt financings to be secured by its own assets, subject to the necessary internal approval of the Company and the applicable approval of the Upstream JV Board or the shareholders of the Upstream JV at a general meeting in relation to such funding needs being obtained and the satisfaction of the Upstream Financing Support Conditions, the Company shall continue to provide and/or procure its affiliates to provide guarantee or other security in favour of the Upstream JV to assist the Upstream JV with securing financings to meet such funding needs.

It is expected that the Company's total commitment for the Upstream JV Formation will be approximately US\$691.2 million (i.e. the Upstream JV Maximum Capital Commitment), being the aggregate of: (a) the Company's share of the registered capital of the Upstream JV (being US\$157 million); (b) the maximum Upstream Initial Financing Support for an amount of US\$420 million; (c) the future contribution of approximately RMB300 million (equivalent to approximately US\$42.8 million) to be made by the Company to the registered capital of the Upstream JV in light of the future development of Upstream Green Electricity Projects by the Upstream JV (being the aggregate of approximately RMB50 million and RMB250 million in relation to the 150 MW onshore centralised photovoltaic project and other Upstream Green Electricity Projects by the Upstream JV, as set out in paragraphs (c) and (d) under the sub-section headed "*THE UPSTREAM JV AGREEMENT — Government Investment and Green Electricity Projects*" in the Letter from the Board, respectively); and (d) the potential financing support in the amount of approximately RMB500 million (equivalent to approximately US\$71.4 million) to be provided by the Company to the Upstream JV in light of the future development of Upstream Green Electricity Project in relation to the 150 MW onshore centralised photovoltaic project by the Upstream JV, as set out in paragraph (c) under the sub-section headed "*THE UPSTREAM JV AGREEMENT — Government Investment and Green Electricity Projects*" in the Letter from the Board. The Upstream JV Maximum Capital Commitment was determined after arm's length negotiation between the JV Partners taking into account, among other things, the capital requirements for establishment of the production plant, equipment procurement and daily operations, and business prospects of the Upstream JV. The Upstream JV Maximum Capital Commitment will be financed by the Company's internal resources.

Board Composition

The Upstream JV Board shall consist of six directors. Half of the members of the Upstream JV Board will be nominated by the Company and the remaining half of the members of the Upstream JV Board will be nominated by ArcelorMittal. The appointment of directors nominated by the JV Partners shall be subject to approval by shareholders of the Upstream JV at a general meeting and each JV Partner shall cast affirmative vote at such meeting to approve the appointment of directors nominated by the other JV Partner.



Deadlock

If the general meeting of the shareholders of the Upstream JV or the Upstream JV Board (as the case may be) is unable to reach agreement on or make a decision with respect to certain matters as set forth in the Upstream JV Agreement, or a JV Partner submits any material matter that is then the subject of a good faith dispute between the JV Partners, the JV Partners shall convene a meeting of the deadlock committee composed of one representative from each JV Partner (the “**Upstream Deadlock Committee**”) and attempt in good faith to resolve such matter (the “**Upstream Deadlock Matter**”). If the Upstream Deadlock Committee is unable to resolve the Upstream Deadlock Matter, such matter shall be submitted for resolution by the chief executive officers of the ultimate parent company of each JV Partner. If the Upstream Deadlock Matter remains unresolved, any JV Partner may resolve the relevant Upstream Deadlock Matter through arbitration and the Upstream JV shall continue to operate in accordance with the terms of the Upstream JV Agreement in the manner that existed prior to the event giving rise to the relevant Upstream Deadlock Matter.

Right of First Refusal

If a JV Partner purports to directly or indirectly transfer all or any part of its interest in the registered capital of the Upstream JV to a third party that is not engaged in an Upstream JV Competing Business in the PRC or affiliates of such third party, the non-transferring JV Partner shall have the right of first refusal to purchase all of the interests proposed to be transferred by the transferring JV Partner at the same price as the planned transfer.

Change of Control

If there is a Change of Control of a JV Partner, the other JV Partner may require the Change of Control Party to transfer all of the Change of Control Party’s interest in the registered capital of the Upstream JV to it at the fair market value of such interest. If the Upstream Change of Control Transfer is not completed within six months from the date of receipt by the Change of Control Party of the notice in relation to the Non-Change of Control Party’s request of Upstream Change of Control Transfer (provided that such delay is not caused by the Non-Change of Control Party), the Non-Change of Control Party shall have the right to terminate the Upstream JV Agreement or request the Change of Control Party to purchase the Non-Change of Control Party’s entire stake in the registered capital of the Upstream JV at the fair market value of such interest.

3.2 Principal terms of the Downstream JV Agreement

The principal terms of the Downstream JV Agreement are summarised as follows, please refer to the section headed “*THE DOWNSTREAM JV AGREEMENT*” in the Letter from the Board for details.

Date

16 October 2024



Parties

- (a). The Company; and
- (b). ArcelorMittal

Nature of Business

The principal business of the Downstream JV shall be designing, building and operating a manufacturing plant in the PRC for the production of NEMM products focusing on numerous sectors in the PRC market, including without limitation the automobile, industrial motors, home appliance and power generation sectors.

Term

The term of the Downstream JV shall be 50 years from the Downstream JV Establishment Date.

Government Investment and Green Electricity Project

ArcelorMittal is entitled to enter into an investment agreement on behalf of the Downstream JV with the competent governmental agency with respect to the investment of the Downstream JV and any preferential treatments for the benefits of the Downstream JV (i.e. Downstream JV Government Investment Agreement). On 24 April 2024, ArcelorMittal and the Changzhou Management Committee entered into the Downstream JV Government Investment Agreement, pursuant to which the Changzhou Management Committee has conditionally agreed in principle to, among others, grant a land of approximately 3,000 Mu located in Changzhou High-Tech Zone for production of the Downstream JV and its research and development center (i.e. the Downstream Land Acquisition). The Downstream Land Acquisition will be subject to a bidding process and the actual area of the land and other details of the grant of the land will be finalised and specified in a separate contract with respect to the grant of state-owned construction land use rights of the relevant land to be entered into between Changzhou Natural Resources and Planning Bureau (常州市自然資源和規劃局) and the Downstream JV. The Changzhou Management Committee has also conditionally agreed to support the Downstream JV in a number of aspects, including but not limited to access to energy infrastructure, coordination in relation to environmental assessment and regulatory approvals, financial incentives and the future investment by the Downstream JV in the Downstream Green Electricity Project.

In addition, ArcelorMittal is entitled to negotiate, on behalf of the Downstream JV, with the relevant governmental agencies and certain state-owned energy investor(s) in the PRC with respect to participating in the development, investment, construction and operation of green electricity project(s), in order to secure the green power supply for the operation of the Downstream JV (i.e. the Downstream Green Electricity Project).

Subject to further negotiation and signing of the relevant investment agreement, it is contemplated under the Downstream JV Agreement that in principle, the Downstream Green Electricity Project is a 1GW offshore wind power project.



Please refer to the section headed “*THE DOWNSTREAM JV AGREEMENT — Government Investment and Green Electricity Project*” in the Letter from the Board for detailed information.

Capital Commitment and Future Financing

The amount of total investment for the Downstream JV shall be US\$2 billion, US\$900 million of which shall be the registered capital of the Downstream JV and will be funded by the JV Partners in cash equally. The JV Partners will obtain the remaining US\$1.1 billion by debt financing. The consideration to be involved in the Downstream Land Acquisition has been included under such total investment, and the Company will not be required to invest additional amount when the Downstream Land Acquisition materialises and takes place in the future. For the avoidance of doubt, the amount of the registered capital of the Downstream JV above has not taken into account any potential increase of the registered capital of the Downstream JV due to the development of the green electricity project(s) as set out in the sub-section headed “*THE DOWNSTREAM JV AGREEMENT — Government Investment and Green Electricity Project*” in the Letter from the Board.

The estimated initial financing needs of the Downstream JV for the first stage of phase 1 of the project would be approximately US\$580 million but would not exceed US\$650 million. The Downstream JV shall first obtain debt financings to fund the foregoing financing needs to be secured by its own assets. If the Downstream JV fails to secure adequate financings, the Company shall provide support to the Downstream JV to enable the Downstream JV to secure financings at market conditions up to US\$650 million, including without limitation the provision by the Company of, or procuring the affiliates of the Company to provide, corporate guarantee, standby letter of credit or other security in favour of the Downstream JV to secure financings for the Downstream JV (i.e. the Downstream Initial Financing Support), provided that (a) if the Company is required to perform the guarantee obligation under the Downstream Initial Financing Support, as compensation, it will acquire the creditor’s right against the Downstream JV for the corresponding amount and shall have the right to dispose of the assets of the Downstream JV or the mortgage rights over such assets in favour of the Company; and (b) ArcelorMittal shall provide the Company with a letter of comfort that is reasonably acceptable to the Company in support of the Downstream JV’s ability to perform its obligations under the foregoing debt financings ((a) and (b) being the Downstream Financing Support Conditions). The Downstream JV shall use its best endeavours to procure that the Downstream Initial Financing Support be released within two years after the commencement of full production of the Downstream JV.

After the release of the Downstream Initial Financing Support, to the extent that further funding is required by the Downstream JV and such funding cannot be obtained by the Downstream JV through debt financings to be secured by its own assets, subject to the necessary internal approval of the Company and the applicable approval of the Downstream JV Board or the shareholders of the Downstream JV at a general meeting in relation to such funding needs being obtained and the satisfaction of the Downstream Financing Support Conditions, the Company shall continue to provide and/or procure its affiliates to provide guarantee or other security in favour of the Downstream JV to assist the Downstream JV with securing financings to meet such funding needs.



It is expected that the Company's total commitment for the Downstream JV Formation will be approximately US\$1,157.1 million (i.e. the Downstream JV Maximum Capital Commitment), being the aggregate of: (a) the Company's share of the registered capital of the Downstream JV (being US\$450 million); (b) the maximum Downstream Initial Financing Support for an amount of US\$650 million; and (c) the future contribution of approximately RMB400 million (equivalent to approximately US\$57.1 million) to be made by the Company to the registered capital of the Downstream JV in light of the future development of Downstream Green Electricity Project by the Downstream JV, as set out in paragraph (d) under the section headed "*THE DOWNSTREAM JV AGREEMENT — Government Investment and Green Electricity Project*" in the Letter from the Board. The Downstream JV Maximum Capital Commitment was determined after arm's length negotiation between the JV Partners taking into account, among other things, the capital requirements for establishment of the production plant, equipment procurement and daily operations, and business prospects of the Downstream JV. The Downstream JV Maximum Capital Commitment will be financed by the Company's internal resources.

Board Composition

The Downstream JV Board shall consist of six directors. Half of the members of the Downstream JV Board will be nominated by the Company and the remaining half of the members of the Downstream JV Board will be nominated by ArcelorMittal. The appointment of directors nominated by the JV Partners shall be subject to approval by shareholders of the Downstream JV at a general meeting and each JV Partner shall cast affirmative vote at such meeting to approve the appointment of directors nominated by the other JV Partner.

Deadlock

If the general meeting of the shareholders of the Downstream JV or the Downstream JV Board (as the case may be) is unable to reach agreement on or make a decision with respect to certain matters as set forth in the Downstream JV Agreement, or a JV Partner submits any material matter that is then the subject of a good faith dispute between the JV Partners, the JV Partners shall convene a meeting of the deadlock committee composed of one representative from each JV Partner (the "**Downstream Deadlock Committee**") and attempt in good faith to resolve such matter (the "**Downstream Deadlock Matter**"). If the Downstream Deadlock Committee is unable to resolve the Downstream Deadlock Matter, such matter shall be submitted for resolution by the chief executive officers of the ultimate parent company of each JV Partner. If the Downstream Deadlock Matter remains unresolved, any JV Partner may resolve the relevant Downstream Deadlock Matter through arbitration and the Downstream JV shall continue to operate in accordance with the terms of the Downstream JV Agreement in the manner that existed prior to the event giving rise to the relevant Downstream Deadlock Matter.

Right of First Refusal

If a JV Partner purports to directly or indirectly transfer all or any part of its interest in the registered capital of the Downstream JV to a third party that is not engaged in a Downstream JV Competing Business in the PRC or affiliates of such third party, the non-transferring JV Partner shall have the right of first refusal to purchase all of the interests proposed to be transferred by the transferring JV Partner at the same price as the planned transfer.



Change of Control

If there is a Change of Control of a JV Partner, the Non-Change of Control Party may require the Change of Control Party to transfer all of the Change of Control Party's interest in the registered capital of the Downstream JV to it at the fair market value of such interest. If the Downstream Change of Control Transfer is not completed within six months from the date of receipt by the Change of Control Party of the notice in relation to the Non-Change of Control Party's request of Downstream Change of Control Transfer (provided that such delay is not caused by the Non-Change of Control Party), the Non-Change of Control Party shall have the right to terminate the Downstream JV Agreement or request the Change of Control Party to purchase the Non-Change of Control Party's entire stake in the registered capital of the Downstream JV at the fair market value of such interest.

3.3 Our Assessment of the Terms of the JV Agreements

Contribution to the Registered Capital

Pursuant to the terms of the JV Agreements, the registered capital of the Upstream JV and Downstream JV shall be US\$314 million and US\$900 million respectively. Such registered capital will be funded by the JV Partners in cash equally. Subject to the satisfaction of the respective conditions precedent under the JV Agreements, each JV Partner shall concurrently make its respective capital contributions to the JV Companies in accordance with the JV Agreements. Each contribution may be concurrently made by the JV Partners in one lump sum or in several tranches, provided that the specific contribution deadlines and the contribution amount for each tranche shall be determined by the respective Upstream JV Board or the Downstream JV Board (collectively, the "**JV Boards**"), as the case may be, based on the actual funding needs of the respective JV Companies, which shall be no later than the respective dates specified in the JV Agreements unless the JV Partners agree otherwise in writing.

On the basis that each JV Partner will make equal contribution concurrently in cash to the registered capital of the JV Companies, which is in proportion to their equity interest in the JV Companies, we are of the view that the terms of the JV Agreements in relation to the contribution to the registered capital are fair and reasonable and on normal commercial terms.

Capital Commitment and Future Financing

Pursuant to the JV Agreements, the total investment for the Upstream JV and the Downstream JV shall be US\$660 million and US\$2 billion respectively. Other than the registered capital of US\$314 million and US\$900 million, which will be funded by the JV Partners in cash equally to the Upstream JV and the Downstream JV respectively as discussed in the section above, the remaining amount of US\$346 million and US\$1.1 billion funding needs of the Upstream JV and the Downstream JV respectively will be funded by debt financing.

As advised by the management of the Company, the estimated total investment for the Upstream JV and Downstream JV were determined based on the expected production capacity and development schedule of the JV Companies. We have obtained from and discussed with the management of the Company the financial projection in formulating the expected total investment of the JV Companies, including the key assumptions used and expected development phases of the project. From our review,



we noted that around half of the expected total investment is attributable to expected capital expenditure of the JV Companies, of which (i) over half of such expected amount is attributable to the costs in relation to the set up and construction of the production lines of the JV Companies; (ii) approximately 13% is attributable to the costs in relation to the auxiliary facilities; (iii) approximately 20% is in relation to civil works; and (iv) the remaining is reserved for capital expenditure in relation to design and other works as well as for contingency purpose. The remaining half of the expected total investment covers (i) the expected consideration for the Upstream Land Acquisition and the Downstream Land Acquisition, (ii) operating working capital, and (iii) provision for future expansion. The financial projection is formulated based on the key assumptions that (i) the preparation for the production of the Upstream JV would be completed on schedule, including but not limited to the Upstream JV Formation and the Upstream Land Acquisition, and the Upstream JV would be able to commence its production within 18 months after establishment; and (ii) the preparation for the production of the Downstream JV would be completed on schedule, including but not limited to the Downstream JV Formation and the Downstream Land Acquisition, and the Downstream JV would be able to commence its production within 26 months after establishment. Accordingly, most of the capital expenditure is expected to incur for each of the Upstream JV and the Downstream JV prior to the respective commencement of production. Such assumptions are in line with the terms of the JV Agreements.

The Upstream JV is expected to commence production within 18 months after establishment of the Upstream JV. It is expected to reach a production capacity of 2.5 million tons per annum by the end of the first development phase, and potentially increase to 3.5 million tons per annum if a second development phase is launched. The Downstream JV is expected to commence production within 26 months after establishment of the Downstream JV. It is expected to reach a production capacity of 1.5 million tons per annum by the end of the first development phase, and potentially increase to 1.8 million tons per annum if a second development phase is launched.

The estimated initial financing needs of the Upstream JV and the Downstream JV (for the first stage of the first development phase of the Downstream JV) would be approximately US\$350 million (but would not exceed US\$420 million) and approximately US\$580 million (but would not exceed US\$650 million) respectively. The JV Companies shall first obtain debt financings to fund the forgoing initial financing needs to be secured by their own assets. If the JV Companies fail to secure adequate financings, the Company shall provide support to the JV Companies to enable the Upstream JV and the Downstream JV to secure financings at market conditions up to US\$420 million and US\$650 million respectively, including without limitation the provision by the Company of, or procuring the affiliates of the Company to provide, corporate guarantee, standby letter of credit or other security in favour of the JV Companies to secure financings for the JV Companies (i.e. the Upstream Initial Financing Support and the Downstream Initial Financing Support respectively). The Upstream Initial Financing Support and the Downstream Initial Financing Support were subject to the satisfaction of the Upstream Financing Support Conditions and the Downstream Financing Support Conditions (collectively, the “**Financing Support Conditions**”) respectively, such that (a) if the Company is required to perform the guarantee obligation under the Initial Financing Support, as compensation, it will acquire the creditor’s right against the JV Companies for the corresponding amount and shall have the right to dispose of the assets of the JV Companies or the mortgage rights over such assets in favour of the Company; and (b) ArcelorMittal shall provide the Company with a letter of comfort that is reasonably acceptable to the Company in support of the JV Companies’ ability to perform their obligations under the foregoing debt financings.



After the release of the Initial Financing Supports, to the extent that further funding is required by the JV Companies and such funding cannot be obtained by the JV Companies through debt financings to be secured by their own assets, subject to the necessary internal approval of the Company and the applicable approval of the JV Boards or the shareholders of the JV Companies at a general meeting in relation to such funding needs being obtained and the satisfaction of the relevant Financing Support Conditions, the Company shall continue to provide and/or procure its affiliates to provide guarantee or other security in favour of the JV Companies to assist the JV Companies with securing financings to meet such funding needs (the “**Further Financing Supports**”). For the avoidance of doubt, the expected total investment of US\$660 million for the Upstream JV and US\$2 billion for the Downstream JV did not take into account any funding needs for the development of the Upstream Green Electricity Projects and the Downstream Green Electricity Project, if any of such projects does materialise, the investment will be funded in accordance with the terms as set out in the sections headed “*Government Investment and Green Electricity Project(s)*” in the Letter from the Board and the Company may be required to provide additional support to the JV Companies, provided that the necessary internal approvals of the Company and the JV Companies in relation to such financing have been obtained and the applicable Upstream Financing Support Conditions and Downstream Financing Support Conditions have been satisfied (collectively with the Upstream Initial Financing Support, the Downstream Initial Financing Support and the Further Financing Supports, the “**Financing Supports**”).

As advised by the management of the Company, the aforementioned Financing Supports to be provided by the Company were determined on arm’s length negotiation between the JV Partners. We have conducted research on the website of the Stock Exchange in relation to the provision of financial assistance to joint venture company by companies listed on the Stock Exchange, of which the details of such financial assistance were disclosed and announced during the period from 1 January 2022 to the Latest Practicable Date (the “**Comparable Transactions**”). Given the review period for the Comparable Transactions covers a period of around two years and eleven months with a sufficient number of Comparable Transactions identified, we consider such period is fair, adequate and representative to provide a general overview of the market practice of listed companies in providing financial assistance to joint venture company. On a best effort basis, we have identified eleven Comparable Transactions and noted that in five of the Comparable Transactions, issuers had provided financial assistance to their joint venture companies without such assistance from the other JV partner(s). We further noted that in three out of five such Comparable Transactions, there was no counter guarantee/comfort to the issuers from the issuers’ joint venture partner(s) on the financial assistance provided. As such, we concur with the management of the Company that the provision of the Financing Supports to the JV Companies are not uncommon.

Moreover, if there is guarantee obligation for the Company under the Initial Financing Support: (i) in the event that the Company is required to perform such obligation, the Company would acquire the creditor’s right against the relevant JV Companies for the corresponding amount and shall have the right to dispose of the assets of the relevant JV Companies or the mortgage rights over such assets in favour of the Company; and (ii) ArcelorMittal shall provide the Company with a letter of comfort. The aforementioned arrangements could provide additional comfort to the Company.



As advised by the management of the Company, ArcelorMittal will provide both capital and technology support to the JV Companies by making contribution to the registered capital of the JV Companies in accordance with the JV Agreements and granting technology licenses at favourable terms to the JV Companies and Jinxi Limited as mentioned in section headed “*TECHNOLOGY LICENSING ARRANGEMENT*” in the Letter from the Board, which are fundamental to the future commercial success of the JV Companies. Also, it would be in the Group’s interests to continue the synergy created through cooperation with ArcelorMittal and leverage on their technological know-how in new projects or downstream investments initiated by the Company which uses the HRC Products as input material as ArcelorMittal is a renowned global steel manufacturer and one of the few possessing technological know-how in the production of NEMM and high-end hot rolled coils/plates.

Based on the above, in particular (i) the total investments were mainly determined based on the expected financial resources reserved for the establishment and operation of the JV Companies; (ii) approximately half of the total investment will be funded equally by the JV Partners as registered capital which are in line with their equity interest in the JV Companies; (iii) the remaining funding needs will be first funded by debt financing to be obtained by the JV Companies to be secured by its own assets; and (iv) the mitigation of risks by the Financing Support Conditions, we are of the view that the terms of the JV Agreements in relation to the contribution to the capital commitment and future financing are fair and reasonable and on normal commercial terms.

Control of the JV Companies

Each of the Upstream JV and the Downstream JV will set up a board of directors consisting of six directors, among which, half of the members shall be nominated by the Company and the remaining shall be nominated by ArcelorMittal. The appointment of directors nominated by the JV Partners shall be subject to approval by shareholders of the JV Companies at a general meeting and each JV Partner shall cast affirmative vote at such meeting to approve the appointment of directors nominated by the other JV Partner. In addition, if each of the shareholders or boards of directors of the Upstream JV or the Downstream JV (as the case may be) is unable to reach an agreement on or make a decision with respect to specific matters, there is a structured process for resolving disputes, including but not limited to, forming a deadlock committee with one representative from each JV Partner to attempt a resolution. If the deadlock committee is unable to resolve the issue, it escalates to the chief executive officers of the ultimate parent company of each JV Partner. Should the matter still remain unresolved, any JV Partner has the option to pursue arbitration, which allows the JV Companies to continue operating under the previously agreed terms.

Given the appointment of directors of the JV Companies would be in proportion to the JV Partners’ respective shareholdings in the JV Companies and the JV Companies shall be jointly controlled by the JV Partners, the Directors consider, and we concur that such arrangement is fair and reasonable.



The JV Partners may not directly or indirectly transfer all or any part of its interest in the registered capital of the JV Companies without the prior written consent of the other JV Partner and the non-transferring JV Partner shall have the right of first refusal to purchase all of the interests proposed to be transferred by the transferring JV Partner at the same price as the planned transfer.

If there is a Change of Control of a JV Partner, the other Non-Change of Control Party may require the Change of Control Party to transfer all of the Change of Control Party's interest in the registered capital of the JV Companies to it at the fair market value of such interest. If such transfer is not completed within six months from the date of receipt by the Change of Control Party of the notice in relation to the Non-Change of Control Party's request (provided that such delay is not caused by the Non-Change of Control Party), the Non-Change of Control Party shall have the right to terminate the respective JV Agreement or request the Change of Control Party to purchase the Non-Change of Control Party's entire stake in the registered capital of the JV Companies at the fair market value of such interest. The terms in relation to the deadlock matters, the right of first refusal and the Change of Control provide additional protection to each JV Partner on the interest of the respective JV Companies.

Based on the above, we are of the view that the terms of the JV Agreements in relation to the control of the JV Companies are fair and reasonable and on normal commercial terms.

4. The Slab Supply Framework Agreement

4.1 Principal Terms of the Slab Supply Framework Agreement

As agreed between the JV Partners under the Upstream JV Agreement, for the purpose of ensuring a stable supply of raw materials for the production of HRC Substrates by the Upstream JV, the Company shall procure Jinxi Limited to enter into the Slab Supply Framework Agreement with the Upstream JV, pursuant to which Jinxi Limited shall supply Slab Products exclusively to the Upstream JV. The principal terms of the Slab Supply Framework Agreement agreed by the JV Partners are summarised as follows. Please refer to the section headed "*SLAB SUPPLY ARRANGEMENT*" in the Letter from the Board for details.

Date

The Slab Supply Framework Agreement is expected to be entered into between Jinxi Limited and the Upstream JV after the establishment of the Upstream JV, which is expected to be in the first half of 2025.

Parties

- (a). Jinxi Limited, a subsidiary of the Company (as supplier); and
- (b). The Upstream JV (as purchaser).



Subject Matter

Subject to the terms and conditions of the Slab Supply Framework Agreement, the Upstream JV shall purchase Slab Products from Jinxi Limited, and Jinxi Limited shall manufacture and supply Slab Products exclusively to the Upstream JV.

Term

The Slab Supply Framework Agreement shall be for an initial term of three years, unless terminated at an earlier date pursuant to the Slab Supply Framework Agreement.

Subject to re-compliance by the Company with applicable requirements under the Listing Rules at the relevant time, the Slab Supply Framework Agreement will be automatically renewed at the end of its initial term (or any subsequent renewed term) for a successive period of three years (or such other period permitted under the Listing Rules) until the end of the term of the Upstream JV Agreement, unless terminated at an earlier date pursuant to the Slab Supply Framework Agreement.

Pricing Policy

The Slab Products Procurement Price shall be set by reference to: (a) the prevailing monthly industry average of the production costs involved in manufacturing of pig iron for steel making according to the monthly report of China Iron & Steel Association; (b) the expected production costs for steelmaking and continuous casting for base grade (Q235) to be incurred by the Group; (c) grade extra from the unit consumption ratio based on the reference plant of ArcelorMittal and alloy and utility costs of local market; and (d) the profit margin of the Group for supplying the Slab Products, taking into account the profit margins of members of the China Iron & Steel Association. The technical steering committee of the Upstream JV will review the profit margin of the Group for supplying the Slab Products regularly and make appropriate adjustments if needed.

Payment Terms

20% of the total price for Slab Products purchased by the Upstream JV in a given month shall be due and payable by the 20th day of the calendar month immediately prior to the delivery date of such Slab Products and the remaining balance shall be paid by the 25th day of the calendar month when such Slab Products are delivered to the Upstream JV.

Additional Incentive

From the financial year immediately after the first financial year in which retained earnings of the Upstream JV turns positive at the end of such financial year and for a total of 10 consecutive years, an additional incentive of US\$10 per metric ton (net of taxes) (i.e. the Slab Supply Incentive Fee) shall be paid by the Upstream JV to Jinxi Limited based on the total volume of qualified HRC Substrates manufactured and sold by the Upstream JV (by using the Slab Products) for NEMM application in the relevant year.



4.2 The Slab Supply Annual Cap

As stated in the Letter from the Board, there is no historical transaction amount for the continuing connected transactions contemplated under the Slab Supply Framework Agreement. The proposed Slab Supply Annual Cap comprises the Slab Products Procurement Price and the Slab Supply Incentive Fee. It is expected that the supply of Slab Products by Jinxi Limited to the Upstream JV will only commence in the third quarter of 2026 and the proposed Slab Supply Annual Cap for the continuing connected transactions contemplated under the Slab Supply Framework Agreement for each of the three years ending 31 December 2025, 2026 and 2027 will not exceed the amounts set out below:

For the financial year ending 31 December	RMB' million
2025	0
2026	2,745
2027	7,609

As set out in the Letter from the Board, the proposed Slab Supply Annual Cap has been determined primarily with reference to the following factors: (i) the estimated production timeline of the Upstream JV, under which it is expected that the Upstream JV will not purchase the Slab Products from Jinxi Limited until the third quarter of 2026; (ii) the estimated demand of the Slab Products by the Upstream JV in 2026 and 2027; (iii) the anticipated market price of Slab Products and manufacturing costs of Jinxi Limited for the production of Slab Products during 2026 and 2027, taking into account the historical inflation rate and fluctuation in market price for the raw material of and the hot rolled slabs similar to the Slab Products; and (iv) the profit margin of the Group for supplying the Slab Products, determined taking into account the relevant profit margins of members of the China Iron & Steel Association.

Our Assessment on Principal Terms of the Slab Supply Framework Agreement and the Slab Supply Annual Cap

As stipulated above, the price of the Slab Products Procurement Price will be based on a cost-plus basis with reference to the market production costs and profit margin with reference to the profit margins of not less than 50 members of the China Iron & Steel Association. We have visited the websites of the China Iron and Steel Association (<http://www.chinaisa.org.cn>), a nation-wide industry association of the iron and steel industry in the PRC with more than 300 members as at January 2024. The technical steering committee of the Upstream JV will review the profit margin of the Group for supplying the Slab Products regularly and make appropriate adjustments if needed. As advised by the management of the Company, such committee of the Upstream JV will be formed with equal nominees from the Upstream JV Board and ArcelorMittal, and all decisions shall be made upon unanimous approval of all members.

In relation to the Slab Supply Incentive Fee, we were given to understand that such term was determined after arm's length negotiation with ArcelorMittal and intends to provide incentives to Jinxi Limited in exclusively supplying the Slab Products to the Upstream JV. Such arrangement will increase the profit margin of Jinxi Limited in the supply of Slab Products and is in the interests of the Company and the Shareholders.



As mentioned above, the supply of Slab Products by Jinxi Limited to the Upstream JV will only commence in the third quarter of 2026, which is in line with the expected commencement of the production of the Upstream JV, being within 18 months after the establishment of the Upstream JV.

In assessing the fairness and reasonableness of the proposed Slab Supply Annual Cap, we have obtained and reviewed the underlying calculation in formulating the proposed Slab Supply Annual Cap and noted that such amount was derived based on the expected demand of Slab Products of the Upstream JV and the expected unit price of the Slab Products. As advised by the management of the Company, the expected demand of Slab Products of approximately 625,000 tons in the second half of 2026 was determined based on the estimated maximum quantity of Slab Products required for the commencement of production of the Upstream JV, and the expected demand of Slab Products of approximately 1,708,000 tons in 2027 was determined based on the estimated maximum annual quantity of Slab Products required, which were in turn based on the development schedule and the discussion between the Company and ArcelorMittal. One of the key assumptions used being the preparation for the production of the Upstream JV would be completed on schedule, including but not limited to the Upstream JV Formation and the Upstream Land Acquisition, and the Upstream JV would be able to commence its production of the HRC Products during the third quarter of 2026.

For the expected unit price of the Slab Products in the calculation of Slab Supply Annual Cap of approximately RMB4,400 per ton and RMB4,450 per ton during 2026 and 2027, respectively, we noted that it was determined on a cost plus basis based on (i) the historical market price of hot metal, being the major raw material in the production of the Slab Products as advised by the management of the Company, in the past five years according to the report of China Iron & Steel Association; (ii) the estimated cost in steelmaking and continuous casting taking into account the required quality of the Slab Products; and (iii) the fixed margin taking into account the profit margins of members of the China Iron & Steel Association. As the transactions will only take place in the third quarter of 2026, the Company has also included buffer to take into account inflation and potential fluctuation in production costs. We have reviewed the historical monthly market price of hot metal from 2019 to 2023 and noted that such costs had been relatively volatile in the past five years and fluctuated at a rate of approximately -9.0% to approximately 7.1% month-on-month. Given the volatility of the costs of hot metal in the past years, the Company had assumed the highest annual average costs of hot metal in the past five years in calculating the expected unit price of the Slab Products in formulating the proposed Slab Supply Annual Cap. As to the estimated cost in steelmaking and continuous casting, the Company had made reference to the production costs for steelmaking and continuous casting for base grade (Q235) incurred by the Group and added the expected additional costs in producing the grade extra from the unit consumption ratio based on the reference plant of ArcelorMittal and alloy and utility costs of local market. We have reviewed the Group's historical monthly-weighted average cost of steelmaking and continuous casting for base grade for the three years ended 31 December 2023 and noted that the assumed production cost of the Slab Products for steelmaking and continuous casting for base grade (Q235) is within the range of such historical weighted-average cost in the past three years. Furthermore, the expected additional cost in producing the grade extra of the Slab Products was derived taking into consideration the expected extra costs for additional material required with reference to the market price for such material. Based on the above, we consider the estimated cost in steelmaking and continuous casting for the Slab Products is fair and reasonable.



The Company had then assumed a profit margin taking into account the profit margins of key members of the China Iron & Steel Association. In assessing the fairness and reasonableness of the profit margin of the Slab Products, we have conducted research on the gross profit margins of comparable companies based on the following criteria: (i) companies listed on Main Board of the Stock Exchange and the trading of their shares were not suspended as at the Latest Practicable Date; and (ii) companies principally engaged in the production and sales of steel products with the majority of their revenue contributed from such segment based on their respective latest published annual report. From our research based on the aforementioned criteria, on best effort basis, we have identified 11 comparable companies (including the Company) and noted that the gross profit margins for their respective latest financial year ranged from approximately -5.2% to 22.1%. We also noted from the 2023 Annual Report that the Company recorded gross loss or relatively thin gross profit margin of less than 1% for certain types of self-manufactured steel products in 2023. Given that (i) the assumed profit margin of the Slab Products is higher than the average profit margins of key members of the China Iron & Steel Association in 2023; (ii) the Slab Products Procurement Price will be based on a cost-plus basis in which the Company is expected to record a stable gross profit from the sales of the Slab Products; and (iii) the assumed profit margin of Slab Products falls within the range and is comparable to the median of the gross profit margins of the aforementioned listed steel manufacturers, we consider the assumed profit margin reasonable.

The Company had then factored in an estimate of annual inflation rate for the coming years based on the average industrial producer price index (PPI) in the past five years. Furthermore, a buffer of 5% was included in the unit price of the Slab Products to cater potential fluctuations in cost of production.

Based on the above and taking into account the fact that (i) the supply of Slab Products to the Upstream JV by Jinxi Limited will generate steady revenue for the Group; (ii) the Company will jointly manage the business operation of the Upstream JV with ArcelorMittal as a 50% shareholder of the Upstream JV; and (iii) the proposed Slab Supply Annual Cap was determined based on reasonable estimation and after due and careful consideration, we are of the view that the principal terms of the Slab Supply Framework Agreement and the proposed Slab Supply Annual Cap are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

4.3 Internal Control Measures

The Group has formulated internal control measures in order to ensure that the Slab Supply Arrangement will be conducted in accordance with the terms of the Slab Supply Framework Agreement, the pricing policy and internal procedures adopted by the Group, and is fair and reasonable and on normal commercial terms or better. As such, a control mechanism to segregate duties to notify and review connected transactions has been set up within the Group, including but not limited to: (i) the monitoring and monthly reporting on the transaction value of the Slab Supply Arrangement to ensure that such amount does not exceed the relevant annual cap; and (ii) the regular research and report on relevant market information in relation to the costs and profit margins involved in manufacturing of iron for steel making from industry peers, customers, suppliers and/or business partners within the iron and steel manufacturing industry and/or the websites of the relevant industrial organisations.



Details of the internal control measures of the Group are set out in the section headed *"INTERNAL CONTROL MEASURES"* in the Letter from the Board.

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the Slab Supply Arrangement is subject to the following annual review requirements:

- (a). the independent non-executive Directors must review the Slab Supply Arrangement every year and confirm in the annual report that the 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). the Company's auditors must provide a letter to the confirming whether anything has come to their attention that causes them to believe that the Slab Supply Arrangement:
 - (i). has not been approved by the Board;
 - (ii). was not, in all material respects, in accordance with the pricing policies of the Group;
 - (iii). was not entered into, in all material respects, in accordance with the relevant agreements governing them; and
 - (iv). has exceeded the relevant annual caps;
- (c). the Company must allow, and ensure that the counterparty to the Slab Supply Arrangement allows, the Company's auditors sufficient access to their records for the purpose of the reporting on the Slab Supply Arrangement; and
- (d). the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or auditors of the Company cannot confirm the matters as required. The Stock Exchange may require the Company to re-comply with the announcement and Shareholders' approval requirements and may impose additional conditions.

In light of the reporting requirements attached to the Slab Supply Arrangement, in particular, (i) the restriction of the transaction value by way of annual caps; and (ii) the ongoing review by the independent non-executive Directors and auditors of the Company of the terms of the relevant agreements in relation to the Slab Supply Arrangement and the respective proposed annual caps not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the Slab Supply Arrangement and assist in safeguarding the interests of the Company and the Independent Shareholders as a whole.



5. Financial Impacts on the Company

As set out in the Letter from the Board, as of the Latest Practicable Date, the Company expected that the JV Companies will not become subsidiaries of the Company upon their establishment and the financial results of the JV Companies will not be consolidated into the financial statements of the Group as subsidiaries of the Company. Therefore, the JV Companies are expected to be accounted for as joint ventures using the equity method in the Group's financial statements upon their establishment.

Given that the JV Companies are expected to be classified as joint ventures of the Company and the results and assets and liabilities of the JV Companies are expected to be incorporated in the Group's financial statements using the equity method in the Group's financial statements upon completion of the JV Formation, as of the Latest Practicable Date, the Company expected that the JV Formation will not have immediate impact on the earnings of the Group and there will not be material impact on the assets and liabilities of the Group upon formation of the JV Companies.

OPINION AND RECOMMENDATIONS

Having taken into account the above principal factors and reasons, we consider that the terms of the JV Formation and the Slab Supply Arrangement and the proposed Slab Supply Annual Cap are fair and reasonable so far as the Independent Shareholders are concerned, while the JV Formation is not in the ordinary course of business of the Group, the Slab Supply Arrangement is in the ordinary course of business of the Group, and the JV Formation and the Slab Supply Arrangement are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the resolutions in relation to the JV Agreements, the JV Formation, the Slab Supply Framework Agreement, the Slab Supply Arrangement and the proposed Slab Supply Annual Cap to be proposed at the SGM.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED

Calvin Leung
Director

Mr. Calvin Leung is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over 20 years of experience in the corporate finance industry.