24 December 2021

To: The Independent Board Committee and the Independent Shareholders of Shougang Concord Grand (Group) Limited

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION AND CONTINUING CONNECTED TRANSACTION IN RESPECT OF MASTER FACILITIES AGREEMENT; AND (2) CONTINUING CONNECTED TRANSACTION IN RESPECT OF MASTER PURCHASE AGREEMENT

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the terms of the Master Facilities Agreement and the Master Purchase Agreement, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company to the Shareholders dated 24 December 2021 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

Reference is made to the circulars of the Company dated 26 May 2015 and 20 November 2018, the Company and Shougang Group entered into the 2015 Master Facilities Agreement and the 2018 Master Facilities Agreement in relation to the provision of financing facilities by the Group to Shougang Group. The 2018 Master Facilities Agreement was approved by the then independent shareholders of the Company at the special general meeting held on 7 December 2018 and was expired in June 2021. On 23 August 2021, the Company entered into the Master Facilities Agreement with Shougang Group, pursuant to which the Company has conditionally agreed to provide or procure its subsidiaries to provide the Facilities to Shougang Group and/or its subsidiaries in an aggregate principal amount of up to RMB2,000,000,000 (equivalent to approximately HK$2,410,000,000) for a term of 3 years.

On 23 August 2021, Beijing Jingxi Supply Chain, an indirect wholly-owned subsidiary of the Company, entered into the Master Purchase Agreement with Beijing Shougang under which Beijing Jingxi Supply Chain agreed to purchase steel products from Beijing Shougang for a term of three years commencing from the Master Facilities Agreement become effective.

As at the Latest Practical Date, Shougang Holding was a controlling Shareholder holding approximately 50.84% of the issued share capital of the Company. Shougang Group is the holding company of Shougang Holding and hence is a connected person of the Company. Accordingly, the transactions contemplated under the Master Facilities Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable ratios for the Facilities under the Master Facilities Agreement is more than 100%, the transactions contemplated under the Master Facilities Agreement also together constitute a very substantial acquisition of the Company under Chapter 14 of the Listing Rules, and therefore the Master Facilities Agreement is subject to the announcement, reporting and Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules, and the announcement, reporting and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, Beijing Shougang is a non-wholly owned subsidiary of Shougang Group, which is in turn the holding company of Shougang Holding, the controlling Shareholder holding approximately 50.84% of the issued share capital of the Company. Beijing Shougang is hence a connected person of the Company and the transactions contemplated under the Master Purchase Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios in respect of the annual transaction amount under the Master Purchase Agreement are expected to be more than 5%, the transactions contemplated under the Master Purchase Agreement are subject to the announcement, reporting and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Xu Liang and Mr. Zhang Jianxun are considered to be interested in the Master Facilities Agreement and the Master Purchase Agreement and have abstained from voting on the relevant board resolutions of the Company. Apart from the above, none of the Directors has any material interest in the Master Facilities Agreement and the Master Purchase Agreement and is required to abstain from voting on the board resolutions approving the Master Facilities Agreement and the Master Purchase Agreement, the transactions contemplated thereunder and the proposed annual caps.

Shougang Group and its associates, who were interested in a total of 2,425,736,972 Shares and controlled the voting rights of such Shares which represented approximately 60.88% of the issued share capital of the Company as at the Latest Practicable Date, will be required to abstain from voting at the Special General Meeting on the resolutions in relation to the Master Facilities Agreement and the Master Purchase Agreement. Save as disclosed above, no other Shareholder will be required to abstain from voting on the resolutions in respect of the Master Facilities Agreement and the Master Purchase Agreement.

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The Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. Tam King Ching, Kenny, Mr. Zhang Xingyu, Mr. Ng Man Fung, Walter and Ms. On Danita, has been established to advise the Independent Shareholders in relation to the Master Facilities Agreement and the Master Purchase Agreement and their respective transactions contemplated thereunder. We, Messis Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in these regards.

As at the Latest Practicable Date, we do not have any relationships with or interests in the Company and any other parties that could reasonably be regarded as relevant to our independence. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exists whereby we will receive any fees or benefits from the Company. During the past two year, we were appointed as an independent financial adviser of BeijingWest Industries International Limited (stock code: 2339), a connected person of the Company, for one occasion as detailed in its circular dated 28 November 2019. Notwithstanding, we are independent from the Company pursuant to Rule 13.84 of the Listing Rules, in particular we did not serve as a financial adviser to (i) the Group, (ii) Shougang Group or its subsidiaries, or (iii) any core connected person of the Company within 2 years prior to 14 September 2021, being the date of making our independence declaration to the Stock Exchange pursuant to Rule 13.85(1) of the Listing Rules.

BASIS OF OUR ADVICE AND RECOMMENDATIONS

In arriving at our recommendations, we have relied on the statements, information and representations contained in the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company. We have assumed that all information, representations and opinions contained or referred to in the Circular and all information and representations which have been provided by the Company, the Directors and the management of the Company for which they are solely and wholly responsible, are true and accurate at the time they were made and will continue to be accurate as at the Latest Practicable Date. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the management of the Company.

The 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 the 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 therein or the document misleading.

We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any material facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the Company, the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs of the Group and any parties in relation to the Master Facilities Agreement and the Master Purchase Agreement.

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This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Master Facilities Agreement and the Master Purchase Agreement and the proposed annual caps. Except for its inclusion in the Circular, this letter is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinions and recommendations, we have taken the following principal factors and reasons into consideration:

1. Background information of the Group

1.1 Background of the Group

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of financial services, property leasing services, supply chain management business, asset management and consultancy services.

1.2 Financial information of the Group

The table below sets out the key financial information of the Group for the years ended 31 December 2020 and 2019 and for the six months ended 30 June 2021 and 2020, as extracted from the Company's annual report for the year ended 31 December 2020 (the "**2020 Annual Report**"), and the Company's interim report for the six months ended 30 June 2021 (the "**2021 Interim Report**"):

Financial performance of the Group

	For the six months ended 30 June		For the year ended 31 December	
	2021	**2020**	**2020**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	*(Unaudited)*	*(Audited)*	*(Audited)*
Revenue	1,124,219	38,601	85,378	77,702
Cost of sales and services	(1,072,058)	(5,992)	(11,618)	(20,058)
Gross profit	52,161	32,609	73,760	57,644
Profit/(loss) for the year/period attributable to the owners of the Company	11,418	2,117	5,980	(7,921)

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For the year ended 31 December 2020

According to the 2020 Annual Report, revenue of the Group for the year ended 31 December 2020 was approximately HK$85.4 million, representing an increase of approximately HK$7.7 million or 9.9% as comparing with that of approximately HK$77.7 million for the year ended 31 December 2019. Revenue from the sale and leaseback arrangement services was the largest business segment of the Group which accounted for approximately 92.2% and 92.2% of its total revenue for the year ended 31 December 2019 and 31 December 2020, respectively. The Group commenced its supply chain management services in 2019. Revenue from this business segment was the second largest business segment of the Group which accounted for approximately 6.2% of its total revenue for the year ended 31 December 2020. During the year ended 31 December 2020, the increase in revenue of the Group was mainly contributed by (i) the increase in revenue from the sale and leaseback arrangement services segment of approximately 9.9% from approximately HK$71.6 million for the year ended 31 December 2019 to approximately HK$78.7 million for the year ended 31 December 2020 and (ii) the increase in revenue from the supply chain management services segment of approximately 639.4% from HK$0.7 million for the year ended 31 December 2019 to approximately HK$5.3 million for the year ended 31 December 2020. The increase in revenue from the sale and leaseback arrangement services segment was mainly attributable to the increase in project gross profit resulting from the increase in the number of new projects and more flexible financial resource usage.

The Group recorded a gross profit of approximately HK$57.6 million and HK$73.8 million for the two years ended 31 December 2019 and 2020, respectively and a gross profit margin of approximately 74.2% and 86.4% for the two years ended 31 December 2019 and 2020, respectively. The improvement was mainly attributable to the increase in gross profit margin from the sale and leaseback arrangement services segment from the increase in the number of new projects and more flexible financial resource usage.

The Group recorded a profit for the year attributable to the owners of the Company of approximately HK$6.0 million for the year ended 31 December 2020 and a loss for the year attributable to the owners of the Company of approximately HK$7.9 million for the year ended 31 December 2019. The turnaround in financial performance from loss to profit for the year ended 31 December 2020 was mainly attributable to (i) the increase in revenue and gross profit for the year ended 31 December 2020; (ii) the recovery of receivables under sale and leaseback arrangements previously written-off of approximately HK$13.7 million was recorded in 2020; (iii) the decrease in finance cost of approximately HK$4.3 million; and (iv) the increase in reversal of impairment provision of approximately HK$4.0 million.

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For the six months ended 30 June 2021

According to the 2021 Interim Report, revenue of the Group for the six months ended 30 June 2021 was approximately HK$1,124.2 million, representing an increase of approximately HK$1,085.6 million or 2812.4% as comparing with that of approximately HK$38.6 million for the six months ended 30 June 2020. The increase was mainly attributable to (i) the significant increase in revenue from the supply chain management business which provided full-process services including steel product trading and logistics of approximately HK$1.07 billion; (ii) the increase in revenue from the sale and leaseback arrangements services segment of approximately HK$5.5 million or 14.6% from approximately HK$37.8 million for the six months ended 30 June 2020 to approximately HK$43.3 million for the six months ended 30 June 2021, which was mainly attributable to the increase in project gross profit resulting from the increase in the number of new projects and more flexible financial resource usage; and (iii) the increase in revenue from the assets management and consultancy services segment of approximately HK$1.4 million or 2215.9% from approximately HK$63,000 for the six months ended 30 June 2020 to approximately HK$1.5 million for the six months ended 30 June 2021, which was mainly due to the commencement of the consultancy business at the end of 2020.

The Group recorded gross profit of approximately HK$52.2 million for the six months ended 30 June 2021, representing an increase of approximately 60.0% when compared with that of approximately HK$32.6 million for the six months ended 30 June 2020. The Group's gross profit margin was approximately 4.6% for the six months ended 30 June 2021, representing a significant decrease when compared with the gross profit margin of approximately 84.5% for the six months ended 30 June 2020, which was mainly attributable to the low gross profit margin from the supply chain management business segment with gross profit margin of approximately 1.2% during the period.

The Group recorded a profit for the period attributable to the owners of the Company of approximately HK$11.4 million for the six months ended 30 June 2021 and approximately HK$2.1 million for the six months ended 30 June 2020, representing an increase of approximately HK$9.3 million or 439.4%, which was in line with the increase in revenue and gross profit of the Group.

Financial position of the Group

	As at 30 June	**As at 31 December**	
	2021	**2020**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
	(Unaudited)	*(Audited)*	*(Audited)*
Current assets	1,309,248	1,118,873	1,134,802
Non-current assets	902,611	1,042,600	1,159,230
Total assets	**2,211,859**	**2,161,473**	**2,294,032**
Current liabilities	323,405	244,537	371,651
Non-current liabilities	107,846	152,947	178,883
Total liabilities	**431,251**	**397,484**	**550,534**
Total equity	**1,780,608**	**1,763,989**	**1,743,498**

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As at 31 December 2020

Due to the business nature of the Group in relation to the provision of finance lease to its customers, short term and long term receivables under sale and leaseback arrangements are the key assets of the Group. As at 31 December 2020, short term and long term receivables under sale and leaseback arrangements amounted to approximately HK$1,380.4 million, representing approximately 63.9% of the Group's total assets. The Group had total cash (including bank balances and cash, structured deposits and restricted bank deposits) of approximately HK$318.8 million and HK$607.8 million as at 31 December 2020 and 31 December 2019, respectively. The decrease in cash position was mainly due to the increase in net cash used in financing activities from repayment of bank borrowings of approximately HK$368.4 million. The current ratio of the Group was 458% and 305% as at 31 December 2020 and 31 December 2019, respectively.

Total liabilities of the Group mainly comprised of long term and short term bank borrowings which were principally utilised on supporting the Group's sale and leaseback arrangement business. The total bank borrowings amounted to approximately HK$290.3 million and HK$465.6 million as at 31 December 2020 and 31 December 2019, respectively, which represented approximately 73.0% and 84.6% of its total liabilities, respectively. During 2020, the Group obtained new bank borrowings of approximately HK$283.7 million for its finance leasing and working capital of the Group. The Group was in a gearing position with a total interest-bearing borrowings to total equity of approximately 16% and 27% as at 31 December 2020 and 31 December 2019, respectively.

As at 30 June 2021

Short term and long term receivables under sale and leaseback arrangements, continued to be the key assets of the Group amounted to approximately HK$1,299.1 million, representing approximately 58.7% of the Group's total assets. The Group had total cash (including bank balances and cash, structured deposits and restricted bank deposits) of approximately HK$204.3 million and HK$318.8 million as at 30 June 2021 and 31 December 2020, respectively. The decrease in cash position was mainly due to the net repayment of bank borrowings of approximately HK$26.4 million and cash flows used in operating activities amounted to approximately HK$73.0 million which was mainly attributable to the inventories purchased as a result of the expansion of the supply chain business. The current ratio of the Group was 405% and 458% as at 30 June 2021 and 31 December 2020, respectively.

Total liabilities of the Group mainly comprised of long term and short term bank borrowings which were principally utilised on supporting the Group's sale and leaseback arrangement business. The total bank borrowings amounted to approximately HK$264.1 million and HK$290.3 million as at 30 June 2021 and 31 December 2020, respectively, which represented approximately 61.3% and 73.0% of its total liabilities. During the first half of 2021, the Group obtained new bank borrowings of approximately HK$12.2 million for its supply chain management business.

2. **Background information of Beijing Jingxi Supply Chain, Beijing Shougang and Shougang Group**

2.1 Information of Beijing Jingxi Supply Chain

Beijing Jingxi Supply Chain is a limited liability company established in the PRC. It is an indirect wholly owned subsidiary of the Company and is principally engaged in the business of supply chain management.

2.2 Information of Beijing Shougang

Beijing Shougang is a limited liability company established in the PRC and is principally engaged in the manufacturing, processing and selling of steel-related products. Beijing Shougang is a 62.74% owned non-wholly owned subsidiary of Shougang Group.

2.3 Information of Shougang Group

Shougang Group is a company established in the PRC and is the holding company of Shougang Holding, the controlling Shareholder of the Company. Shougang Group is a state-owned enterprise wholly owned by Beijing State-owned Capital Operation and Management Centre (北京國有資本經營管理中心), which is in turn wholly owned by State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality (北京市人民政府國有資產監督管理委員會).

Shougang Group is one of the largest steel production enterprises in the PRC and is principally engaged in a wide range of business, including steel and iron production, overseas business, property development, mining resources and other businesses. According to the World Steel Association, Shougang Group ranked ninth among the world's 50 top steel producing companies in terms of steel production volume in 2020, with a production capacity of 34 million tones.

According to an offering circular of Shougang Group as published on 16 May 2019 (the "**2019 Offering Circular**"), the latest public available publication which contained the financial information of Shougang Group, the total assets and net assets of Shougang Group as at 31 December 2018 amounted to approximately RMB501.7 billion and RMB137.0 billion, respectively. Shougang Group is a capital intensive company with total non-current assets of approximately RMB382.0 billion as at 31 December 2018, approximately 49.0% of which (i.e. approximately RMB187.3 billion) were the net book value of fixed assets. Steel and iron production was the largest business segment of Shougang Group which accounted for approximately 60.4% of its total operating income for the year ended 31 December 2018.

According to the 2019 Offering Circular, Fitch Ratings, Inc. ("**Fitch**") had assigned a corporate rating of "A-" with a stable outlook to Shougang Group. The stable outlook reflects the assessment of the local government's strong control and support of Shougang Group and the expectation that Shougang Group's operation will remain stable and it would remain strong linkage with Beijing Municipal People's Government.

3. The Master Facilities Agreement

3.1 Background to and reasons for entering into of the Master Facilities Agreement

On 26 March 2015, the Company and Shougang Group entered into the 2015 Master Facilities Agreement in relation to the provision by the Group of financing facilities to Shougang Group and/or its subsidiaries. As the 2018 Master Facilities Agreement was expired in June 2021. On 23 August 2021, the Company entered into the Master Facilities Agreement with Shougang Group, pursuant to which the Company has conditionally agreed to provide or procure its subsidiaries to provide the Facilities to Shougang Group and/or its subsidiaries in an aggregate principal amount of up to RMB2,000,000,000 (equivalent to approximately HK$2,410,000,000) for a term of 3 years commencing from the Master Facilities Agreement become effective.

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of financial services, property leasing, supply chain management business, asset management and consultancy services. South China Leasing, an indirect non-wholly owned subsidiary of the Company, is a prominent leasing company in the PRC. As set out in the section headed "1.2 Financial Information of the Group" in this letter, sale and leaseback arrangement services was the largest business segment of the Group which accounted for approximately 92.2% and 92.2% of its total revenue for the year ended 31 December 2019 and 31 December 2020, respectively. According to the 2020 Annual Report, in 2020, in coping against the COVID-19 pandemic, the Company managed to record a year-on-year growth in both revenue and profit with its expanded base of core corporate customers in strategic industries through its industrial financial service platform. The financial leasing business to domestic conglomerates continued to grow steadily in terms of project scale. Going forward, according to the 2021 Interim Report, although the Group prioritised the development of its supply chain financial services in the steel industry through serving the upstream and downstream customers of Shougang Group, the Group will also continue to focus on the provision of financial leasing business and to promote the rapid growth of the scale of its financial service business with industrial project resources. We are advised by the Directors that the entering into of the Master Facilities Agreement is crucial and beneficial for its continuous development in the financial service business which is in line with its business strategy.

We have discussed with the management of the Company and understand that the transactions contemplated under the Master Facilities Agreement are expected to be occurred on a continuing basis in the ordinary and usual course of business of the Group. The Company have been providing or procuring its subsidiaries to provide financial services to Shougang Group and/or its subsidiaries (including direct and/or indirect subsidiaries) from time to time during the term of the 2015 Master Facilities Agreement and the 2018 Master Facilities Agreement. It is expected that the arrangement for the Facilities will continue and the entering into of the Master Facilities Agreement is to facilitate the continued provision of facilities between Company and Shougang Group and/or its subsidiaries.

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According to the Letter from the Board, there are notable differences in the interest rates offered by the banks in Hong Kong and those in the PRC. Set out below is a summary comparison between the Hong Kong Interbank Offered Rate ("**HIBOR**") and the Shanghai Interbank Offer Rate ("**SHIBOR**") for the period from 1 March 2021 to 31 August 2021:

	Interest rate			
	HIBOR Overnight	**HIBOR 1 year**	**SHIBOR Overnight**	**SHIBOR 1 year**
Average	0.039%	0.439%	2.338%	2.964%
Maximum	0.049%	0.613%	3.282%	3.104%
Minimum	0.033%	0.349%	2.092%	2.789%

The above table demonstrates that there are significant differences between the interest rates and this represents an opportunity for the Group, as the Group is able to seek financing in Hong Kong while extending financing in the PRC so as to earn the spread. The entering into of the Master Facilities Agreement will enable the Group to earn a net interest income under the Master Facilities Agreement. The transactions contemplated under the Master Facilities Agreement will be mostly funded by bank borrowings and internal resources of the Group, and the terms will be basically on a back-to-back basis, so as to minimise the risk exposure to the Company on any fluctuations in borrowing costs. The Group adhered to a prudent risk management policy, with the finance leasing and other financial services segment continuously carrying out rigorous and regular review of credit risk over all the existing and new finance leasing clients. The Group aims at sourcing customers in the finance lease segment with sufficient assets and good creditability in order to safeguard the credit risks of the Group. Shougang Group is rich in assets and a good credit history with good repayment capability. As such, the Directors consider that the entering into the Master Facilities Agreement will enable the Group to continue to provide financing services to a trusted customer group. The Company considers that there is no material disadvantage in entering into of the Master Facilities Agreement and that the entering into of the Master Facilities Agreement is in the interest of the Company and the Shareholders as a whole.

As advised by the Directors, the Group targets large scale corporations, such as Shougang Group, as its core customer groups as it could enable the Group to earn a stable revenue stream at a considerably low risk level. Since the entering into of the 2015 Master Facilities Agreement and the 2018 Master Facilities Agreement, the Group had gradually built up its customer profile. We consider it is fair and reasonable to compare the terms of the finance lease transactions conducted by the Group with Shougang Group and independent third party customers under the same period, which represents the entire term of the 2018 Master Facilities Agreement (the "**Facilities Review Period**"). We have obtained and reviewed a summary of finance lease transactions conducted by the Group during the Facilities Review Period, we note that the Group had entered into (i) 9 finance lease transactions with Shougang Group and/or its subsidiaries, with principal amounts ranged from RMB9 million to RMB220 million; and (ii) 10 finance lease transactions with independent third party customers, with principal amounts ranged from RMB38,700 to RMB150 million. As advised by the Directors, the Group will not be exposed to high business risk under the Master Facilities Agreement given the strong background of Shougang Group. In particular, pursuant to the Master Facilities Agreement, Shougang Group will provide a guarantee in favour of the Company and/or its subsidiaries in respect of the obligations of the relevant member(s) of Shougang Group as the borrower(s) under each entrusted payment transaction or as the lessee(s) under each finance lease transaction.

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Based on the above, in particular that (i) it is the principal business of the Group to provide financial services to its customers; (ii) the strong background of Shougang Group as set out in the paragraph headed "2.3 Information of Shougang Group" in this letter; (iii) Shougang Group is one of the target customer of the Group and the Group is able to earn a net interest income over the term of the Master Facilities Agreement; and (iv) the provision of the Facilities can demonstrates the capability of the Group in engaging in sizeable financial services transactions, which in turn may enable the Group to expand its businesses with targeted independent third party customers, we concur with the view of the Directors that the transactions contemplated under the Master Facilities Agreement are in the ordinary and usual course of business of the Group and that the entering of the Master Facilities Agreement is in the interests of the Company and the Shareholders as a whole.

3.2 Key terms of the Master Facilities Agreement

On 23 August 2021, the Company entered into the Master Facilities Agreement with Shougang Group, pursuant to which the Company has conditionally agreed to provide or procure its subsidiaries to provide the Facilities to Shougang Group and/or its subsidiaries in an aggregate principal amount of up to RMB2,000,000,000 (equivalent to approximately HK$2,410,000,000) for a term of 3 years commencing from the Master Facilities Agreement become effective. The duration of each transaction contemplated thereunder will be negotiated on a case-by-case basis and each of which shall expire by the end of the 3-year period from the Master Facilities Agreement becoming effective. The Facilities to be granted are non-revolving and are subject to the proposed Annual Caps.

Pursuant to the Master Facilities Agreement, the Facilities shall be provided to Shougang Group and/or its subsidiaries by way of (i) entrusted payment; and/or (ii) finance lease; and/or (iii) credit financing. The relevant parties will enter into individual agreements with respect to each of the financing arrangements under the Facilities pursuant to the Master Facilities Agreement. The key terms thereof are set out below:

Major terms of the Master Facilities Agreement

Subject matter	:	The Company will provide or procure its subsidiaries to provide at its discretion the Facilities to Shougang Group and/or its subsidiaries (including direct and/or indirect subsidiaries) from time to time during the term of the Master Facilities Agreement. The Group will finance the provision of the Facilities through bank borrowing and internal resources.
Term of the Master Facilities Agreement	:	A period of 3 years commencing from the Master Facilities Agreement becoming effective.

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Principal amount of the Master Facilities Agreement	:	An aggregate principal amount of up to RMB2,000,000,000 (equivalent to approximately HK$2,410,000,000). The Facilities to be granted are non-revolving in nature and are subject to the maximum amount may not be exceeded at any time during the term of the Master Facilities Agreement. The grant of the Facilities is subject to the maximum amount under the Master Facilities Agreement and the outstanding balance of the Facilities owed by Shougang Group for each relevant year will not exceed RMB2,264,000,000, being the principal amount, interest and handling fee thereon.
Methods of provision of Facilities		The Facilities will be provided by the Group to Shougang Group by way of the following methods (each a "**Loan**"): (a) entrusted payment (委託付款), in which Shougang Group as borrower will entrust the Group as lender to make payment on behalf of the borrower for procurement; (b) finance lease, in which the Group will purchase equipment/asset items for Shougang Group and lease it to Shougang Group under a finance lease arrangement; and (c) credit financing, in which the Group will provide credit financing facility to Shougang Group. The relevant parties will enter into individual agreements with respect to each of the financing arrangements under the Facilities pursuant to the Master Facilities Agreement.
Term of each Loan	:	The duration of each Loan will be negotiated on a case-by-case basis and each Loan will not have a term of longer than three years from the date of the relevant Loan.
Guarantee	:	Shougang Group will guarantee the obligations of the relevant member(s) of Shougang Group as borrower(s) under each entrusted payment or loan, or as lessee(s) under each finance lease. The relevant parties will enter into individual guarantee agreements with respect to each of the financing arrangements under the Facilities pursuant to the Master Facilities Agreement.

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Conditions precedent of the Master Facilities Agreement	:	The Independent Shareholders having approved the Master Facilities Agreement and the transactions contemplated thereunder at a general meeting of the Company convened for approving the Master Facilities Agreement.

The Facilities will be provided by the Group to Shougang Group and/or its subsidiaries by way of the following methods (each a "**Loan**"):

(A) Major terms of the entrusted payment:

Entrusted payment amount	:	The Company and/or its subsidiaries may, at the request of the relevant member of the Shougang Group as borrower, at its discretion make the payment to an intended payee on behalf of the borrower for procurement of the purchased items. The loan amount under each entrusted payment shall be equivalent to the purchase price of the purchased item, but in any event, shall not exceed the unutilised portion of the Facilities.
Purchased items	:	The items to be used by Shougang Group and/or its subsidiaries in their respective ordinary course of business.
Interest rate	:	The interest rate payable by the relevant borrower shall be at a rate equal to the cost of lending of the Group plus 1% to 5%, subject to not being more than 10%.
Repayment date of the entrusted payment and interest	:	Unless otherwise agreed, the repayment amount under each entrusted payment, together with accrued interest, shall be at the end of the term of the relevant entrusted payment.
Handling fee	:	The Group shall be entitled to charge the relevant borrower for each entrust payment a non-refundable handling fee of not more than 1.5% of the principal amount of the entrust payment. Such handling fee is negotiable on a case-by-case basis by reference the handling fee charged by other finance companies for entrusted payment of similar nature. Such fee shall be payable by the borrower at least five business days before the date of the entrust payment.

(B) Major terms of the finance lease:

Finance lease amount	:	The finance lease amount under each finance lease shall be the purchase price of the lease items, subject to such amount shall not exceed the unutilised portion of the Facilities.

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Lease items	:	The lease items will be equipment and/or properties to be used by Shougang Group and/or its subsidiaries in their ordinary course of business.
Interest rate	:	The interest rate payable by the relevant lessee shall be at a rate equal to the cost of lending of the Group plus 1% to 5%, subject to not being more than 10%.
Payment date of the lease and interest	:	Unless otherwise agreed, payment under each finance lease and the interest accrued shall be on a quarterly basis on the 21st day of March, June, September and December.
Security deposit	:	The Group shall be entitled to a security deposit, the amount and payment arrangement will be determined in accordance with the circumstances of each case.
Handling fee	:	The Group shall be entitled to charge the relevant lessee for each finance lease a non-refundable handling fee of not more than 3.75% of the principal amount of the finance lease. Such handling fee shall be payable on the date of the drawdown of the fund. The handling fee is charged for the services provided by the Group in assessing the feasibility of conducting the relevant finance lease transactions. The handling fees and level of security deposits are determined by the Group on a case-by-case basis and will in any event determined with reference to the overall return of each project. Such rate is adjustable depending on various factors, including the level of services as provided by the Group and the risk exposures of the finance lease transactions.
Lessee's option to purchase	:	At the end of the finance lease, the relevant lessee will have the right to purchase the lease items at a nominal purchase price equal to 0.01% of the loan amount of the finance lease, which was based on the scale commonly used for end of term purchase by the lessee in the finance lease industry.

(C) Major terms of the credit financing:

Credit financing amount	:	The credit financing amount shall be such amount requested by the Shougang Group, subject to such amount shall not exceed the unutilised portion of the Facilities.
Interest rate	:	The interest rate payable by the relevant borrower shall be at a rate equal to the cost of lending of the Group plus 1% to 5%, subject to not being more than 10%.

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Repayment date of the credit financing and interest	: Unless otherwise agreed, the outstanding principal of the credit financing shall be repayable at the expiry of the term of the credit financing and the interest accrued shall be paid on a quarterly basis on the 21st day of March, June, September and December.
Handling fee	: The Group shall be entitled to charge the relevant borrower a non-refundable handling fee of not more than 1.5% of the principal amount of the credit financing. Such handling fee is negotiated on a case-by-case basis by reference to the handling fee charged by other finance companies for credit financing of similar nature. Such fee shall be payable at least five business days before the drawdown of the credit financing.

In assessing the fairness and reasonableness of the key terms of the Master Facilities Agreement, we have considered the followings:

3.2.1 Interest rate

As set out in the Letter from the Board, the range of interest rate for entrusted payment, finance lease and credit financing to be charged on the transactions contemplated under the Master Facilities Agreement were determined after arm's length negotiations between the parties with reference to the prevailing market rate and a reasonable margin, which will be added to the total cost of lending by the Group so as to ensure that the Group can earn a net income for providing the Facilities under the Master Facilities Agreement. Pursuant to the Master Facilities Agreement, the interest rate so charged shall be at a rate equal to the cost of lending of the Group plus 1% to 5%, subject to not being more than 10%. As discussed with the management of the Group, this term serves as a benchmark (i) of the Group which a minimum return of 1% is required for each transaction; and (ii) of Shougang Group which it would not consider transactions with interest rate over 10%.

The exact interest rate to be charged for each of the Loans is therefore not directly relevant to the cost of lending of the Group. It is determined by the Company at the relevant time after taking into account: (a) the prevailing market interest rate; and (b) the risk profile of the relevant entrusted payment or finance lease and the then business and financial conditions of the relevant member of Shougang Group being the borrower or the lessee. In assessing the risk profile of the borrower in relation to each Loan, the following factors will be considered: (i) source of funds available for repayment, including the profitability, equity position and the cash flow condition of the borrower/lessee; (ii) the valuations of the lease items as set out above when they are being sold in secondary markets to discharge the debt of the borrower/lessee; (iii) the risk level of the relevant industry of the borrower during the term of the entrusted payment or the relevant industry of the lessee during the term of the finance lease; (iv) the risk and return analysis of other financing projects between the Company and/or its subsidiary and other independent third party borrowers with similar background; and (v) the general market conditions that will be faced by Shougang Group. As a general practice, the Group may agree on a relatively lower interest rate for a

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transaction in the event that, among others, security or pledge is offered by the customers as the credit risk associated to this transaction is lower. The Group will ensure that the interest rate charged on the loans will not be more favourable than the interest rate granted to independent third party customers based on the analysis of items (i) to (v) above.

As advised by the Directors, the Group has adopted, and will continue to adopt, policy and internal control mechanism on risk and return for project evaluation which applied to all financing transactions under the 2018 Master Facilities Agreement and the Master Facilities Agreement. The Group adopts similar assessment and approval processes in accepting transactions regardless of the mode of financing under the Master Facilities Agreement (i.e. entrusted payment, finance lease, or credit financing). We have obtained and reviewed the Group's policy and its internal control measures on project evaluation. Such policy and/or internal control mechanism includes (i) the assessment of risk profile of the borrower to be conducted by the risk management department and (ii) the review by the legal department and the risk management committee of the Group which is comprised of its senior management. In evaluating projects, factors to be considered includes, but not limited to, the borrower's and/or guarantor's financial position, the industry prospect for which the borrower and/or guarantor operating, valuation of the lease assets, repayment term and return. We are given to understand that the Group's policy and internal control mechanism has been further strengthened. Going forward, in determining the interest rate to be charged, the Group will approach at least three banks to seek for specific bank loan for the relevant project to determine the cost of the fund to the Group. The Group would then evaluate the credit risk of the borrower and/or lessee by reviewing its financial position and its ability to repay the Loan, and any assets or guarantee that may be provided as security. A margin would then be added based on the overall risk profile and collaterals that may be secured in respect of the Loan. In addition, the Group would evaluate if it has idle funds at the time. In such event, the Group would further evaluate the deposit rate for the idle fund and the lending rate that it could secure based on the risk profile and collaterals that may be secured in respect of the Loan. Based on the above, we concur with the view of the Directors that there are adequate internal control procedures in place to ensure that the actual interest rate to be charged will be in accordance with the Group's pricing policy.

(a) Entrusted payment

As advised by the Directors, no entrusted payment transaction was conducted by the Group during the Facilities Review Period. We therefore do not have any references for comparison purpose in assessing the fairness and reasonableness on the interest rate chargeable on the entrusted payment transactions under the Master Facilities Agreement Alternatively, we compare the interest rate chargeable to Shougang Group based on the terms of the Master Facilities Agreement against certain entrusted payment transactions conducted by companies listed on the Stock Exchange in evaluating whether the interest rate to be changed would be on normal commercial terms or better.

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We have obtained and reviewed a summary of financing obtained by the Group during the Facilities Review Period. We noted that the effective interest rate on the Group's bank borrowings obtained for the purpose to finance the transactions contemplated under the 2018 Master Facilities Agreement ranged from 3.38% to 5.00%. Pursuant to the Master Facilities Agreement, the interest rate shall be at a rate equal to the cost of lending of the Group plus 1% to 5%, subject to not being more than 10%. For illustrative purpose, the interest rate chargeable on the entrusted payment transactions to Shougang Group and/or its subsidiaries would range from 4.38% to 10% pursuant to the Master Facilities Agreement.

On the other hand, we have conducted an independent research from the website of the Stock Exchange ("**Entrusted Payment Analysis**") during the Facilities Review Period with an aim to locate the practice of listed companies on conducting entrusted payment transactions. On this basis, to the best of our knowledge and as far as we are aware of, we identified 28 entrusted payment transactions ("**Entrusted Payment Comparables**") which were announced by companies listed on the Stock Exchange (12 transactions of which were with third parties while 16 transactions were with connected persons. We consider the selection basis is fair and representative to compare the interest rate chargeable on the entrusted payment transactions. Based on the Entrusted Payment Analysis, we note that the interest rate of the Entrusted Payment Comparables were either at a fixed rate or at rates referencing to the People's Bank of China ("**PBOC**")). Applying the relevant rate of the PBOC as at the date of the Master Facilities Agreement, the interest rate of the Entrusted Payment Comparables ranged from approximately 3.5% to 15%. The illustrative interest rate chargeable on the entrusted payment transactions to Shougang Group and/or its subsidiaries is within the range of the Entrusted Payment Comparables. We are therefore of the view that the interest rate on entrusted payment transactions chargeable under the Master Facilities Agreement are no less favourable than terms available to independent third party customers.

In addition, we note that the Group has adopted policy and internal control mechanism on risk and return for project evaluation, among others, (1) the business department and the risk management department of the Group will conduct risk and return analysis and compare with other potential financing projects between the Group and independent third party available at the time; (2) the internal audit department of the Company will review the transactions with Shougang Group and/or its subsidiaries on a periodic basis to ensure that (i) the transactions are conducted in accordance with the terms of the Master Facilities Agreement, (ii) the pricing terms are in accordance with the pricing policy of the Master Facilities Agreement and the policy of the Group, and (iii) the annual caps have not been exceeded; and (3) the Master Facilities Agreement is subject to the review by the independent non-executive Directors on an annual basis, who will confirm in the annual report whether 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 Master Facilities Agreement on terms that are fair and reasonable and in the interests of the Shareholders as a whole, which applied to all financing transactions, to ensure the interest rate chargeable on the entrusted payment transactions are on normal commercial terms and will not deviate from market practice. In this circumstance, we are of the view that the Group has implemented appropriate internal measures to ensure the interest rate chargeable to the Shougang Group and/or its subsidiaries under the Master Facilities Agreement to be on normal commercial terms or better.

(b) Finance lease

In assessing the fairness and reasonableness on the interest rate chargeable on the finance lease transactions under the Master Facilities Agreement and the effectiveness of the internal control mechanism of the Group, we have reviewed the terms of all finance lease transactions conducted by the Group during the Facilities Review Period.

During the Facilities Review Period, we note that the Group has conducted a total of 19 finance lease transactions, in which, (a) 2 finance lease transactions on equipment leasing, 3 finance lease transactions on construction material leasing and 5 finance lease transactions on mobile phones and home furnitures leasing to independent third party customers; and (b) 5 finance lease transactions on equipment leasing, 1 finance lease transaction on construction material leasing and 3 finance lease transactions on commercial property leasing to Shougang Group and/or its subsidiaries.

For direct comparison purpose, we selected samples of transactions which were of equipment leasing. We note that (a) 5 finance lease transactions has been entered into with Shougang Group and the relevant interest rate ranged from 5.00% to 5.52%; and (b) 2 finance lease transactions has been entered into with one independent third party customer and the relevant interest rate were 5.46%. It is noted that the interest rates so charged to Shougang Group did not materially deviated from (i.e. ±10%) those charged to independent third party customers. It is also noted that interest rate of certain transaction with Shougang Group (i.e. 5.52%) was higher than that of third party customers.

We are given to understand that security deposit and term of each Loan were factors which may affect the interest rate granted to its customers as the credit risks for transactions with security deposits are generally lower. We note that 3 out of 5 finance lease transactions with Shougang Group were charged with security deposits, the Group therefore agreed on a lower interest rate of 5.00% to be granted to the 2 finance lease transactions with terms of 24 months given the relatively lower credit risks. For another finance lease transaction with a term of 36 months, a relatively higher interest rate of 5.52% was granted.

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For finance lease transactions of no security deposit, we note that (a) 2 out of 5 finance lease transactions with Shougang Group were not charged with security deposit and the relevant interest rate granted were 5.35%, and (b) 2 out of 2 finance lease transactions with Shougang Group were not charged with security deposit and the interest rate granted were 5.46%. As advised by the management of the Company, the transactions with one independent third party were charged with relatively higher interest rates as the total principal amount of the loans (i.e. RMB300 million) was relatively high as compared to the other finance lease transactions entered into with Shougang Group and/or its subsidiaries (i.e. RMB9 million). As such, after considering the risks of the Group, a relatively higher interest rate was charged to that particular independent third party customer.

Having considered the above, and in particular that (i) the interest rates so charged to Shougang Group did not materially deviated from (i.e. ±10%) and thus comparable with those charged to third party customers; (ii) the interest rate for certain transaction with Shougang Group was higher than those of third party customers; (iii) the transactions with Shougang Group which had interest rates at low end of 5% were with security deposits; and (iv) the relatively higher interest rate for transactions with third party customers was due to relatively higher risk and cost profile, we are of the view that the interest rate on finance lease transactions chargeable under the 2018 Master Facilities Agreement are no less favourable than those as offered to the Group's independent third party customer.

(c) Credit financing

As advised by the Directors, no credit financing transaction was conducted by the Group during the Facilities Review Period. We therefore do not have any references for comparison purpose in assessing the fairness and reasonableness on the interest rate chargeable on the credit financing transactions under the Master Facilities Agreement. Alternatively, we compare the interest rate chargeable to Shougang Group based on the terms of the Master Facilities Agreement against the general borrowing costs of Shougang Group in evaluating whether the interest rate to be changed would be on normal commercial terms or better.

We have obtained and reviewed a summary of financing obtained by the Group during the Facilities Review Period. We noted that the effective interest rate on the Group's bank borrowings obtained for the purpose to finance the transactions contemplated under the 2018 Master Facilities Agreement ranged from 3.38% to 5.00%. Pursuant to the Master Facilities Agreement, the interest rate shall be at a rate equal to the cost of lending of the Group plus 1% to 5%, subject to not being more than 10%. For illustrative purpose, the interest rate chargeable on the credit financing transactions to Shougang Group and/or its subsidiaries would range from 4.38% to 10% pursuant to the Master Facilities Agreement.

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On the other hand, we have obtained and reviewed the 《首鋼集團有限公司2021年度第四期超短期融資券募集説明書》 (Prospectus in relation to the issuance of 2021 forth phrase super short term commercial paper of the Shougang Group) (the "**Prospectus**"). As disclosed in the Prospectus, we noted that as at 31 December 2019, (i) the interest rate on outstanding bank borrowings of Shougang Group ranged from 3.35% to 4.75% and (ii) the interest rate on outstanding perpetual bonds of Shougang Group ranged from 3.35% to 4. 50%. We have also obtained and reviewed the 2019 Offering Circular. We note from the 2019 Offering Circular that the average interest rate of Shougang Group's indebtedness was approximately 4.8% for the year ended 31 December 2018. The illustrative chargeable on the credit financing transactions to Shougang Group and/or its subsidiaries of 4.38% to 10% is comparable to or higher than Shougang Group's cost of borrowings. We are therefore of the view that the interest rate on credit financing transactions chargeable under the Master Facilities Agreement would be on normal commercial term or better.

In addition, we note that the Group has adopted policy and internal control mechanism on risk and return for project evaluation, among others, (1) the business department and the risk management department of the Group will conduct risk and return analysis and compare with other potential financing projects between the Group and independent third party available at the time; (2) the internal audit department of the Company will review the transactions with Shougang Group and/or its subsidiaries on a periodic basis to ensure that (i) the transactions are conducted in accordance with the terms of the Master Facilities Agreement, (ii) the pricing terms are in accordance with the pricing policy of the Master Facilities Agreement and the policy of the Group, and (iii) the annual caps have not been exceeded; and (3) the Master Facilities Agreement is subject to the review by the independent non-executive Directors on an annual basis, who will confirm in the annual report whether 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 Master Facilities Agreement on terms that are fair and reasonable and in the interests of the Shareholders as a whole, which applied to all financing transactions, to ensure the interest rate chargeable on the entrusted payment transactions are on normal commercial terms or better and will not deviate from market practice. In this circumstance, we are of the view that the Group has implemented appropriate internal measures to ensure the interest rate chargeable to the Shougang Group and/or its subsidiaries under the Master Facilities Agreement are no less favourable than terms available to independent third party customers.

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Having considered that (i) the interest rate to be chargeable on the entrusted payment transactions to Shougang Group and/or its subsidiaries are within the range of the Entrusted Payment Comparables; (ii) the terms of finance lease transactions with Shougang Group and/or its subsidiaries were comparable with those of other independent third party customers; (iii) the interest rate to be chargeable on the credit financing transactions to Shougang Group and/or its subsidiaries are comparable to or higher than the general borrowing costs of Shougang Group; (iv) the actual interest rate charged by the Group were in accordance with the Group's pricing policy and internal control mechanism; and (v) there are adequate internal control policies to be taken place by the Group to determine the interest rate to be offered to each transaction contemplated under the Master Facilities Agreement;, we concur with the view of the Directors that the interest rate to be charged under the Master Facilities Agreement are no less favourable than terms available to independent third party customers, and are fair and reasonable so far as the Independent Shareholders are concerned.

3.2.2 Handling fees

We are given to understand from the Directors that handling fees are common terms for entrusted payment, finance lease and credit financing transactions charged by the Group. The handling fee is charged for the services provided by the Group in assessing the feasibility of conducting the relevant transactions. As advised by the Directors, the handling fees are determined by the Group on a case-by-case basis and will in any event with reference to the overall return of each project. Pursuant to the Master Facilities Agreement, the handling fees to be charged by the Group will be not more than 1.5% for entrusted payment transactions and credit financing transactions, and not more than 3.75% for finance lease transactions. Pursuant to the Master Facilities Agreement, the Group shall entitled to a security deposit for finance lease transactions, to be determined in accordance with the circumstances of each case. The handling fees and securities deposits are adjustable depending on various factors, including the level of services as provided by the Group and the risk exposures of the finance lease transactions.

(a) Entrusted payment

Pursuant to the Master Facilities Agreement, the handling fees to be charged by the Group will be not more than 1.5% for entrusted payment transactions.

As advised by the Directors, no entrusted payment nor credit financing transaction was conducted by the Group during the Facilities Review Period. We therefore do not have any references for comparison purpose in assessing the fairness and reasonableness on the handling fee chargeable on entrusted payment transactions. Alternatively, we compare the interest rate chargeable to Shougang Group based on the terms of the Master Facilities Agreement against certain entrusted payment transactions conducted by companies listed on the Stock Exchange in evaluating whether the interest rate to be charged would be on normal commercial terms or better.

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We have conducted the Entrusted Payment Analysis, details of which are set out in paragraph 3.1.2(a) of this letter. Based on the 28 Entrusted Payment Comparables we identified, we noted that the handling fee of the Entrusted Payment Comparables ranged from nil to 0.3%. The handling fee to be charged by the Group of not more than 1.5% for entrusted payment transactions under the Master Facilities Agreement is therefore comparable to or higher than those of the Entrusted Payment Comparables. Based on the above, we are of the view that the handling fees to be chargeable by the Group of not more than 1.5% are on normal commercial terms or better.

(b) Finance lease

Pursuant to the Master Facilities Agreement, the handling fees to be charged by the Group will be not more than 3.75% for finance lease transactions. In assessing the fairness and reasonableness of the handling fee chargeable on finance lease transactions, we have reviewed the handling fees and security deposits as charged on the finance lease transactions conducted by the Group to independent third party customers and Shougang Group and/or its subsidiaries as conducted under the 2018 Master Facilities Agreement during the Facilities Review Period. We note that the handling fee for finance lease transactions were charged at a rate ranged from (i) nil to 3.75% to independent third party customers; and (ii) 0.62% to 1.50% to Shougang Group and/or its subsidiaries, and no security deposit was charged to independent third party customers. We are given to understand that during the Facilities Review Period, the Group entered into two finance lease transactions with one independent third party customer with relatively high handling fee of 3.75%. As advised by the management of the Company, the two finance lease transactions were entered into with one independent third party customer within the same month and the total loan amount was relatively high as compared to the other finance lease transactions entered into with Shougang Group and/or its subsidiaries. As such, a relatively high handling fee was charged. Excluding these two finance lease transactions, the handling fee charged to third party customers ranged from nil to 2.32%, and majority of the handling fee charged was not more than 1.5%. We therefore consider that the handling fee charged to Shougang Group and/or its subsidiaries is comparable to that of the independent third party customers.

(c) Credit financing

Pursuant to the Master Facilities Agreement, the handling fees to be charged by the Group will be not more than 1.5% for credit financing transactions.

As advised by the Directors, no credit financing transaction was conducted by the Group during the Facilities Review Period. We therefore do not have any references for comparison purpose in assessing the fairness and reasonableness on the handling fee chargeable on credit financing transactions. Alternatively, we compare the handling fee chargeable to Shougang Group based on the terms of the Master Facilities Agreement against the handling fee charged to the Group from third party commercial banks in evaluating whether the interest rate to be changed would be on normal commercial terms or better.

We have obtained and reviewed the summary of financing obtained by the Group during the Facilities Review Period and noted that the handling fee on the Group's bank borrowings obtained for the purpose to finance the transactions contemplated under the 2018 Master Facilities Agreement ranged from nil to 1.24%. The handling fee to be charged by the Group of not more than 1.5% for credit financing transactions under the Master Facilities Agreement is therefore comparable to or higher than those of the Group's bank borrowings. Accordingly, we are of the view that the handling fees chargeable to the Shougang Group and/or its subsidiaries of not more than 1.5% are on normal commercial terms or better.

Having considered that the handling fees chargeable under the Master Facilities Agreement are in line with the Group's normal practice and the rates of which are within the range as normally offered to other independent third party customers and/or the market practice, we therefore concur with the view of the Directors that the handling fees and security deposits charged under the Master Facilities Agreement are on normal commercial terms or better and are fair and reasonable so far as the Independent Shareholders are concerned.

3.2.3 Lessee's option to purchase

Pursuant to the Master Facilities Agreement, at the end of the finance lease, the relevant lessee will have the right to purchase the lease items at a nominal purchase price equal to 0.01% of the loan amount of the finance lease, which was based on the scale commonly used for end of term purchase by the lessee in the finance lease industry.

We have reviewed the nominal purchase price of the finance lease charged by the Group to independent third party customers and those to Shougang Group and/or its subsidiaries as conducted under the 2018 Master Facilities Agreement during the Facilities Review Period. We note that the nominal purchase price of the finance lease was charged at (i) a rate ranged from 0.00003% to 0.01% of the loan amount of the finance lease to independent third party customers; and (ii) a rate of 0.01% of the loan amount of the finance lease to Shougang Group and/or its subsidiaries.

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Having considered that the nominal purchase price of the finance lease conducted under the Master Facilities Agreement are within the range as normally offered to other independent third party customers, we therefore concur with the view of the Directors that the nominal purchase price of the finance lease under the Master Facilities Agreement are no less favourable than those as offered to the Group's independent third party customers, and are fair and reasonable so far as the Independent Shareholders are concerned.

3.2.4 Guarantee

Pursuant to the Master Facilities Agreement, Shougang Group will provide a guarantee in favour of the Company and/or its subsidiaries in respect of the obligations of the relevant member(s) of Shougang Group as the borrower(s) under each entrusted payment or loan, or as the lessee(s) under each finance lease. The relevant parties will enter into individual guarantee agreements with respect to each of the financing arrangements under the Facilities pursuant to the Master Facilities Agreement.

As set out in the paragraph headed "2.3 Information of Shougang Group" in this letter, Shougang Group is one of the largest steel production enterprises in the PRC. The total assets and net assets of Shougang Group as at 31 December 2018 amounted to approximately RMB501.7 billion and RMB137.0 billion, respectively. In addition, according to the 2019 Offering Circular, Fitch has assigned a corporate rating of "A-" with a stable outlook to Shougang Group, reflects the assessment of the local government's strong control and support of Shougang Group and the expectation that Shougang Group's operation will remain stable and it would remain strong linkage with Beijing Municipal People's Government.

As advised by the Directors, the guarantee provided under Shougang Group is relatively sizable as compared to the corporate guarantees and/or personal guarantees from independent third party customers, as such the Directors believed that the guarantees provided by Shougang Group would lower the credit risk exposed by the Group on transactions to be conducted under the Master Facilities Agreement.

Having considered, (i) the strong background of Shougang Group as set out in the paragraph headed "2.3 Information of Shougang Group" in this letter; and (ii) the background of Shougang Group in providing the guarantee, we concur with the view of the Directors that adequate guarantee has been sought to secure the interests of the Group under the Master Facilities Agreement.

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3.2.5 Annual caps

Set out below is the actual amount of the facilities used by Shougang Group and/or its subsidiaries for the three years ended 31 December 2020 and the six months ended 30 June 2021:

	For the year ended 31 December			For the six months ended 30 June
	2018	**2019**	**2020**	**2021**
	RMB'million	*RMB'million*	*RMB'million*	*RMB'million*
Approved amount of the facilities	5,000	5,000	5,000	5,000
Actual amount of facilities used	60	830	939	959
Annual Cap	1,500	1,500	1,500	1,500
Outstanding balance as at each balance sheet date	584	876	581	533

Note: The approved amount is the principal amount of the Facilities, whilst the annual cap would include interest and handling fees to be charged.

The low historical transaction amounts as compared to the annual caps set under the 2018 Master Facilities Agreement and the 2015 Master Facilities Agreement were due to (i) the parties not being able to conclude on certain commercial terms of the individual Loans, including the failure by the parties to agree on the payment terms, (ii) the fluctuation in interests rate and (iii) availability of fund in the market, which resulted in the lower than expected utilization of the facilities under the 2018 Master Facilities Agreement and the 2015 Master Facilities Agreement. As such, whilst the maximum amount of facilities under the 2018 Master Facilities Agreement has already been downward adjusted to RMB5,000,000,000 from that of RMB8,000,000,000 under the 2015 Master Facilities Agreement, the maximum amount of the Facilities under the Master Facilities Agreement has been further adjusted to RMB2,000,000,000 and is lower than that under the 2018 Master Facilities Agreement.

The Master Facilities Agreement has a term of three years and the duration for each Loan under the Master Facilities Agreement shall not exceed three years from the date of the relevant Loan.

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The Annual Caps of the Facilities, on the basis of the principal amount of the Facilities, interest, and handling fees thereon, for each of the financial years ending 31 December 2021 to 31 December 2027 shall be RMB2,264,000,000 each year, taken into account of the expected level of financing required by Shougang Group and its subsidiaries based on the published public information on Shougang Group, and the amount of financing that the Group is expected to be able to secure to finance the Facilities for each relevant year. The breakdown of the proposed Annual Cap for each of the segments under the Facilities for each of the financial years ending 31 December 2021 to 2027 is as follows:

Type of transaction	**Annual cap**
Entrusted payment	RMB223 million
Finance lease	RMB1,706 million
Credit financing	RMB335 million
Total	RMB2,264 million

According to the Letter from the Board, the annual caps were determined based on the expected level of financing required by Shougang Group and the amount of financing that the Group is expected to be able to secure for financing the Facilities.

According to the 2019 Offering Circular, Shougang Group is a capital intensive company with total assets and net assets amounted to approximately RMB501.7 billion and RMB137.0 billion as at 31 December 2018, respectively. We note that the principal amount of the Facilities of RMB2 billion and the proposed Annual Caps of RMB2,264 million only represents approximately 1.1% and 1.2% of the carrying value of the fixed assets of Shougang Group of RMB187.3 billion as at 31 December 2018, respectively. The transaction size under the Master Facilities Agreement is hence not significant and the Directors believe that the Group is able to conduct more finance lease transactions with Shougang Group and/or its subsidiaries at scaleable sizes in future.

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In order to assess the fairness and reasonableness of the Facilities and the proposed Annual Caps, we have considered the followings:

(i) the historical transaction amounts

The historical aggregate principal amount of the facilities used by Shougang Group were approximately RMB60 million, RMB830 million, RMB939 million and RMB959 million for the years ended 31 December 2018, 2019 and 31 December 2020 and the six months ended 30 June 2021, respectively. As advised by the Directors, the increase in historical aggregate principal amount along the years was mainly due to the new finance lease transactions being conducted.

Of the facilities used under the 2018 Master Facilities Agreement, they were all related to finance leases for certain commercial properties, construction machinery and equipment. The low historical transaction amounts as compared to the annual caps set under the 2018 Master Facilities Agreement and the 2015 Master Facilities Agreement were due to (i) the parties not being able to conclude on certain commercial terms of the individual Loans, including the failure by the parties to agree on the payment terms, (ii) the fluctuation in interests rate and (iii) availability of fund in the market, which resulted in the lower than expected utilisation of the facilities under the 2018 Master Facilities Agreement and the 2015 Master Facilities Agreement. As such, whilst the maximum amount of facilities under the 2018 Master Facilities Agreement has already been downward adjusted to RMB5,000,000,000 from that of RMB8,000,000,000 under the 2015 Master Facilities Agreement, the maximum amount of the Facilities under the Master Facilities Agreement has been further adjusted to RMB2,264,000,000 and is lower than that under the 2018 Master Facilities Agreement.

The historical outstanding balance of the facilities owed by Shougang Group were approximately RMB584 million, RMB876 million, RMB581 million and RMB553 million as at 31 December 2018, 31 December 2019, 31 December 2020 and 30 June 2021, respectively. The general slight decrease in historical outstanding balances over the three years ended 31 December 2020 and for the six months ended 30 June 2021 date was mainly due to the receipt of the finance lease receivables according to the terms of each finance lease transaction.

(ii) the projected volume of the Facilities to be provided

As advised by the Directors, the Group believes that the financing needs of the Shougang Group would increase for the three years ending 31 December 2024. In considering the future financing needs of the Shougang Group, we have obtained and reviewed the 2019 Offering Circular, we are given to understand that:

(a) Shougang Group is the second largest iron and steel enterprise in China in terms of total assets as at 31 December 2018 according to the Iron and Steel Association of China;

(b) according to the 2019 Offering Circular, there was a global trend in the control of steel production capacity coupled with a slight recovery in demand in 2018. As a result, the steel industry began to show positive signs of recovery, mainly through the rebound in steel prices. In this regard, it is expected that the steel and iron industry in the PRC will continue to grow in the near future;

(c) according to the 2019 Offering Circular, Shougang Group will continue to explore and strengthen the synergies among different business divisions to increase its overall operating efficiency and profitability. Shougang Group believes that its diversified business portfolio and its unique position in implementing the "Beijing-Tianjin-Hebei Collaborative Development Initiative" and the outlines of the "Beijing-Tianjin-Hebei Collaborative Development Plan" will give it the opportunities to explore synergies between different business divisions, such as iron and steel production, industrial park construction and financial services. Shougang Group believes that such synergies will help maximise the value of its business portfolio, to enhance its risk resistibility and to improve its overall competitiveness;

(d) according to the 2019 Offering Circular, Shougang Group will continue to (i) expand its overseas business, including steel export, cooperation with foreign reputable corporations for establishment of offshore sales network and international engineering business development and; (ii) gain access to overseas resources through procurement of ore resources, as well as offshore financing and capital operations; and

(e) according to the 2019 Offering Circular, Shougang Group relies on external financing to satisfy a portion of its capital requirements and it believes that it will continue to require substantial capital resources to fund its business operations and expansion. As at 31 December 2018, the long-term and short-term bank loans of Shougang Group amounted to approximately RMB142.2 billion.

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From the 2019 Offering Circular, we note that the principal amount of the Facilities of RMB2 billion and the proposed Annual Caps of RMB2 billion only represents approximately 1.4% of Shougang Group's long-term and short-term bank loans of RMB142.2 billion as at 31 December 2018. Moreover, we have discussed with the management of the Company and note that there are six potential finance lease transactions with a total amount of approximately RMB1.2 billion under ongoing negotiation with Shougang Group and/or its subsidiaries as at the Latest Practicable Date. It is also expected that the Group will continue to have new finance lease transactions with Shougang Group during the term of the Master Facilities Agreement. As such, based on the current discussions between the Company and Shougang Group on the potential finance lease transactions as mentioned, we concur with the view of the Directors that the funding needs of Shougang Group and/or its subsidiaries is expected to increase.

Based on the above, in particular (i) the recent and future business strategies of Shougang Group as set out in the 2019 Offering Circular; (ii) the well-established business relationship with the Shougang Group and/or its subsidiaries; and (iii) the ongoing negotiation of potential finance lease transactions between the Company and Shougang Group and/or its subsidiaries, we consider it is justifiable to determine the amount of the Annual Caps on the basis that the financing needs of Shougang Group would increase for the three years ending 31 December 2024.

(iii) the capability of the Group to raise the necessary fund

As set out in the section headed "3. Background to and reasons for the entering into of the Master Facilities Agreement" in this letter, since the entering into of the 2015 Master Facilities Agreement and the 2018 Master Facilities Agreement, the Group had gradually built up its customer profile. During the Facilities Review Period, the Group had entered into (i) 9 finance lease transactions with the subsidiaries and/or associates of Shougang Group, of principal amount ranged from RMB9 million to RMB220 million; and (ii) 10 finance lease transactions with independent third party customers, of principal amount ranged from RMB38,700 to RMB150 million. The total principal amount of the finance lease transactions entered by the Group during Facilities Review Period amounted to approximately RMB1.6 billion. It demonstrated the capabilities of the Group to provide large scale financing services.

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As set out in the Letter from the Board, the transactions contemplated under the Master Facilities Agreement will be mostly funded by bank borrowings and internal resources, and the terms will be on a back-to-back basis. We are given to understand that prior to the finalisation of each project, the Group would assess the availability of internal resources and approach the banks for financing of each project, in order to ensure there are sufficient funds for the transaction. Having considered that the total principal amount of the finance lease transactions entered by the Group during Facilities Review Period amounted to approximately RMB1.6 billion, we concur with the view of the Directors that the Group has the capability to raise sufficient funds for the transactions contemplated under the Master Facilities Agreement up to the level of the approved amount of the Facilities.

Having considered (i) the basis of determination of the Facilities and the proposed annual caps; (ii) the potential demand on finance lease of Shougang Group based on its capital intensive nature, huge historical funding raised from external borrowings; (iii) the capability of the Group to raise the necessary funds to finance the operation; (iv) and the strong background of Shougang Group as set out in the paragraph headed "2.3 Information of Shougang Group" in this letter; and (v) the reasons as set out in the paragraph headed "3.1 Background to and reasons for the entering into of the Master Facilities Agreement" in this letter, we are of the view that the proposed Annual Caps in respect of the Master Facilities Agreement are reasonably determined and are fair and reasonable so far as the Independent Shareholders are concerned.

3.2.6 Term

The term of the Master Facilities Agreement is for a period of 3 years commencing from the date of the relevant Loan. Such that the duration of each Loan will be negotiated on a case-by-case basis and each Loan shall expire within the 3-year period from the date of the relevant loan document. In other words, pursuant to the Master Facilities Agreement, the Company and/or its subsidiaries may enter into loan document with Shougang Group and/or its subsidiaries during the 3 years period from 2021 to 2024 and the Loans would expire by 2027 the latest.

We note that the finance lease transactions entered into between the Group and independent third party customers during the past two years up to the date of the Master Facilities Agreement ranges from 27 to 36 months, and most commonly set for a period of 36 months. The term of each Loan offered under the Master Facilities Agreement, being not exceeding 3 years from the date of the relevant loan document, is therefore in line with the Group's normal practice.

We have also reviewed the announcements of the finance lease transactions as announced by companies listed on the Stock Exchange, published from 26 May 2021 (being three months prior to the date of the Master Facilities Agreement) up to the date of the Master Facilities Agreement (the "**Comparables Review Period**"). As we have, on a best-effort basis, identified a total of 65 finance lease transactions announcements during the Comparables Review Period, we consider the selection period is fair and representative to compare the terms of the finance lease transactions. We have reviewed the terms of each of the finance lease transactions, including but not limited to the lease period, and note that the relevant lease period ranges from 1 year to 15 years, and 21 out of 65 finance lease transactions were set for a period of 3 years. This demonstrates that it is not uncommon for finance lease transactions having terms of 3 years or more.

Pursuant to the Master Facilities Agreement, the term of the Master Facilities Agreement is for a fixed term of 3 years and the duration for each Loan under the Master Facilities Agreement shall not exceed 3 years from the date of the relevant Loan Documents. As such, the Annual Caps of the Master Facilities Agreement will be for a maximum period of 6 years from the date of the Master Facilities Agreement.

Having considered (i) the term of each Loan of 3 years is in line with the Group's normal practice; (ii) it is of market practices for finance lease transactions having terms of 3 years or more, we consider that it is normal business practice for agreements of similar type with the Master Facilities Agreement to have such duration.

3.3 Financial effects of the transactions contemplated under the Master Facilities Agreement

(i) Effect on earnings

The Directors consider that the entering into the Master Facilities Agreement will enable the Group to earn a net income. As (i) the interest rate to be charged on each of the Loans under the Master Facilities Agreement would be at a rate equal to the cost of lending of the Company and/or its subsidiaries plus 1% to 5%, subject to not being more than 10%; and (ii) the Group shall be entitled to charge the relevant lessee for each finance lease under the Master Facilities Agreement a non-refundable handling fee of not more than 1.5% (in the case of entrusted payment and credit financing) or 3.75% (in the case of finance lease) of the principal amount of the Loan, the Group is able to earn a net income over the term of the Master Facilities Agreement. As such, the Directors consider that the entering into the Master Facilities Agreement will have positive impact on the earnings of the Group in a long run.

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4. The Master Purchase Agreement

4.1 Background to and reasons for entering into of the Master Purchase Agreement

On 23 August 2021, Beijing Jingxi Supply Chain, an indirect wholly-owned subsidiary of the Company, entered into the Master Purchase Agreement with Beijing Shougang under which Beijing Jingxi Supply Chain agreed to purchase steel products from Beijing Shougang for a term of three financial years ending 31 December 2023.

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of financial services, property leasing services, supply chain management business, asset management and consultancy services. Beijing Jingxi Supply Chain, is an indirect wholly-owned subsidiary of the Company and is principally engaged in the supply chain management business. As set out in the section headed "1.2 Financial Information of the Group" in this letter, the Group commenced its supply chain management services in 2019. The supply chain management services segment mainly provide services including (i) the analysis of the capital flow, information flow, business flow, logistics, etc. of the industrial chain where the target companies are located; and (ii) solved customers' capital and management needs with the most convenient and diversified products, so as to reduce the transaction cost of the industrial chain and empower the industry. During the six months ended 30 June 2021, the Group extended its supply chain management business to trading of steel related products which was a new revenue stream to the Group. The supply chain management business became the largest business segment of the Group which accounted for approximately 96.0% of its total revenue for the six months ended 30 June 2021. Revenue from the commencement of business covering full-process services including steel product trading and logistics under the supply chain management business segment recorded a significant increase by approximately HK$1.07 billion for the six months ended 30 June 2021.

As set out in the Letter from the Board, the entering into of the Master Purchase Agreement would help Beijing Jingxi Supply Chain to gain a stable supply of steel products for trading purpose, thereby providing it with an opportunity to generate income and trading profits. As the Master Purchase Agreement is being entered into in the usual and ordinary course of business of the Group and the terms have been negotiated on an arm's length basis and on normal commercial terms, with the purchase price of the products being based on prevailing market price of the same or substantially similar products offered by independent third parties, the Directors (including the independent non-executive Directors but excluding the interested Directors) consider that the transactions under the Master Purchase Agreement and the proposed annual caps thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

According to the 2020 Annual Report, the Group attaches great emphasis on the long-term and stable strategic cooperation and partnerships with good-quality intermediaries and suppliers, thereby developing together on the basis of equality and mutual benefit. On 21 July 2020, Beijing Jingxi Supply Chain entered into a cooperation agreement with Suzhou Shougang Steel Processing Assembly Co., Ltd. ("**Suzhou Shougang Steel**"), a company wholly owned by Beijing Shougang, pursuant to which Beijing Jingxi Supply Chain agrees to purchase steel related products from Suzhou Shougang Steel for a term of 1 year (the "**Cooperation Agreement**"). As advised by the Directors, the steel related products to be purchased from Suzhou Shougang Steel is one of the types of steel products to be purchased from Beijing Shougang under the Master Purchase Agreement. However, the Cooperation Agreement did not materialise as additional time was required to comply with the regulatory requirements, which seriously disrupted the supply plan of the steel related products to the end-customers.

As advised by the Directors, the steel products to be purchased from Beijing Shougang under the Master Purchase Agreement are specific types of steel products which can only be sourced from sizable steel production enterprises. As such, the Directors consider that the entering of the Master Purchase Agreement would help Beijing Jingxi Supply Chain to gain a stable supply in respect to quantity and quality of steel products for trading purpose, thereby providing it with an opportunity to generate more income and trading profits.

According to the 2021 Interim Report, the Company prioritised the development of its supply chain financial services in the steel industry serving the upstream and downstream customers of Shougang Group, and centred around core enterprises in the industry to expand supply chain management and financial service business. Focusing on the two groups of target core enterprises namely steel companies and domestic conglomerates as well as their upstream and downstream customers, after thorough analysis and research, the Group seized market opportunities and continued to optimise product mix. We have discussed with the management of the Company and noted that the Company has gradually built up its customer base since the commencement of its supply chain management business. During the six months ended 30 June 2021, the customers in the trading of steel related products of the supply chain management business segment mainly consisted of domestic conglomerates principally engaged in the construction industry and steel products distributors.

Based on the above, in particular that (i) it is the principal business of the Group to provide supply chain management business to its customers; (ii) the strong background of Shougang Group as set out in the paragraph headed "2. Background information of Beijing Jingxi Supply Chain, Beijing Shougang and Shougang Group" in this letter; and (iii) Beijing Jingxi Supply Chain will be able to gain a stable supply of steel products for trading purpose over the term of the Master Purchase Agreement, we concur with the view of the Directors that the transactions contemplated under the Master Purchase Agreement are in the ordinary and usual course of business of the Group and that the entering of the Master Purchase Agreement is in the interests of the Company and the Shareholders as a whole.

4.2 Key terms of the Master Purchase Agreement

Date	:	23 August 2021
Parties	:	(1) Beijing Jingxi Supply Chain; and (2) Beijing Shougang
Subject matter	:	Beijing Jingxi Supply Chain will purchase steel products from Beijing Shougang for trading purpose.
Term	:	Three financial years commencing from the effective date of the Master Purchase Agreement and ending on 31 December 2023.
Pricing	:	The price of the products supplied by the supplier to the Group will be based on the quoted price for the products to be supplied. Such quoted price will be determined based on arm's length negotiations between the parties and on normal commercial terms on a quarterly basis with reference to: (i) the prevailing market price for the same or substantially similar products, taking into account the price of the same or substantially similar products with comparable order quantities and quality offered by independent third party suppliers; (ii) if there are insufficient comparable transactions to (i) above, on normal commercial terms comparable to those received from independent third parties in respect of the same or substantially similar products with comparable quantities and quality; and (iii) if both (i) and (ii) above are not applicable, by reference to the average price of similar products previously purchased by the Group, and on normal commercial terms which are no less favourable to the Group than that are available from independent third parties. Payment for the products under the Master Purchase Agreement will be made at the time of placement of the order for the products.

We have reviewed the Master Purchase Agreement and have discussed with the management of the Company on the major terms therein. In assessing the fairness and reasonableness of the key terms of the Master Purchase Agreement, we have considered the followings:

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4.2.1 Pricing of the products

As set out in the Letter from the Board, in determining the prices for the products, the Group will obtain information of the transaction prices of similar products in the market by making reference to the websites of major players in the industry or industry associations (including but not limited to China Iron and Steel Association (中國鋼鐵工業協會) http://www.chinaisa.org.cn, Zhong Gang Wang (中鋼網) http://baojia.steelcn.cn and My Steel (我的鋼鐵網) www.mysteel.com) conducting researches on industry websites and enquiry with industry players to determine the reference prices. Then, Beijing Jingxi Supply Chain will obtain quotation from major players in China Iron and Steel Association which will then be compared against the prices quoted by the Supplier to ensure that prices and terms for the products being offered will be no less favourable to the Company than that available from independent suppliers. The aforesaid websites can be obtained on a daily basis and the prices of steel products are highly transparent in the open market. In the unlikely event that no comparable market price can be taken, experts in the Group with sufficient industry experience could opine on the fairness and reasonableness of the price by reference to the comparable price and/or historical transaction price of the most similar items to ensure that the price and terms would be fair and reasonable to the Group and no less favourable to the Company than that available from independent third parties.

As advised by the Directors, the Group has adopted internal control and pricing policies to ensure that the terms of the continuing connected transactions of the Group are fair and reasonable and no less favourable to the Group than those available from independent third parties. We have reviewed the internal control and pricing policies and understand that the internal control policies include, among others, (i) the pricing policy for all the continuing connected transactions of the Group will be supervised and monitored by the management of the Group to ensure that the relevant continuing connected transactions are being conducted on normal commercial terms; (ii); the Group will assess the level and the size of order for the products supplied by Beijing Shougang, to obtain reference quotations from independent third party suppliers for setting the prevailing market price; (iii) the relevant personnel from the internal auditing department of the Group will conduct regular checks semi-annually to review the transactions under the relevant continuing connected transaction; and (iv) the independent non-executive Directors and the auditors of the Company will conduct an annual review on the transactions under the relevant continuing connected transaction as well as the pricing terms and annual caps thereof. Based on the above, we concur with the view of the Directors that adequate internal control and pricing policies are in place to ensure that the terms of the continuing connected transactions of the Group are fair and reasonable and no less favourable to the Group than those available from independent third parties.

In assessing the fairness and reasonableness of the purchase price of the products to be supplied by Beijing Shougang to the Group under the Master Purchase Agreement, we have discussed with the management of the Company and understand that in determining the purchase price for the products, the Group will obtain information of the transaction prices of similar products in the market by making reference to the websites of major players in the industry or industry associations conducting researches on industry websites and enquiry of industry players to determine the reference prices.

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We have obtained and reviewed the list of approved suppliers of steel products and the assessment reports for evaluation of the approved suppliers. We note that the Group has taken into account of a number of factors, including but not limited to (i) nature and scale of the enterprise; (ii) the qualification and ability of the supplier to provide specific steel products; (iii) the quality of the steel products. We have also obtained from the Company the price lists of steel products obtained by the Company from two independent third party suppliers and the price list of steel products obtained by the Company from Beijing Shougang. We have reviewed the price lists and note that information including the type and specification of the steel products, and the range of purchase price of the steel products are provided. We also note that the purchase price of the steel products of similar type and specification offered by Beijing Shougang is comparable to those offered by the independent third party suppliers. Based on the above, we concur with the view of the Directors that the pricing policies will be effective to ensure that the purchase price for the products being offered by Beijing Shougang will be no less favourable to the Company than that offered by the independent third party suppliers.

We have also visited the websites of major players in the industry or industry associations (including but not limited to China Iron and Steel Association (中國鋼鐵網工業協會) http://www.chinaisa.org.cn, Zhong Gang Wang (中鋼網) http://baojia.steelcn.cn and My Steel (我的鋼鐵網) www.mysteel.com) which the Group will make reference in determining the purchase price of the products. We noted that (i) China Iron and Steel Association is a national wide industrial organisation of Chinese steel industry; and (ii) Zhong Gang Wang and My Steel provide the market price of varieties of steel products. We have discussed with the management of the Company and understand that the Company would obtain market quotation of the products from the abovementioned websites as a reference in determining the purchase price of the products. Based on the above, we concur with the view of the Directors that these websites together with quotations from independent third party suppliers are appropriate reference in determining the purchase price of steel products.

4.2.2 Annual caps

Pursuant to the Master Purchase Agreement, Beijing Jingxi Supply Chain has agreed to purchase products from Beijing Shougang based on the pricing policy stated above during the term of the Master Purchase Agreement subject to the following annual caps:

	For the year ending 31 December		
	2021	**2022**	**2023**
	RMB' million	*RMB' million*	*RMB' million*
Transaction amount	1,000	1,000	1,000

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According to the Letter from the Board, there were no historical purchases from Beijing Shougang. The annual caps for the Master Purchase Agreement were determined based on the expected market demand and trading volume for the products and the supply capacity of Beijing Shougang.

In order to assess the fairness and reasonableness of the annual caps, we have considered the followings:

(i) the expected market demand and trading volume for the products

We have reviewed the 2021 Interim Report and note that the Group recorded revenue from trading of steel related products of its supply chain management business of approximately HK1.07 billion for the six months ended 30 June 2021, representing an increase of approximately RMB1.07 billion from nil for the six months ended 30 June 2020. The Company prioritised the development of its supply chain financial services in the steel industry serving the upstream and downstream customers of Shougang Group, and centred around core enterprises in the industry to expand supply chain management and financial service business. Focusing on the two groups of target core enterprises namely steel companies and domestic conglomerates as well as their upstream and downstream customers, after thorough analysis and research, the Group seized market opportunities and continued to optimise product mix.

We have also discussed with the management of the Company and understand that in view of (i) the significant increase in revenue from trading of steel related products under the Group's supply chain management business for the six months ended 30 June 2021; and (ii) the preliminary estimated total sales amount of the specific types of steel products which can only be sourced from sizable steel production enterprises amounted to approximately RMB0.9 billion, RMB1.05 billion and RMB1.05 billion for the three years ending 31 December 2021, 2022 and 2023 respectively, the Directors believes that the market demand and trading volume for the steel products are expected to increase for the three years ending 31 December 2023. As advised by the Directors, it is expected that the entering into of the Master Purchase Agreement would help Beijing Jingxi Supply Chain to gain a stable supply of steel products for trading purpose, thereby providing it with an opportunity to generate income and trading profits along with the expected increase in market demand and trading volume for the steel products.

Based on the above, in particular the Group recorded significant increase in revenue from trading of steel related products of its supply chain management business for the six months ended 30 June 2021, we consider it is justifiable to determine the amount of the annual caps on the basis that the expected market demand and trading volume would increase for the three years ending 31 December 2023.

(ii) the supply capacity of Beijing Shougang

As set out in the Letter from the Board, Beijing Shougang is a leading steel supplier in the PRC and is a company listed on the Shenzhen Stock Exchange with a solid track record for supplying quality products.

In considering the supply capacity of Beijing Shougang, we have obtained and reviewed the offering circular of Shougang Group as published on 16 May 2019, being the latest public available publication which contained the financial information of Shougang Group. We are given to understand that Shougang Group owns and manages nine production bases with coking, ironmaking, steelmaking and steel-rolling capacity in China, geographically covering the Bohai Rim region, Western China, Southwestern China, Southeastern China, Northeastern China and Northwestern China.

Having considered (i) the basis of determination of the proposed annual caps; (ii) it is justifiable to determine the amount of the annual caps on the basis that the expected market demand and trading volume would increase for the three years ending 31 December 2023; (iii) the supply capacity of Beijing Shougang would remain strong; (iv) the strong background of Shougang Group as set out in the paragraph headed "2.3 Information of Shougang Group" in this letter; and (v) the reasons as set out in the paragraph headed "4.1 Background to and reasons for the entering into of the Master Purchase Agreement" in this letter, we are of the view that the transactions under the Master Purchase Agreement and the proposed annual caps thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole so far as the Independent Shareholders are concerned.

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RECOMMENDATION

Having taken into account the principal factors discussed above, we are of the view that (i) the entering into of the Master Facilities Agreement and the Master Purchase Agreement are in the interests of the Company and the Shareholders as a whole; (ii) the terms of the Master Facilities Agreement and the Master Purchase Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) the transactions contemplated under the Master Facilities Agreement and the Master Purchase Agreement are in the ordinary and usual course of business of the Group and the proposed annual caps are determined under fair and reasonable grounds. Accordingly, we recommend the Independent Shareholders, and the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolution to be proposed at the Special General Meeting to approve the Master Facilities Agreement and the Master Purchase Agreement and the proposed annual caps thereof.

Yours faithfully,
For and on behalf of
Messis Capital Limited

Thomas Lai

Thomas Lai
Chief Executive Officer

Mr. Thomas Lai is a licensed person registered with the Securities and Futures Commission and regarded as a responsible officer of Messis Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 27 years of experience in corporate finance industry.

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