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**馬 鞍 山 鋼 鐵 股 份 有 限 公 司**

**Maanshan Iron & Steel Company Limited**

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

**(Stock Code: 00323)**

## **CONTINUING CONNECTED TRANSACTIONS FINANCIAL SERVICES AGREEMENT**

### **FINANCIAL SERVICES AGREEMENT**

On 3 November 2011, the Company and the Finance Company entered into the Financial Services Agreement, pursuant to which, the Finance Company agreed to provide Financial Services to the Group at fair and reasonable price and on normal commercial terms. The Group is not under any obligation to engage the Finance Company as its sole provider of Financial Services and may obtain the Financial Services based on its business needs.

### **LISTING RULES IMPLICATIONS**

Magang Group is the controlling shareholder of the Company. Magang Group holds, as at the date of this announcement, approximately 50.47% of the issued share capital of the Company. The Finance Company is a 51% owned associate company of Magang Group. Both Magang Group and the Finance Company are connected persons of the Company under the Listing Rules. Therefore, the transactions contemplated under the Financial Services Agreement constitute continuing connected transactions of the Company.

As it is expected that the relevant percentage ratios calculated in accordance with the Listing Rules in respect of the maximum daily deposit balance and the average daily deposit balance on a monthly basis of the Depository Services (together with the interests accrued thereon) are more than 5% and the relevant annual caps exceed HK\$10,000,000, the Depository Services to be provided by the Finance Company to the Group are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As it is expected that the relevant percentage ratios calculated in accordance with the Listing Rules in respect of the Loan and Entrusted Loan Services, Discounting Services, Settlement Services and Other Financial Services are more than 0.1% but less than 5% on an annual basis, such services to be provided by the Finance Company to the Group are subject to the reporting and announcement requirements but exempted from the Independent Shareholders' approval requirements under the Listing Rules.

## **FINANCIAL SERVICES AGREEMENT**

On 3 November 2011, the Company and the Finance Company entered into the Financial Services Agreement, the principal terms of which are set out below:

**Date:**

3 November 2011

**Parties:**

The Company; and  
The Finance Company

**Term:**

The Financial Services Agreement shall be for a term commencing from 18 October 2011 to 31 December 2012. The Depository Services and the relevant annual caps are subject to the approvals from the Independent Shareholders at the EGM.

**Services:**

Pursuant to the Agreement, the Finance Company agreed to provide Financial Services to the Group at fair and reasonable price and on normal commercial terms. The Group is not under any obligation to engage the Finance Company as its sole provider of Financial Services and may obtain the Financial Services based on its business needs.

**Depository Services**

The Group may from time to time deposit money with the Finance Company pursuant to the Agreement. The interest rates for deposits placed by the members of the Group must not be lower than (i) the benchmark interest rates set by the PBOC; and (ii) interest rates provided by other independent merchant banks in the PRC for deposits of similar nature and under similar terms.

The proposed annual caps of the maximum daily deposit balance and the average daily deposit balance on a monthly basis (together with the interests accrued thereon) with the Finance Company for each of the years ending 31 December 2011 and 2012:

	Proposed annual caps commencing from the effective date of the Agreement until	
	31 December 2011 (RMB million)	31 December 2012 (RMB million)
Maximum daily deposit balance (together with interests accrued thereon)	6,000 and the average daily deposit balance (together with interests accrued thereon) on a monthly basis shall not be more than 5% of the total asset value in the Company's latest audited accounts	6,000 and the average daily deposit balance (together with interests accrued thereon) on a monthly basis shall not be more than 5% of the total asset value in the Company's latest audited accounts

The proposed annual caps for Depository Services are determined after considering the cash flow position and the treasury policy of the Group. As the Finance Company is newly established in October 2011, there is no historical amount for the Financial Services.

#### **Loan and Entrusted Loan Services**

The Group may from time to time apply to the Finance Company for provision of loan and entrusted loan services pursuant to the Agreement. The Finance Company shall provide such loan services to the Group at interest rates and fees not higher than (i) the range of interest rates set by the PBOC; and (ii) the interest rates charged by other independent merchant banks in the PRC for borrowing of similar nature and under similar terms. The Finance Company shall provide such entrusted loan services to the Group at fees not higher than fees charged by other independent merchant banks in the PRC for entrusted loan.

The Group will not be required to provide any security or guarantee for the loans provided by the Finance Company.

#### **Discounting Services**

The Group will from time to time apply to the Finance Company for provision of discounting services pursuant to the Agreement. The discounting interest rates must not be higher than the market discounting interest rates of similar nature and under similar terms.

#### **Settlement Services**

The Group will from time to time apply to the Finance Company for provision of settlement services pursuant to the Agreement. The Finance Company shall provide such Settlement Services to the Group at fees not higher than (i) the benchmark charging rates set by the PBOC (if applicable); and (ii) the fees charged by other independent merchant banks in the PRC for providing settlement services of similar nature and under similar terms.

## Other Financial Services

The Group will from time to time apply to the Finance Company for provision of other financial services pursuant to the Agreement. The fees charged for the Other Financial Services must not be higher than (i) the benchmark charging rates (if applicable) set by the PBOC; and (ii) the fees charged by other independent merchant banks in the PRC for such services of similar nature and under similar terms.

The proposed annual caps for interests and service fees to be paid to the Finance Company for the Loan and Entrusted Loan Services, Discounting Services, Settlement Services and Other Financial Services for each of the years ending 31 December 2011 and 2012:

	Proposed annual caps commencing from the effective date of the Agreement until	
	31 December 2011 (RMB million)	31 December 2012 (RMB million)
Interests and service fees to be paid to the Finance Company	35	300

The proposed annual caps for the Loan and Entrusted Loan Services, Discounting Services, Settlement Services and Other Financial Services are determined on the basis of the capital and operation needs of the Group.

The total loan amount (including entrusted loan and bills discounting) to be provided by the Finance Company for the Group by the end of the month must be higher than the deposits amount placed by the Group to the Finance Company.

In respect of the deposits placed by the Group with the Finance Company and in the event that the Finance Company delays or refuses to pay the deposits and the accrued interests thereon, the Group will have a right of set-off such deposits and the accrued interests thereon against the outstanding loans extended by the Finance Company to the Group in accordance with the laws and regulations in PRC.

## INTERNAL CONTROLS AND RISK MANAGEMENT

With a view to protecting the interests of Shareholders, the following internal controls and risk management measures will be implemented during the term of the Agreement:

- The Finance Company uses the fund management information system provided by Beijing NineStar Technology Joint-Stock Co., Ltd. Such system complies with the security standards of merchant banks in the PRC. The system also adopts the CA security certificate authentication model to ensure safety for the Company's funds.

- The Finance Company will ensure strict compliance with the risk monitoring benchmarks for finance companies promulgated by the CBRC. The CBRC has higher benchmarks (including capital adequacy ratio) on finance companies than merchant banks. For instance, the capital adequacy ratio should not be below 10%, the non-performing asset ratio should not be over 4%, free fixed assets should not be over 20% and so forth.
- The Finance Company is required to present the financial statements of the previous month for review within six working days of each month pursuant to the requirement of the Company.
- The board of directors of Magang Group has made written undertaking that in the event of an urgent situation where the Finance Company has difficulty in repaying funds, Magang Group will increase its capital in accordance with the actual needs to solve the repayment problem.

### **REASONS FOR AND BENEFITS OF THE AGREEMENT**

The Company and its subsidiaries, as member entities of the Finance Company, will be able to have real-time knowledge of the funds situation of the relevant companies through the funds settlement platform of the Finance Company. This will mitigate and prevent operating risks, reduce time-in-transit of funds, accelerate the turnover of funds and reduce transaction costs and charges, thereby further enhancing the quality and efficiency of funds utilisation.

The interest rates provided by the Finance Company to the Group are more favourable than other merchant banks, thereby reducing the finance costs and expenses of the Group. For instance, when the members of the Group place deposits at the Finance Company, the interest rate is not lower than the deposit interest rate as set by the PBOC for similar deposits. The interest rate for bills discounting is lower to a certain extent than the market discounting interest rate and will not be higher than the loan interest rate as set by the PBOC for similar loans. The interest rate for loans is lower to a certain extent on the benchmark interest rate as set by the PBOC for similar loans.

As a financial service institution of the Group, the information including operating status, credit status, liquidity of assets and cash revenue collection ratio of the members of the Group collected by the Finance Company is more detailed than the external merchant banks. The Finance Company will be able to provide entrusted loans and discounting services to the members of the Group in a better and more effective manner as compared to other merchant banks.

As the Company holds 49% shareholding of the Finance Company, the Company will be able to share corresponding profits from the Finance Company.

In light of the aforesaid, the Finance Company, being a non-bank financial institution, is able to satisfy the Group's business needs in terms of depository, loan and entrusted loan, discounting and settlement services. This will enhance the choice of the Group regarding provision of financial services, thereby maintaining flexibility in funds operation.

## **LISTING RULES IMPLICATIONS**

Magang Group is the controlling shareholder of the Company. Magang Group holds, as at the date of this announcement, approximately 50.47% of the issued share capital of the Company. The Finance Company is a 51% owned associate company of Magang Group. Both Magang Group and the Finance Company are connected persons of the Company under the Listing Rules. Therefore, the transactions contemplated under the Financial Services Agreement constitute continuing connected transactions of the Company.

As it is expected that the relevant percentage ratios calculated in accordance with the Listing Rules in respect of the maximum daily deposit balance and the average daily deposit balance on a monthly basis of the Depository Services (together with the interests accrued thereon) are more than 5% and the relevant annual caps exceed HK\$10,000,000, the Depository Services to be provided by the Finance Company to the Group are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As it is expected that the relevant percentage ratios calculated in accordance with the Listing Rules in respect of the Loan and Entrusted Loan Services, Discounting Services, Settlement Services and Other Financial Services are more than 0.1% but less than 5% on an annual basis, such services to be provided by the Finance Company to the Group are subject to the reporting and announcement requirements but exempted from the Independent Shareholders' approval requirements under the Listing Rules.

## **INFORMATION ON THE COMPANY**

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

## **INFORMATION ON THE FINANCE COMPANY**

The Finance Company is a non-banking institution established under PRC laws in October 2011 with the approval of the CBRC and is subject to the supervision of CBRC. Its total registered and paid-up capital is RMB1 billion, which is contributed and owned by Magang Group and the Company under the proportion of 51% and 49%. It is mainly engaged in providing financial services including but not limited to depository services, loan and entrusted loan services, discounting services, settlement services to the members of the Group.

## **GENERAL**

An Independent Board Committee has been established to advise the Independent Shareholders in respect of terms of the Depository Services under the Financial Services Agreement and the relevant annual caps. The Company will appoint the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, further information on the Financial Services Agreement and the transactions contemplated thereunder, a letter of advice from the Independent Board Committee and a letter of recommendation from the independent financial adviser, and the notice of EGM will be despatched to the Shareholders on or before 15 November 2011.

The EGM will be convened by the Company at which resolution will be proposed to seek approvals from the Independent Shareholders for the Depository Services and the relevant annual caps. Each of Magang Group and its Associates will abstain from voting on the relevant resolutions to be proposed at the EGM.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, no Director has a material interest in the transactions save and except Mr. Su Jiangang and Mr. Zhao Jianming, who are also the directors of Magang Group and are required to abstain from voting at the Board meeting approving the Financial Services Agreement. The remaining Directors (excluding the independent non-executive Directors, who will give their opinion after considering the recommendation from the independent financial adviser) considered that the terms of the transactions and the proposed annual caps in respect of the Depository Services are fair and reasonable and in the interests of the Company and the Shareholders as a whole and the remaining Directors (including the independent non-executive Directors) are of the view that the terms of the transactions contemplated under the Financial Services Agreement in respect of the Loan and Entrusted Loan Services, Discounting Services, Settlement Services and Other Financial Services and the relevant annual caps are on normal commercial terms and fair and reasonable and in the interest of the Company and its Shareholders as a whole.

## **DEFINITIONS**

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“Agreement” or “Financial Services Agreement”	Financial Services Agreement entered into between the Company and the Finance Company on 3 November 2011
“Associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“CBRC”	China Banking Regulatory Commission
“Company”	Maanshan Iron & Steel Company Limited, a joint stock limited company incorporated in the PRC and the shares of which are listed on Stock Exchange

“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Depository Services”	the provision of depository services to be provided by the Finance Company in accepting deposits placed by the Group pursuant to the Agreement
“Director(s)”	the directors of the Company
“Discounting Services”	the provision of discounting services to be provided by the Finance Company pursuant to the Agreement
“EGM”	the extraordinary general meeting of the Company to be convened to approve the Depository Services under the Financial Services Agreement and the relevant annual caps
“Finance Company”	Magang Group Finance Company Limited, a limited company incorporated in the PRC
“Financial Services”	the Depository Services, Loan and Entrusted Loan Services, Discounting Services, Settlement Services and Other Financial Services
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	a board committee comprising Mr. Qin Tongzhou, Ms. Yang Yada and Mr. Wu Tat Man Damon Albert, the independent non-executive Directors of the Company to make recommendations to the Independent Shareholders in respect of the Depository Services under the Financial Services Agreement and the relevant annual caps
“Independent Shareholders”	Shareholders other than Magang Group and any of its Associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan and Entrusted Loan Services”	the loan and entrusted loan services to be provided by the Finance Company to the Group pursuant to the Agreement



“Magang Group”	Magang (Group) Holding Company Limited, a wholly State-owned enterprise with limited liability and a controlling shareholder of the Company as defined under the Listing Rules
“Other Financial Services”	the other financial services to be provided by the Finance Company pursuant to the Agreement
“PBOC”	People’s Bank of China
“PRC”	the People’s Republic of China, which, for the purposes of this announcement, does not include Hong Kong, Macao Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Settlement Services”	the provision of payment and receipt services and other ancillary services related to settlement services to be provided by the Finance Company pursuant to the Agreement
“Shareholder(s)”	holders of shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

By order of the Board  
Maanshan Iron and Steel Company Limited  
**Su Jiangang**  
*Chairman*

3 November 2011  
Maanshan City, Anhui Province, the PRC

*As at the date of this announcement, the directors of the Company include:*

*Executive Directors: Su Jiangang, Qian Haifan, Ren Tianbao*

*Non-executive Director: Zhao Jianming*

*Independent Non-executive Directors: Qin Tongzhou, Yang Yada, Wu Tat Man Damon Albert*