



RAINBOW CAPITAL (HK) LIMITED
溢博資本有限公司

24 February 2026

To the Independent Board Committees and the Independent Shareholders

Chongqing Iron & Steel Company Limited
No. 2 Jiangnan Avenue
Jiangnan Street
Changshou District
Chongqing, the PRC

Dear Sir or Madam,

**(1) PROPOSED ISSUANCE OF A SHARES TO SPECIFIC TARGET SUBSCRIBER
UNDER SPECIFIC MANDATE;
(2) CONNECTED TRANSACTION INVOLVING SUBSTANTIAL
SHAREHOLDER SUBSCRIBING FOR NEW A SHARES; AND
(3) APPLICATION FOR WHITEWASH WAIVER AND POSSIBLE
UNCONDITIONAL MANDATORY CASH OFFER**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Listing Rules Independent Board Committee, the Code Independent Board Committee (collectively, the “**Independent Board Committees**”) and the Independent Shareholders in respect of the Issuance of A Shares to Specific Target Subscriber and the Whitewash Waiver, details of which are set out in the “Letter from the Board” (the “**Letter from the Board**”) contained in the circular dated 24 February 2026 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 19 December 2025, the Board approved the Issuance of A Shares to Specific Target Subscriber, pursuant to which the Company shall issue no more than 757,575,757 A Shares to Hwabao Investment at the Issue Price. The expected proceeds (before deduction of relevant issuance expenses) shall not exceed RMB1 billion (subject to regulatory approval).

Pursuant to the proposal for the Issuance of A Shares to Specific Target Subscriber, the Company and Hwabao Investment entered into the Share Subscription Agreement on 19 December 2025, pursuant to which Hwabao Investment intends to subscribe for RMB1 billion (subject to regulatory approval) of A Shares. The number of A Shares to be subscribed for shall be calculated by dividing the intended subscription amount by the Issue Price. Upon completion of the Issuance of A Shares to Specific Target Subscriber, China Baowu, Hwabao Investment and the parties acting in concert with any of them are expected to hold 3,369,804,955 Shares in total. The final number of Shares to be issued is subject to approval by the securities regulatory authorities.

The new A Shares under the Issuance of A Shares to Specific Target Subscriber will be issued pursuant to the Specific Mandate to be sought from the Shareholders at the EGM and the Class Meetings. Pursuant to the relevant provisions of Chapter 19A of the Listing Rules, the Company shall obtain the approval from Independent Shareholders by way of a specific resolution at the EGM, and shall separately obtain the approvals from A Shareholders and H Shareholders by way of special resolutions at the Class Meeting of A Shareholders and the Class Meeting of H Shareholders convened in accordance with the Articles of Association, before conducting the Issuance of A Shares to Specific Target Subscriber.

As at the Latest Practicable Date, China Baowu is interested in approximately 29.51% of the issued share capital of the Company, among which 1.47% is directly held by China Baowu and 28.04% is indirectly controlled or held by China Baowu through the corporations it controls (including Hwabao Investment). China Baowu is a substantial shareholder of the Company and Hwabao Investment is a subsidiary of China Baowu, Hwabao Investment is therefore a connected person of the Company. The Issuance of A Shares to Specific Target Subscriber constitutes a connected transaction of the Company and is subject to the requirements of announcement, reporting and independent shareholders' approval under Chapter 14A of the Listing Rules.

Upon completion of the Issuance of A Shares to Specific Target Subscriber, assuming that there are no adjustments and no further changes in the shareholding structure of the Company, China Baowu, Hwabao Investment and the parties acting in concert with any of them will collectively control 3,369,804,955 Shares upon completion of the Issuance of A Shares to Specific Target Subscriber, representing approximately 35.07% of the enlarged issued share capital of the Company. As such, under Rule 26.1 of the Takeovers Code, the allotment and issuance of A Shares under the Issuance of A Shares to Specific Target Subscriber will give rise to an obligation on the part of Hwabao Investment and the parties acting in concert with it to make a mandatory general offer for all H Shares (other than those already owned or agreed to be acquired by China Baowu, Hwabao Investment and the parties acting in concert with any of them), unless the Whitewash Waiver is granted by the Executive.

Hwabao Investment has submitted an application for the Whitewash Waiver to the Executive to exempt it, China Baowu and Chongqing Changshou Iron & Steel (who collectively will hold 32.49% of the Company's issued share capital upon completion of the Issuance of A Shares to Specific Target Subscriber), from the obligation to make a mandatory general offer for all H Shares (other than those already owned or agreed to be acquired by China Baowu, Hwabao Investment and the parties acting in concert with any of them) under Rule 26.1 of the Takeovers Code as a result of the Issuance of A Shares to Specific Target Subscriber. The Executive has indicated it is minded to grant the Whitewash Waiver, subject to, among other things, the approval by at least 75% of the votes cast by Independent Shareholders in respect of the Whitewash Waiver and more than 50% of the votes cast by Independent Shareholders in respect of the Issuance of A Shares to Specific Target Subscriber at the EGM.

The Listing Rules Independent Board Committee (comprising all independent non-executive Directors) has been formed under Chapter 14A of the Listing Rules to advise Independent Shareholders on the Issuance of A Shares to Specific Target Subscriber and the Specific Mandate from the perspective of the Listing Rules. Pursuant to Rule 2.8 of the Takeovers Code, the Code Independent Board Committee (comprising all non-executive Directors who have no direct or indirect interest in the Issuance of A Shares to Specific Target Subscriber and the Whitewash Waiver) has been formed to advise Independent Shareholders on the Whitewash Waiver and the related transactions and their voting thereon. We, Rainbow Capital (HK) Limited, have been appointed as the Independent Financial Adviser (with the approval of the Code Independent Board Committee) to advise the Independent Board Committees and the Independent Shareholders in this respect.

As at the Latest Practicable Date, we did not have any relationships or interests with the Group, Hwabao Investment and China Baowu that could reasonably be regarded as relevant to our independence. We have acted as the independent financial adviser to the independent board committee and the independent shareholders of the Company in relation to the continuing connected transactions, details of which were set out in the circular of the Company dated 8 December 2023. Other than that, there was no engagement or connection between the Group, Hwabao Investment or China Baowu and us in the last two years. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no other arrangements exist whereby we had received any fees or benefits from the Group, Hwabao Investment or China Baowu. Accordingly, we are considered eligible to give an independent advice to the Independent Board Committees and the Independent Shareholders in respect of the Issuance of A Shares to Specific Target Subscriber and the Whitewash Waiver.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the Latest Practicable Date.

The Independent Shareholders will be informed by the Company and us as soon as possible if there is any material change to the information disclosed in this Circular in accordance with Rule 9.1 of the Takeovers Code during the offer period, in which case we will consider whether it is necessary to revise our opinion and inform the Independent Board Committees and the Independent Shareholders accordingly.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the businesses, affairs, operations, financial position or future prospects of the Group, Hwabao Investment, China Baowu or any of their respective substantial shareholders, subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Issuance of A Shares to Specific Target Subscriber and the Whitewash Waiver, we have taken into consideration the following principal factors and reasons:

1. Information on the Group

The Group is principally engaged in the production, processing and sale of steel products such as steel plates, steel sections, wire rods, bar materials, billets and thin plates, as well as the production and sale of coking and coal chemical products, pig iron and grain slag, steel slag and steel scrap. The Group's products are applied in various industries such as machinery, architecture, engineering, automobile, motorbike, shipbuilding, offshore oil, gas cylinder, boiler and oil and gas pipelines.

(i) **Financial performance**

Set out in the table below is a summary of the audited consolidated financial information of the Group for the years ended 31 December 2023 and 2024 (“FY2023” and “FY2024”, respectively) as extracted from the Company’s annual report for FY2024, and the unaudited consolidated financial information of the Company for the nine months ended 30 September 2024 and 2025 (“9M2024” and “9M2025”) as extracted from the Company’s quarterly report for 9M2025:

	9M2025	9M2024	FY2024	FY2023
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
	(unaudited)	(unaudited)	(audited)	(audited)
Revenue	19,091,283	20,598,067	27,244,169	39,318,142
Cost of sales	(18,836,440)	(21,679,172)	(28,599,482)	(40,002,413)
Gross profit/(loss)	254,843	(1,081,105)	(1,355,312)	(684,271)
Taxes and surcharges	(122,490)	(115,122)	(148,499)	(171,556)
Sales expenses	(47,173)	(43,949)	(56,788)	(75,804)
General and administrative expenses	(197,321)	(203,353)	(370,595)	(334,986)
R&D expenses	(27,690)	(31,057)	(41,784)	(31,949)
Finance expenses	(120,646)	(153,667)	(200,673)	(242,279)
Other income	87,398	56,199	82,936	59,936
Investment income	1,360	5,097	5,491	7,381
Credit impairment losses	–	–	(3,529)	–
Impairment losses on assets	(52,180)	–	(1,233,901)	(303,327)
Gains from disposal of assets	2,305	–	2,556	12,625
Operating loss	(221,596)	(1,566,958)	(3,320,098)	(1,764,229)
Non-operating income	1,668	3,218	5,665	7,516
Non-operating expenses	3,425	(27,921)	22,792	12,454
Total loss	(216,503)	(1,591,661)	(3,291,641)	(1,744,259)
Income tax (expenses)/credit	(1,824)	241,911	96,080	249,842
Net loss	(218,327)	(1,349,750)	(3,195,561)	(1,494,417)

FY2024 as compared to FY2023

The Group's revenue decreased by approximately 30.7% from approximately RMB39,318.1 million for FY2023 to approximately RMB27,244.2 for FY2024, which was mainly due to lower sales volume and the decrease in the selling price of commodity billet. The Group's gross loss increased from approximately RMB684.3 million for FY2023 to approximately RMB1,355.3 million, which was mainly due to the increase in gross loss margin resulting from the decrease in selling price.

As the steel industry was in a downward trend in 2024, the Group performed impairment testing on long-term assets in accordance with accounting standards and recorded impairment losses on assets of approximately RMB1,233.9 million on FY2024, representing an increase of approximately 306.8% as compared to that of approximately RMB303.3 million for FY2023.

The Group's net loss increased by approximately 113.8% from approximately RMB1,494.4 million for FY2023 to approximately RMB3,195.6 million for FY2024, which was mainly due to the increase in gross loss and the increase in impairment losses on assets.

9M2025 as compared to 9M2024

Although the Group's revenue decreased by approximately 7.3% from approximately RMB20,598.1 million for 9M2024 to approximately RMB19,091.3 million for 9M2025, the Group turned around from a gross loss of approximately RMB1,081.1 million for 9M2024 to gross profit of approximately RMB254.8 million for 9M2025, which was mainly due to the Group's focus on cost reduction and efficiency improvement.

During the nine months ended 30 September 2025, the Company wrote off certain obsolete fixed assets as a result of its technological upgrade projects and recorded an asset impairment loss of approximately RMB52.2 million.

The Group's net loss decreased by approximately 83.8% from approximately RMB1,349.8 million for 9M2024 to approximately RMB218.3 million for 9M2025, which was mainly due to the turnaround from a gross loss to a gross profit.

(ii) **Financial position**

Set out below is a summary of the consolidated financial position of the Group as at 31 December 2023, 31 December 2024 and 30 September 2025:

	30 September 2025	31 December 2024	31 December 2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)	(audited)
Total current assets	<u>5,185,019</u>	<u>6,287,381</u>	<u>6,051,987</u>
Total non-current assets	<u>29,892,079</u>	<u>29,191,863</u>	<u>31,305,047</u>
Total current liabilities	<u>15,982,157</u>	<u>16,927,242</u>	<u>13,863,584</u>
– Short-term borrowings	775,441	919,368	450,331
– Non-current liabilities due within one year	<u>2,929,167</u>	<u>4,253,093</u>	<u>2,252,747</u>
Total non-current liabilities	2,686,979	1,945,366	3,639,120
– Long-term borrowings	2,459,722	1,652,075	2,986,945
Net assets	16,407,961	16,606,636	19,854,331
Gearing ratio (<i>Note</i>)	<u>53.2%</u>	<u>53.2%</u>	<u>46.9%</u>

Note: Being total liabilities divided by total assets.

The Group's net assets decreased by approximately RMB3,247.7 million from RMB19,854.3 million as at 31 December 2023 to RMB16,606.6 million as at 31 December 2024, and further decreased by approximately RMB198.7 million to RMB16,408.0 million as at 30 September 2025, which was mainly due to that the Group recorded net loss of RMB3,195.6 million and RMB218.3 million for FY2024 and 9M2025, respectively.

The Group's gearing ratio increased from 46.9% as at 31 December 2023 to 53.2% as at 31 December 2024, and remained stable at 53.2% as at 30 September 2025, The increase in 2024 was mainly due to that the Group's interest-bearing borrowings increased from RMB5,372.1 million as at 31 December 2023 to RMB6,664.8 million as at 31 December 2024.

(iii) Industry overview

According to the statistics of National Bureau of Statistic, national production of crude steel and steel remained stable in 2025. National crude steel production was 961 million tonnes in 2025, representing a year-on-year decrease of 4.4%. National steel production was 1,446 million tonnes in 2025, representing a year-on-year increase of 3.1%.

According to the statistics of the Administration of Customs of the PRC, the average import price of iron ore and concentrate was RMB699 per tonne in 2025, representing a year-on-year decrease of 8.3% from RMB762 per tonne in 2024. Coking coal and coke prices also fell in 2025. The decline in raw material prices resulted in lower production costs, which in turn contributed to a reduction in selling prices of steel products. According to the statistics of China Iron and Steel Association, the national average steel price index was 93.67 points for 9M2025, representing a year-on-year decrease of 9.6%.

According to the statistics of National Bureau of Statistic, the ferrous metal smelting and rolling processing industry recorded a significant year-on-year increase in profitability in 2025. The industry's operating revenue was RMB7,726.8 billion for the year ended 31 December 2025, representing a year-on-year decrease of 4.7%. Operating costs amounted to RMB7,289.9 billion for the year ended 31 December 2025, representing a year-on-year decrease of 5.7%. Total profit was RMB109.8 billion for the year ended 31 December 2025, representing a year-on-year increase of 299.2%.

(iv) Overall comments

In line with industry trends, the Company maintained relatively stable sales volumes during the first three quarters of 2025. However, continued declines in steel product prices led to a reduction in the Company's revenue. Given lower production costs, the Company's net loss narrowed for 9M2025. Nonetheless, weak demand in downstream sectors continues to cast uncertainty over the Company's near-term outlook.

2. Information of Hwabao Investment and China Baowu

Hwabao Investment, an industrial finance investment and management platform under China Baowu, is principally engaged in long-term equity investments and securities investments. Hwabao Investment is a wholly-owned subsidiary of China Baowu.

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

As at the Latest Practicable Date, China Baowu, Hwabao Investment, together with parties acting in concert with any of them are interested in approximately 29.51% of the issued share capital of the Company.

3. Reasons for and benefits of the Issuance of A Shares to Specific Target Subscriber

After deduction of relevant issuance expenses, the proceeds from the Issuance of A Shares to Specific Target Subscriber shall be utilised for replenishing working capital and repaying bank debts, thereby alleviating pressure on daily working capital and lowering the gearing ratio.

The Company has the imminent funding needs

The Issuance of A Shares to Specific Target Subscriber will further improve the Company's liquidity levels, optimise its capital structure, increase the scales of its total assets and net assets by RMB993 million, lower the gearing ratio by approximately 1.5 to 2.9 percentage points, increase the current ratio by approximately 0.02 to 0.06 percentage points, and enhance its risk-resistance capabilities. This initiative also aligns with national policy directives to increase the proportion of direct financing, strengthen the capacity of financial services to support the real economy, and lower the leverage ratio of the Company as a state-owned enterprise. As at 30 September 2025, the Group had outstanding borrowings of approximately RMB6.2 billion, including short-term borrowings of RMB775 million, long-term borrowings of RMB2.5 billion, and RMB2.9 billion in non-current liabilities due within one year. Interest expenses paid by the Group during the nine months ended on 30 September 2025 was RMB147.3 million.

Given the capital-intensive nature of the steel industry in which the Company operates, coupled with the continuous upgrade of technological equipment and environmental compliance requirements, the Company maintains substantial working capital requirements. The Company incurred expenses exceeding RMB14 billion for the nine months ended 30 September 2025 while the Group only had cash and bank balances of RMB3.0 billion as at 31 December 2024. We consider that the Company has the imminent funding needs to replenish working capital. Particularly within the context of the steel industry's weak cyclical phase, relatively ample capital is essential to enhance operational stability. By investing the proceeds from the Issuance of A Shares to Specific Target Subscriber, the Company can deploy capital more efficiently and directing resources towards its competitive product lines, which may facilitate product portfolio restructuring and lean operations, while advancing the strategies of "green manufacturing, cost reduction and efficiency enhancement, and continuous improvement", elevate the Company's operational robustness, create favourable conditions for enhancing its core competitiveness and drive sustainable, high-quality development, which is in the interest of the Shareholders' as a whole.

Other alternative fundraising methods

The Company has considered other alternative fundraising methods such as debt financing. However, debt financing may incur financial costs on the Group and may be subject to lengthy due diligence and negotiations with lenders, which is not in line with the Company's funding needs. We have reviewed the Company's quarterly report for the nine months ended 30 September 2025 and noted that the Group had outstanding borrowings of RMB6.2 billion as at 30 September 2025 and incurred finance expenses of RMB147.3 million, equivalent to 57.8% of its gross profit of RMB254.8 million for the nine months ended 30 September 2025. Accordingly, we consider that debt financing would increase the Company's financial burden and is not the most appropriate means of financing for the Company.

In respect of other equity financing methods, rights issue is the most commonly adopted equity financing method in the market. Rights issue shall be implemented to the holders of A Shares and H Shares simultaneously at the same price, while the closing price of A Shares represented premium over the closing price of H Shares. It may not be practical to determine a price suitable for both classes of Shares. We have reviewed the website of the Stock Exchange and we did not identify any A+H listed companies conducting a rights issue during the Review Period (as defined below). In addition, in view of the current industry conditions, there is uncertainty in the amount of funds which could be raised under a rights issue. As for open offer, similar to a rights issue, it also offers qualifying shareholders to participate, but it does not allow the trading of rights entitlements in the open market. Therefore, we consider that rights issue and open offer are neither appropriate nor commonly used fund-raising methods for A+H listed companies such as the Company.

In addition, as stated in the Letter from the Board, it is practically difficult for the Company to pursue market-based equity financing (including rights issue or open offer) due to regulatory constraints since conducting equity financing with market investors at an issue price below the Company's net asset value per share may raise concerns about potential impairment of state-owned assets, and pose challenges in obtaining approval from regulatory authorities in the PRC.

State-owned enterprises face the risk of state-owned asset loss when issuing shares to external market investors at prices below 1x net asset value. However, the A Shares and H Shares has been long traded below 1x PB, reflecting persistent losses and industrywide challenges such as overcapacity in the steel sector and ongoing supply-side reforms, which made it difficult to attract market investors.

In accordance with the CSRC's regulatory guidance on "Balancing Primary and Secondary Markets and Optimizing IPO and Refinancing Rules", listed companies facing "break-even" or "below-book" share prices are restricted from conducting refinancing through public issuance. In this regard, we have reviewed the website of the Shanghai Stock Exchange and noted that where all issuance targets, typically the controlling shareholders or strategic investors, are pre-determined by the board

of the listed company, the issuance is not subject to above regulatory requirements on “break-even” or “below-book” share price. Such issuances are often undertaken to provide financial relief, facilitate corporate transformation, or introduce strategic investors. They contribute to enhancing the quality of listed companies, stabilizing share prices, and safeguarding the rights and interests of minority investors.

Taking into account that (i) alternative debt financing methods to replenish working capital would increase the Company’s financial burden; (ii) the Group was loss-making while the Issuance of A Shares to the Specific Target Subscriber would lower the gearing ratio and reduce finance expenses; (iii) the Issuance of A Shares to the Specific Target Subscriber is an appropriate equity financing method; and (iv) the Issuance of A Shares to Specific Target Subscriber enables the Company to secure necessary funding while also demonstrating the Company’s substantial shareholder’s confidence and commitment for the Group’s long-term development and growth prospect, we consider that although the Issuance of A Shares to Specific Target Subscriber is not conducted in the ordinary and usual course of business of the Company, the Issuance of A Shares to Specific Target Subscriber is in the interests of the Company and the Shareholders as a whole.

4. Principal terms of the Share Subscription Agreement

Set out below is a summary of the principal terms of the Share Subscription Agreement, details of which are set out in the Letter from the Board.

Parties	:	(i) The Company; and (ii) Hwabao Investment
Date	:	19 December 2025
Subscription amount and subscription number	:	Hwabao Investment intends to subscribe for RMB1 billion (subject to regulatory approval) of Shares. The number of Shares to be subscribed for shall be calculated by dividing the intended subscription amount by the Issue Price.
Issue Price	:	RMB1.32 per Share, representing 90% of the average trading price of A Shares over the 20 trading days prior to the Pricing Benchmark Date (rounded up to two decimal places).

The average trading price of A Shares over the 20 trading days prior to the Pricing Benchmark Date = the total trading value of A Shares over the 20 trading days prior to the Pricing Benchmark Date ÷ the total trading volume of A Shares over the 20 trading days prior to the Pricing Benchmark Date.

In the event of distribution of dividend, bonus share issue, conversion of capital reserve into share capital during the period from the Pricing Benchmark Date to the issuance date, the Issue Price shall be adjusted accordingly.

- Conditions precedent : The Share Subscription Agreement shall be effective upon the date of signature and seal by the parties, and has come into force on 19 December 2025. It shall take effect upon the fulfilment (or waiver) of all the following conditions:
- (i) Matters relating to the Issuance of A Shares to Specific Target Subscriber have been approved by the Board and the EGM;
 - (ii) The Board and the Shareholders have considered and approved Hwabao Investment's application for a Whitewash Waiver from the obligation to make a general offer for H Shares, and the Executive have granted a waiver and/or confirmation to exempt Hwabao Investment, China Baowu and Chongqing Changshou Iron & Steel and/or to confirm that Hwabao Investment China Baowu and Chongqing Changshou Iron & Steel were not required to make a general offer to H Shareholders in connection with the Issuance of A Shares to Specific Target Subscriber;
 - (iii) The Board and the Shareholders have considered and approved Hwabao Investment's exemption from acquiring additional A Shares by way of an offer;
 - (iv) China Baowu has approved the Issuance of A Shares to Specific Target Subscriber;
 - (v) The Issuance of A Shares to Specific Target Subscriber has been approved by the Shanghai Stock Exchange and registered with the CSRC.

Save for the condition paragraph (ii) above which may be waived by Hwabao Investment, and Hwabao Investment shall separately seek China Baowu's further approval as to whether such condition can be waived before Hwabao Investment waives such condition, none of the parties shall be entitled to waive any of the foregoing conditions.

Lock-up period : Shares to be subscribed for by Hwabao Investment under the Issuance of A Shares to Specific Target Subscriber shall not be transferred for a period of thirty-six (36) months from the date of completion of the issuance.

Hwabao Investment and the parties acting in concert with it shall not transfer any Shares held prior to the Issuance of A Shares to Specific Target Subscriber for a period of eighteen (18) months from the date of completion of such issuance. However, transfers between different entities under the control of the same actual controller shall not be subject to the foregoing restriction.

Upon expiry of the aforementioned lock-up period, the relevant provisions of the securities regulatory authorities shall be complied with.

5. Issue Price

(i) *Issue Price comparison*

The Issue Price of RMB1.32 per Share represents:

- (a) a discount of approximately 12.0% to the closing price of RMB1.50 per A Share as quoted on the Shanghai Stock Exchange as at the Latest Practicable Date;
- (b) a discount of 9.6% to the average trading price of approximately RMB1.46 per A Share for the 20 trading days prior to the Pricing Benchmark Date;
- (c) a discount of 10.8% to the closing price of approximately RMB1.48 per A share on the last trading day immediately preceding the Pricing Benchmark Date;

- (d) a discount of 10.2% to the average closing price of approximately RMB1.47 per A share for the five trading days immediately preceding the Pricing Benchmark Date;
- (e) a discount of 9.6% to the average closing price of approximately RMB1.46 per A share for the 20 trading days immediately preceding the Pricing Benchmark Date;
- (f) a discount of 12.6% to the average closing price of approximately RMB1.51 per A share for the 60 trading days immediately preceding the Pricing Benchmark Date; and
- (g) a discount of 29.8% to the net asset value per Share of approximately RMB1.88 as at 31 December 2024, calculated based on the Group’s audited net asset value of RMB16,606.6 million as at 31 December 2024 and 8,851,763,767 Share in issue as at the Latest Practicable Date;
- (h) a discount of 28.6% to the net asset value per Share of approximately RMB1.85 as at 30 September 2025, calculated based on the Group’s unaudited net asset value of RMB16,408.0 million as at 30 September 2025 and 8,851,763,767 Share in issue as at the Latest Practicable Date.

(ii) Historical price performance of A Shares

Set out below is the chart showing the movement of the daily closing price of A Shares during the period from 1 November 2024 to the Latest Practicable Date (the “**Review Period**”). We consider such Review Period to be fair, reasonable and representative as we consider it a sufficient period to illustrate the general trend and level of movement of the daily closing price of A Shares for the purpose of this analysis, which reflects the prevailing market sentiment for conducting a comparison between the closing price of A Shares and the Issue Price.

Historical daily closing price per A Share



During the Review Period, the closing price of A Shares ranged from RMB1.20 per A Share recorded on 7 April 2025 to RMB1.79 per A Share recorded on 7 November 2024, with an average closing price of RMB1.45 per A Share. The Issue Price represents a slight discount of approximately 9.0% to the average closing price of A Shares during the Review Period.

At the beginning of the Review Period, the closing price of A Shares exhibited a general downward trend, declining from RMB1.69 per A Share on 1 November 2024 to RMB1.31 per A Share on 10 January 2025. Between 13 January 2025 and 1 July 2025, the closing price of A Shares fluctuated within a range of RMB1.20 to RMB1.44 per A Share. Subsequently, the closing price of A Shares increased sharply and reached RMB1.65 per A Share on 22 July 2025. The closing price of A Shares fell to RMB1.48 per A Share on the Pricing Benchmark Date, to which the Issue Price represents a discount of approximately 10.8%.

As at the Latest Practicable Date, the closing price of A Shares was RMB1.50 per A Share, to which the Issue Price represents a discount of approximately 12.0%.

(iii) Comparison transactions

To assess the fairness and reasonableness of the Issue Price, we have reviewed precedents based on the following selection criteria: (a) standalone issuance of A shares to specific targets that did not involve acquisition; (b) issuances by companies listed on the main board of the Shanghai Stock Exchange; (c) the pricing benchmark date is the date of board resolution approving the relevant issuance; and (d) the transactions were completed during the Review Period. Based on the aforesaid criteria, we identified an exhaustive list of 24 precedents (the “**Comparable Transactions**”). Since a sufficient sample size has been identified based on the aforementioned selection criteria, we have not extended the scope to include companies listed on the Shenzhen Stock Exchange. Although the issuances by China Construction Bank Corporation (601939) and Bank of China Limited (601988) did not constitute connected transactions, we consider that their pricing benchmarks also reflect prevailing market practice for issuance of A shares to specific targets. Given that (a) as

disclosed in “The Plan for Issuance of A Shares to Specific Target Subscriber in 2025”, upon completion of the Issuance of A Shares to Specific Target Subscriber, China Baowu remains the actual controlling party of the Company, and the Issuance of A Shares to Specific Target Subscriber will not result in any change to the Company’s control rights; and (b) Hwabao Investment reserves the right to waive the conditions precedent relating to the Whitewash Waiver under the Subscription Agreement and the pricing basis for the Issue Price did not take the Whitewash Waiver into account, we did not adopt the involvement of change in control or whitewash waiver as selection criterion to identify the Comparable Transactions.

Company name (stock code)	Completion date	Issue price before adjustments	Premium/	Premium/	Premium/	Premium/	
			(discount) of the issue price over/to the average trading price of A shares for the 20 trading days immediately prior to the pricing benchmark date (the	(discount) of the issue price over/to the average closing price per A share on the last trading day immediately preceding the pricing benchmark date (the	(discount) of the issue price over/to the average closing price per A share for the five trading days immediately preceding the pricing benchmark date (the	(discount) of the issue price over/to the average closing price per A share for the 20 trading days immediately preceding the pricing benchmark date (the	(discount) of the issue price over/to the average closing price per A share for the 60 trading days immediately preceding the pricing benchmark date (the
			“Benchmark Premium/ Discount”) (%)	“LTD Premium/ Discount”) (%)	“5 Days Premium/ Discount”) (%)	“20 Days Premium/ Discount”) (%)	“60 Days Premium/ Discount”) (%)
China Agriculture Development Seed Group Co., Ltd (600313)	5 February 2026	5.14	(20.00)	(19.06)	(19.64)	(19.97)	(18.93)
Guangzhou Baiyun International Airport Company Limited (600004)	31 December 2025	7.70	(19.90)	(21.59)	(20.16)	(19.77)	(23.35)
Guangzhou Pearl River Development Group Co., Ltd. (600684)	31 December 2025	2.92	(19.62)	(21.29)	(21.63)	(18.98)	(26.60)
Zhejiang Chenfeng Technology Co., Ltd. (603685)	16 December 2025	8.85	(20.00)	(19.25)	(18.54)	(20.41)	(20.57)
Nanjing Chervon Auto Precision Technology Co., Ltd. (603982)	29 October 2025	7.82	(19.92)	(24.37)	(22.62)	(18.93)	(11.41)
Inspur software Co., Ltd. (600756)	28 October 2025	10.94	(20.00)	(14.66)	(15.13)	(19.67)	(23.10)
Shanghai Ace Investment & Development Co., Ltd. (603329)	27 October 2025	8.95	(19.94)	(14.84)	(17.75)	(19.78)	(27.43)

Company name (stock code)	Completion date	Issue price before adjustments	Premium/Discount (%)	Premium/Discount (%)	Premium/Discount (%)	Premium/Discount (%)	Premium/Discount (%)
			“Benchmark Premium/Discount” (%)	“LTD Premium/Discount” (%)	“5 Days Premium/Discount” (%)	“20 Days Premium/Discount” (%)	“60 Days Premium/Discount” (%)
Ningxia Jiaze Renewables Corporation Ltd. (601619)	26 September 2025	2.61	(19.93)	(22.78)	(23.14)	(19.64)	(13.52)
Fiberhome Telecommunication Technologies Co., Ltd. (600498)	20 August 2025	12.88	(19.98)	(21.03)	(25.21)	(14.85)	(13.63)
Shanghai Kai Kai Industry Co., Ltd. (600272)	15 July 2025	8.17	(19.92)	(20.68)	(21.11)	(19.37)	(20.43)
Sichuan Hongda Co., Ltd. (600331)	8 July 2025	4.68	(19.96)	(22.26)	(19.34)	(18.65)	(19.25)
China National Software & Service Co., Ltd. (600536)	3 July 2025	22.19	(19.99)	(27.17)	(24.29)	(19.72)	(31.43)
China Construction Bank Corporation (601939)	24 June 2025	9.27	8.76	8.80	7.87	8.70	8.54
Tianfeng Securities Co., Ltd. (601162)	19 June 2025	2.71	(8.59)	(7.82)	(6.87)	(8.43)	(9.14)
Postal Savings Bank of China Co., Ltd. (601658)	19 June 2025	6.32	19.19	21.54	18.75	18.90	18.13
Bank of Communications Co., Ltd. (601328)	17 June 2025	8.71	19.76	16.91	17.29	19.94	19.04
Bank of China Limited (601988)	17 June 2025	6.05	11.87	10.00	10.44	11.79	11.70
Anhui Hwasu Co., Ltd. (600935)	6 June 2025	2.29	0.00	1.78	2.23	0.00	(8.66)
Wuxi Xinje Electric Co., Ltd. (603416)	13 May 2025	23.49	(19.74)	(21.75)	(19.77)	(20.25)	(19.97)
SDIC Power Holdings Co., Ltd. (600886)	4 March 2025	12.72	(19.94)	(17.46)	(17.36)	(20.06)	(26.04)

Company name (stock code)	Completion date	Issue price before adjustments	Premium/	Premium/	Premium/	Premium/	
			(discount)	(discount)	(discount)	(discount)	
			of the issue price over/to the closing price per A share on the last trading day immediately preceding the pricing benchmark date (the	of the issue price over/to the average closing price per A share for the five trading days immediately preceding the pricing benchmark date (the	of the issue price over/to the average closing price per A share for the 20 trading days immediately preceding the pricing benchmark date (the	of the issue price over/to the average closing price per A share for the 60 trading days immediately preceding the pricing benchmark date (the	
			“Benchmark Premium/Discount”) (%)	“LTD Premium/Discount”) (%)	“5 Days Premium/Discount”) (%)	“20 Days Premium/Discount”) (%)	“60 Days Premium/Discount”) (%)
Xiamen Xiangyu Co., Ltd. (600057)	27 February 2025	7.03	(19.90)	(23.75)	(19.82)	(19.71)	(18.21)
China National Nuclear Power Co., Ltd. (601985)	10 January 2025	8.52	(19.92)	(25.65)	(24.47)	(20.40)	(14.16)
Wuzhou Special Paper Co., Ltd. (605007)	26 December 2024	11.64	(19.96)	(17.74)	(19.23)	(19.96)	(25.86)
Air China Limited (601111)	10 December 2024	7.02	(9.36)	(2.09)	(3.89)	(9.48)	(9.95)
		Maximum	19.76	21.54	18.75	19.94	19.04
		Minimum	(20.00)	(27.17)	(25.21)	(20.41)	(31.43)
		Average	(12.37)	(12.76)	(12.64)	(12.03)	(13.51)
		Median	(19.92)	(19.15)	(19.29)	(19.51)	(18.57)
The Company (601005)		1.32	<u>(9.59)</u>	<u>(10.81)</u>	<u>(10.20)</u>	<u>(9.59)</u>	<u>(12.58)</u>

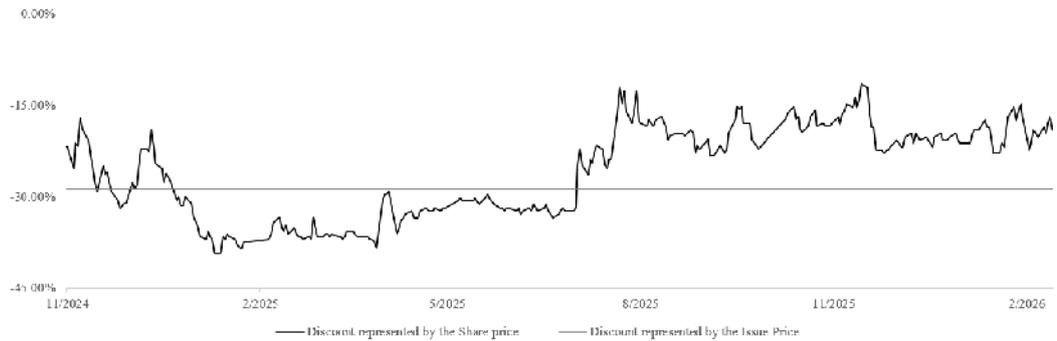
CSRC allowed a discount of not more than 20% to the average trading price of such A shares for the 20 trading days preceding the pricing benchmark date. As shown in the table above:

- (a) the Benchmark Premium/Discount of the Comparable Transactions ranged from a discount of approximately 20.00% to a premium of approximately 19.76%, with average discount of approximately 12.37% and median discount of approximately 19.92%;
- (b) the LTD Premium/Discount of the Comparable Transactions ranged from a discount of approximately 27.17% to a premium of approximately 21.54%, with average discount of approximately 12.76% and median discount of approximately 19.15%;
- (c) the 5 Days Premium/Discount of the Comparable Transactions ranged from a discount of approximately 25.21% to a premium of approximately 18.75%, with average discount of approximately 12.64% and median discount of approximately 19.29%;
- (d) the 20 Days Premium/Discount of the Comparable Transactions ranged from a discount of approximately 20.41% to a premium of approximately 19.94%, with average discount of approximately 12.03% and median discount of approximately 19.51%; and
- (e) the 60 Days Premium/Discount of the Comparable Transactions ranged from a discount of approximately 31.43% to a premium of approximately 19.04%, with average discount of approximately 13.51% and median discount of approximately 18.57%;

Each of the Benchmark Discount, the LTD Discount, the 5 Days Discount, the 20 Days Discount and the 60 Days Discount represented by the Issue Price is lower than the average discount and the median discount of the Comparable Transactions.

(iv) Discount to the net asset value per Share

Set out below is the chart showing the movement of discounts represented by the daily closing price of A Shares to the Group's net asset value per Share (the "NAV Discount") during the Review Period.



During the Review Period, the NAV Discount ranged from 11.5% to 39.3% with an average discount of 25.8%. The discount of 28.6% represented by the Issue Price to the Group's unaudited net asset value per Share as at 30 September 2025 is within the range of the NAV Discount and close to the average NAV Discount during the Review Period. Taking into account the downturn in the industry, the Company's continued losses and the declining net asset value over the years, as well as the fact that the Company's Share price has consistently traded below its net asset value per Share, we consider the discount of the Issue Price to the net asset value per Share to be acceptable.

As the Group is engaged in steel production rather than property development and investment, the overall value of the Company lies primarily in its earning power rather than in the value of its property interests. The Group's property interests are held mainly for operating use and not for investment or development purposes. As such, fluctuations in the value of these properties do not materially affect the valuation of the Group or the assessment of the Issue Price. Furthermore, the Issue Price was not determined with reference to the value of the Group's property interests. The basis for determining the Issue Price primarily includes the market price of the A Shares, the Group's financial performance and prospects, industry conditions, and commercial negotiations between the parties, none of which are directly related to the valuation of the Group's property interests.

As such, we are of the view that the absence of a property valuation report in the Circular does not affect our assessment of the fairness and reasonableness of the Issue Price and our advice in respect of the Issuance of A Shares to Specific Target Subscriber and the Whitewash Waiver.

(iv) Overall comments

Having considered that:

- (a) the Issue Price represents a slight discount of approximately 9.0% to the average closing price of A Shares during the Review Period;
- (b) each of the Benchmark Discount, the LTD Discount, the 5 Days Discount, the 20 Days Discount and the 60 Days Discount represented by the Issue Price is lower than the average discount and the median discount of the Comparable Transactions; and
- (c) the discount represented by the Issue Price to the Group's unaudited net asset value per Share as at 30 September 2025 is within the range of the NAV Discount and close to the average NAV Discount during the Review Period. Taking into account the downturn in the industry, the Company's continued losses and the declining net asset value over the years, as well as the fact that the Company's Share price has consistently traded below its net asset value per Share, we consider the discount of the Issue Price to the net asset value per Share to be acceptable;

we are of the view that the Issue Price is fair and reasonable.

6. Dilution effect on the shareholding interests of the existing public Shareholders

The shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately upon completion of the Issuance of A Shares to Specific Target Subscriber (the “**Completion**”) are set out below:

	As at the Latest Practicable Date		Immediately upon Completion	
	Number of Shares	% of total issued Shares	Number of Shares	% of total issued Shares
<i>Non-public Shareholders</i>				
Hwabao Investment	137,459,680	1.55%	895,035,437	9.31%
China Baowu	129,815,901	1.47%	129,815,901	1.35%
Changshou Iron & Steel	2,096,981,600	23.69%	2,096,981,600	21.82%
Other parties acting in concert with				
China Baowu and Hwabao Investment	247,972,017	2.80%	247,972,017	2.58%
Chen Yingming*	100	0.000001%	100	0.000001%
<i>Public Shareholders</i>				
(i) Public A Shareholders	5,701,407,269	64.41%	5,701,407,269	59.33%
(ii) Public H Shareholders	538,127,200	6.08%	538,127,200	5.60%
A Shares	8,313,636,567	93.92%	9,071,212,324	94.40%
H Shares	538,127,200	6.08%	538,127,200	5.60%
Total issued Shares	<u>8,851,763,767</u>	<u>100.00%</u>	<u>9,609,339,524</u>	<u>100.00%</u>

* Mr. Chen Yingming is an executive Director and is not acting in concert with China Baowu, Hwabao Investment and the parties acting in concert with any of them.

As shown in the above table, we noted that the shareholding in the Company held by the existing public Shareholders would be diluted from approximately 70.49% as at the Latest Practicable Date to approximately 64.93% immediately upon the Completion. Nonetheless, having considered (i) the reasons for and benefits of the Issuance of A Shares to Specific Target Subscriber as discussed in the section headed “3. Reasons for and benefits of the Issuance of A Shares to Specific Target Subscriber”; and (ii) that the Issue Price is fair and reasonable so far as the Independent Shareholders are concerned, we are of the view that the potential dilution effect on the shareholding interests of the existing public Shareholders is acceptable.

7. Whitewash Waiver

As at the Latest Practicable Date, China Baowu, Hwabao Investment and the parties acting in concert with any of them collectively control 2,612,229,198 A Shares, representing approximately 29.51% of Shares in issue. Upon Completion, assuming that there are no adjustments and no further changes in the shareholding structure of the Company, China Baowu, Hwabao Investment and the parties acting in concert with any of them will collectively control 3,369,804,955 Shares upon Completion, representing approximately 35.07% of the enlarged issued share capital of the Company.

As such, under Rule 26.1 of the Takeovers Code, the Issuance of A Shares to Specific Target Subscriber will give rise to an obligation on the part of Hwabao Investment and the parties acting in concert with it to make a mandatory general offer for all H Shares (other than those already owned or agreed to be acquired by China Baowu, Hwabao Investment and the parties acting in concert with any of them), unless the Whitewash Waiver is granted by the Executive.

Hwabao Investment has submitted an application for the Whitewash Waiver to the Executive to exempt it from the obligation to make a mandatory general offer for all H Shares (other than those already owned or agreed to be acquired by China Baowu, Hwabao Investment and the parties acting in concert with any of them) under Rule 26.1 of the Takeovers Code as a result of the Issuance of A Shares to Specific Target Subscriber. The Executive has indicated it is minded to grant the Whitewash Waiver, subject to, among other things, the approval by at least 75% of the votes cast by Independent Shareholders in respect of the Whitewash Waiver and more than 50% of the votes cast by Independent Shareholders in respect of the Issuance of A Shares to Specific Target Subscriber at the EGM.

Under the Share Subscription Agreement, the grant of Whitewash Waiver by the Executive and the approval of the Whitewash Waiver by Independent Shareholders is a condition precedent of the Issuance of A Shares to Specific Target Subscriber which Hwabao Investment reserved the right to waive. If the Whitewash Waiver is not granted by the Executive and/or not approved by Independent Shareholders at the EGM, Hwabao Investment may decide whether or not to waive the condition precedent relating to the Whitewash Waiver and proceed with the Issuance of A Shares to Specific Target Subscriber and make a general offer in cash by coordinating with relevant parties in compliance with Rule 26.1 of the Takeovers Code.

Having taken into consideration (i) the reasons for and benefits of the Issuance of A Shares to Specific Target Subscriber as discussed in the section headed “3. Reasons for and benefits of the Issuance of A Shares to Specific Target Subscriber”; (ii) that the Issue Price is fair and reasonable so far as the Independent Shareholders are concerned; and (iii) the Issuance of A Shares to Specific Target Subscriber may not proceed if the Whitewash Waiver is not granted or approved and Hwabao Investment decides not to waive the condition precedent, we are of the view that the approval of the Whitewash Waiver is in the interests of the Company and the Shareholders as a whole and is fair and reasonable.

OPINION AND RECOMMENDATION

In arriving at our opinion and recommendation, we have considered the principal factors and reasons as discussed above and in particular the following:

- Although the Company’s net loss narrowed for 9M2025, weak demand in downstream sectors continues to cast uncertainty over the Company’s near-term outlook;
- The Issuance of A Shares to Specific Target Subscriber will improve the Company’s liquidity levels, optimise its capital structure, increase the scales of its total assets and net assets, lower the gearing ratio, and enhance its risk-resistance capabilities;
- The Issue Price is fair and reasonable after considering the following:
 - The Issue Price represents a slight discount of approximately 9.0% to the average closing price of A Shares during the Review Period;
 - Each of the Benchmark Discount, the LTD Discount, the 5 Days Discount, the 20 Days Discount and the 60 Days Discount represented by the Issue Price is lower than the average discount and the median discount of the Comparable Transactions;
 - The discount represented by the Issue Price to the Group’s unaudited net asset value per Share as at 30 September 2025 is within the range of the NAV Discount and close to the average NAV Discount during the Review Period. Taking into account the downturn in the industry, the Company’s continued losses and the declining net asset value over the years, as well as the fact that the Company’s Share price has consistently traded below its net asset value per Share, we consider the discount of the Issue Price to the net asset value per Share to be acceptable;
- The potential dilution effect on the shareholding interests of the existing public Shareholders is acceptable after taking into account the factors discussed above

Based on the above, we consider that the Issuance of A Shares to Specific Target Subscriber is on normal commercial terms, and the Issuance of A Shares to Specific Target Subscriber and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned. We also consider that the Issuance of A Shares to Specific Target Subscriber and the Whitewash Waiver, while not in the ordinary and usual course of business of the Group, are nevertheless in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we advise the Independent Board Committees to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Issuance of A Shares to Specific Target Subscriber and the Whitewash Waiver.

Yours faithfully,
For and on behalf of
Rainbow Capital (HK) Limited

A handwritten signature in black ink that reads "Larry Choi". The signature is written in a cursive, slightly slanted style.

Larry Choi
Managing Director

Mr. Larry Choi is a licensed person and a responsible officer of Rainbow Capital (HK) Limited registered with the Securities and Futures Commission to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activity under the SFO. He has over ten years of experience in the corporate finance industry.