THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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

IN RELATION TO NEW SALE AND PURCHASE OF ORE AGREEMENT, NEW ENERGY SAVING AND ENVIRONMENTAL PROTECTION AGREEMENT AND NEW CCT AGREEMENT

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

SOMERLEY CAPITAL LIMITED

A letter from the Board is set out on pages 5 to 34 of this circular. A letter from the Independent Board Committee is set out on page 35 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 36 to 74 of this circular.

Notice for convening the 2015 third extraordinary general meeting (the "**EGM**") of Maanshan Iron & Steel Company Limited (the "**Company**") to be held at the Magang Office Building, No.8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC, at 1:30 p.m. on 18 November 2015 was issued on 29 September 2015.

Whether or not you intend to attend the said meeting in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon and return it to the Company's registered office (in the case of proxy for, by holders of domestic shares) at No.8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC or at the Company's H share registrar and transfer office, Hong Kong Registrars Limited (in the case of proxy form of holders of H shares) at Rooms 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 24 hours before the time appointed for such meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the said meeting or any adjournment thereof, should you so wish.

19 October 2015

CONTENTS

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

"Abstained Directors"	Mr. Ding Yi, Mr. Qian Haifan, Mr. Su Shihuai and Mr. Ren Tianbao, who abstained from voting as Directors on the relevant Board resolutions relating to the Agreements
"Agreements"	the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environmental Protection Agreement and the New CCT Agreement
"Anhui Xinchuang"	Anhui Xinchuang Energy Saving and Environmental Protection Technology Company Limited, a limited liability company incorporated in the PRC
"associates"	has the meaning as ascribed thereto in the Listing Rules
"Board"	the board of the Directors of the Company
"Company"	Maanshan Iron & Steel Company Limited, a joint stock limited company incorporated in the PRC, the H shares of which are listed on the Stock Exchange
"Directors"	the directors of the Company
"EGM"	the extraordinary general meeting of the Company to be convened to approve, among other things, the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environmental Protection Agreement, the New CCT Agreement and the transactions contemplated thereunder and the respective Proposed Annual Caps
"Energy Saving and Environmental Protection Construction and Services"	the environmental protection construction, maintenance services, the procurement of spare parts and dust removal bags & dust removal bag cages, contract energy services, operation and management of environmental protection facilities, sintering waste heat power generation services and operation and management of water quality, etc. that will be provided by Anhui Xinchuang to the Group according to the New Energy Saving and Environmental Protection Agreement
"Existing Annual Caps"	the maximum cumulative annual amounts connected with the transactions during the period from 1 January 2013 to 31 December 2015 under the Existing New Sale and Purchase of Ore Agreement and the Existing Energy Saving and Environmental Protection Agreement and during the period from 1 November 2013 to 31 December 2015 under the Existing CCT Agreement

"Existing CCT Agreement"	the continuing connected transactions agreement entered into between the Company and the Parent Company on 22 August 2013
"Existing Energy Saving and Environmental Protection Agreement"	the energy saving and environmental protection agreement entered into between the Company and Anhui Xinchuang on 12 October 2012
"Existing Sale and Purchase of Ore Agreement"	the sale and purchase of ore agreement entered into between the Company and the Parent Company on 12 October 2012
"Finished Products and Related Commodities"	the finished products and related commodities, including steel, steel ingots, continuous casting billets, accessories, materials (cables and tools, etc.), iron oxide red and iron scales, and other commodities (labor protection and office supplies, etc.) that will be sold by the Group to the Parent Group according to the New CCT Agreement
"Group"	the Company and its subsidiaries
"Independent Board Committee"	a board committee comprising all the Independent Non-executive Directors, which will, among others, consider and advise the Independent Shareholders in relation to the Agreements and the transactions contemplated thereunder, including the respective Proposed Annual Caps
"Independent Financial Adviser"	Somerley Capital Limited, a corporation licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, is the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Agreements, the transactions contemplated thereunder and the respective Proposed Annual Caps
"Independent Non-executive Directors"	Independent non-executive Directors of the Company
"Independent Shareholders"	Shareholders other than the Parent Company and any of its associates
"Infrastructure Technical and Renovation Engineering Services"	the infrastructure technical and renovation engineering services to be provided by the Parent Group to the Group under the New CCT Agreement

"Iron Ore"	magnetic iron ore concentrates produced in Aoshan, Dongshan, Gushan, Baixiangshan and Hemushan, haematite iron ore pellet produced in Gushan, specularite iron concentrates (powder) produced in Taochong, iron block ore produced in Dashan, iron ore concentrates produced in Zhangzhuang and iron ore concentrates and iron block ore produced in Luohe
"Latest Practicable Date"	14 October 2015
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"New CCT Agreement"	the continuing connected transactions agreement entered into between the Company and the Parent Company on 10 September 2015
"New Energy Saving and Environmental Protection Agreement"	the energy saving and environmental protection agreement entered into between the Company and Anhui Xinchuang on 10 September 2015
"New Sale and Purchase of Ore Agreement"	the sale and purchase of ore agreement entered into between the Company and the Parent Company on 10 September 2015
"Ore"	iron ore, dolomite and/or limestone to be sold by the Parent Group to the Company under the New Sale and Purchase of Ore Agreement
"Parent Company"	Magang (Group) Holding Company Limited, a wholly state-owned enterprise with limited liability, formerly known as Maanshan Magang Holding Company, and was approved by the government to restructure into Magang (Group) Holding Company Limited in September 1998
"Parent Group"	the Parent Company and its subsidiaries and associated companies (excluding the Group)
"PRC"	The People's Republic of China
"Proposed Annual Caps"	the maximum cumulative annual amount connected with the transactions involved in the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environmental Protection Agreement and the New CCT Agreement during the period from 1 January 2016 to 31 December 2018
"RMB"	Renminbi, the lawful currency of the PRC

"Services"	the services, including the further processing of steel billets, metering services and related services (railway transportation, inspection, etc.) that will be provided by the Group to the Parent Group under the New CCT Agreement
"Services and Products"	Water, Electricity and Gas, Finished Products and Related Commodities and Services to be provided by the Group to the Parent Group under the New CCT Agreement
"Services, Products and Construction Engineering"	Spares-parts, Fittings and Related Products, Infrastructure Technical and Renovation Engineering Services, Water and Land Transportation and Related Services that will be sold or provided by the Parent Group to the Group under the New CCT Agreement
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shareholder(s)"	holder(s) of shares of the Company
"Spare-parts, Fittings and Related Products"	the spares-parts, fittings and related products, including refractory materials, spare-parts and complete equipment, nonstandard spare-parts, recycled steel scraps and related products (cokes, pig irons and coals, etc.) that will be sold by the Parent Group to the Group under the New CCT Agreement
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"US$"	United States dollars, the lawful currency of the United States of America
"Waste Materials"	the waste materials generated from iron and steel production sold by the Group to Anhui Xinchuang under the New Energy Saving and Environmental Protection Agreement
"Water and Land Transportation and Related Services"	water and land transportation and related services, including the transport for production support, freight, waterway transport and logistics, integrated port services (including cargo loading and unloading, storage, lump ore screening, transfer and short-distance handling, weighing, pickup and delivery, etc.), equipment (facility) maintenance services for production support, overhaul and medium maintenance equipment, project and maintenance services for electrical, motor and transformer, operation and maintenance for automation and informatisation, lifting logistics services, import and export agency services and related services (automobile repair, monitoring and diagnostic services, etc.) that will be provided by the Parent Group to the Group under the New CCT Agreement
"Water, Electricity and Gas"	water, electricity and gas including electricity, water, industrial treated water, blast furnace gas, coke oven gas, converter gas, vapor, compressed air and other gases to be sold by the Group to the Parent Group under the New CCT Agreement

馬 鞍 山 鋼 鐵 股 份 有 限 公 司

Maanshan Iron & Steel Company Limited

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

(Stock Code: 00323)

Executive Directors:
Mr. Ding Yi *(Chairman)*
Mr. Qian Haifan

Non-Executive Directors:
Mr. Su Shihuai
Mr. Ren Tianbao

Independent Non-Executive Directors:
Mr. Qin Tongzhou
Ms. Yang Yada
Mr. Liu Fangduan

Registered address:
No. 8 Jiu Hua Xi Road
Maanshan City
Anhui Province
the PRC

Office address:
No. 8 Jiu Hua Xi Road
Maanshan City
Anhui Province
the PRC

19 October 2015

To the Shareholders

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTIONS

IN RELATION TO NEW SALE AND PURCHASE OF ORE AGREEMENT, NEW ENERGY SAVING AND ENVIRONMENTAL PROTECTION AGREEMENT AND NEW CCT AGREEMENT

INTRODUCTION

Reference is made to an announcement of the Company dated 10 September 2015 in which the Company announced that the New Sale and Purchase of Ore Agreement and the New CCT Agreement were entered into with the Parent Company and the New Energy Saving and Environmental Protection Agreement was entered into with Anhui Xinchuang, which constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The purpose of this circular is to provide you with (i) further details on the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environmental Protection Agreement and the New CCT Agreement, (ii) the recommendation of the Independent Board Committee, (iii) the advice of Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders and (iv) the notice of the EGM at which ordinary resolutions will be proposed to approve the Agreements and the respective Proposed Annual Caps.

THE NEW SALE AND PURCHASE OF ORE AGREEMENT

Background

The Existing Sale and Purchase of Ore Agreement entered into between the Company and the Parent Company on 12 October 2012 will expire on 31 December 2015. In order to ensure the continuous supply of Ore to the Group, the Company and the Parent Company entered into the New Sale and Purchase of Ore Agreement.

Date

10 September 2015

Parties

(1) The Company as the purchaser; and

(2) The Parent Company as the supplier

Subject matter

Ore including iron ore, dolomite and/or limestone, produced by the Parent Company must first satisfy the quantity demanded by the Company and first be offered to the Group for purchase. Such Ore is not allowed to be sold by the Parent Company to any other party unless prior written consent is given by the Company.

Consideration

Price for Iron Ore in tonne will be determined after arm's length negotiations between the Company and the Parent Company under normal commercial terms with reference to the market price and shall not be higher than (i) the average value of the mid-point of the Platts 62% iron for CFR North China (Qingdao port) as published daily by SBB Steel Markets Daily during the transaction period, plus the freight and miscellaneous expenses from Beilun port to the Company, in which, the adjustment of iron ore price in tonne for different grades shall be based on the Platts 62% iron price in tonne; and (ii) the market price of the same types of iron ore provided by independent third parties to the vicinity of the Company in Maanshan City, Anhui Province, the PRC.

The procurement department of the Company will make reference to the prevailing iron ore price as published by Platts, a division of McGraw Hill Financial (NYSE: MHFI) and a leading global provider of energy, petrochemicals, metals and agriculture information, and a premier source of benchmark price assessments for those commodity markets. As stated in Platts' official website, Platts serves more than 10,000 public and private sector organisations in over 180 countries. The Company has subscribed services provided by Platts to obtain daily report on iron ore price and such market information are being used by the Company to determine iron ore price prior to entering into a transaction with the Parent Company and independent third party suppliers.

Price for dolomite and limestone will be determined after arm's length negotiation between the Company and the Parent Company under normal commercial terms with reference to the market price. The Company will make reference to prices payable to independent third party suppliers for same or similar category of dolomite and limestone. The price for dolomite and limestone shall not be higher than the market price of the same categories of dolomite and limestone provided by independent third parties in the same area to the vicinity of the Company in Maanshan City, Anhui Province, the PRC.

The Parent Company has provided an undertaking under the New Sale and Purchase of Ore Agreement that it shall supply Ore to the Company on terms no less favourable than terms agreed between the Company with any independent third party.

Payment

The payment terms of Ore provided by the Parent Company to the Company shall be determined according to the normal terms of the same types of iron ore and the same categories of dolomite and limestone provided by independent third parties to the Company and shall not be less favourable than the payment terms of the same types of iron ore and the same categories of dolomite and limestone provided by independent third parties to the Company.

The invoice amount and all prices shall be denominated and paid in RMB. After the Company shall have received the Ore and verified its quality, the purchase price of Iron Ore shall be paid within 30 days and the purchase price of dolomite and limestone shall be paid within 50 days.

Condition precedent

The New Sale and Purchase of Ore Agreement is conditional upon the Independent Shareholders approving the New Sale and Purchase of Ore Agreement and the respective Proposed Annual Caps at the EGM.

Duration

Subject to the fulfillment of the aforementioned condition precedent, the New Sale and Purchase of Ore Agreement shall be for a term of three years commencing 1 January 2016 and ending 31 December 2018.

Existing Annual Caps and actual transaction amounts

The Existing Annual Caps (tax exclusive) for transactions under the Existing Sale and Purchase of Ore Agreement for the three years ended/ending 31 December 2013, 31 December 2014 and 31 December 2015 and the actual transaction amounts (tax exclusive) for the two years ended 31 December 2013 and 31 December 2014, and the first seven months ended 31 July 2015 are set out below:

	For the year ended 31 December 2013	For the year ended 31 December 2014	For the year ending 31 December 2015	For the first seven months ended 31 July 2015
				RMB
Existing Annual Caps	5,658,268,620	6,607,763,526	8,469,690,805	N/A
Actual transaction amounts	3,806,655,700	3,489,875,000	N/A	1,520,118,900

The Company purchased similar volume of iron ore from the Parent Company for the two years ended 31 December 2013 and 31 December 2014 (2013: approximately 5.07 million tonnes and 2014: approximately 5.01 million tonnes). For the seven months ended 31 July 2015, the Company purchased approximately 2.89 million tonnes of iron ore from the Parent Company. The total quantity of Ore purchased from the Parent Company amounted to approximately 5.72 million tonnes, 5.75 million tonnes and 4.03 million tonnes for the two years ended 31 December 2013 and 31 December 2014 and the period of first seven months ended 31 July 2015 respectively.

Although the total quantity of Ore purchased from the Parent Company has increased, the decrease in aggregate amount of purchase of Iron Ore from the Parent Company was mainly driven by the decrease in iron ore's price.

Proposed Annual Caps

The Proposed Annual Caps for the transactions (tax exclusive) contemplated under the New Sale and Purchase of Ore Agreement for the three years ending 31 December 2016, 31 December 2017 and 31 December 2018 are set out below:

	For the year ending 31 December 2016	For the year ending 31 December 2017	For the year ending 31 December 2018
			RMB
Proposed Annual Caps	3,815,450,000	4,873,170,000	5,425,240,000

The Proposed Annual Caps in respect of the New Sale and Purchase of Ore Agreement for the term commencing 1 January 2016 and ending 31 December 2018 are determined by reference to (i) the forecasted market price of the Ore; (ii) the Group's anticipated demand for Ore to meet its production requirements and capacity; and (iii) the Parent Company's anticipated production capacity.

Based on the existing production plan, the Directors anticipate that the annual total quantity of Iron Ore to be purchased by the Group for the coming three years ending 31 December 2016, 31 December 2017 and 31 December 2018 will be close to the current level. In addition to making reference to production plan of the Group for the coming three years, the Directors discuss with the Parent Company regarding the production and development plan of the mines. A new mine in Anhui Province commences operation in second half of 2015 and its production capacity is expected to increase gradually in coming years. Furthermore, another mine is undergoing preparatory work for modification, and it is expected that the production capacity of such mine will increase after completion of the modification in the end of 2016.

The Directors consider that it is in the interests of the Company to source more Iron Ore from the Parent Company mainly because (a) it allows the Company to have a stable supply of good grade and quality Iron Ore; and (b) this can reduce the Group's reliance on suppliers for overseas Iron Ore so as to mitigate the risk of delay of shipments when purchasing from these suppliers. Accordingly, the Company plans to source for more Iron Ore from the Parent Company for the coming three years ending 31 December 2016, 31 December 2017 and 31 December 2018. It is estimated that the Company will purchase approximately 7.43 million tonnes, 8.30 million tonnes and 8.66 million tonnes of Iron Ores from the Parent Company for the coming three years ending 31 December 2016, 31 December 2017 and 31 December 2018 respectively.

When estimating future price for purchase of Iron Ore from the Parent Company for the coming three years, the Directors make reference to the iron ore price forecast made by (i) Morgan Stanley as set out in its research report released in March 2015; and (ii) J.P. Morgan as set out in its research report released in June 2015. Based on the aforesaid research reports, the iron ore price estimate, when averaged, is expected to be in the region of US$59 per tonne in 2016 and with an estimated increase of approximately 8.5% and 7.8% in 2017 and 2018 respectively. On this basis, the Directors estimate the future price for purchase of Iron Ore from the Parent Company for 2016, and an approximate increase of 8.5% and 7.8% is adopted to estimate the respective 2017 and 2018 Iron Ore purchase price with the Parent Company.

Furthermore, a buffer of 10% has been incorporated in determining the Proposed Annual Caps of Iron Ore purchase in 2016, 2017 and 2018 to cater for possible adjustments in prices and further growth in businesses of the Group.

As the Parent Company provides good quality of dolomite and limestone, for similar reasons mentioned above for sourcing more Iron Ore from the Parent Company, the Directors also plan to source more dolomite and limestone from the Parent Company in the coming three years ending 31 December 2016, 31 December 2017 and 31 December 2018. It is expected that dolomite and limestone not exceeding 2.2 million tonnes will be purchased for the year ending 31 December 2016 and such quantity is expected to remain stable in 2017 and 2018.

The Directors estimate that the purchase price of dolomite and limestone will increase by approximately 3% each year for the three years ending 31 December 2016, 31 December 2017 and 31 December 2018 due to the increase in labour costs and transportation expenses and more stringent rules and regulations for environmental standards.

Reasons for, and benefits of, the New Sale and Purchase of Ore Agreement

The Company is one of the largest iron and steel producers and marketers in the PRC, and is principally engaged in the manufacturing and sale of iron and steel products. Its principal steel product includes steel plates, section steel, wire rods, train wheels and specialty steel.

Iron Ore is a primary raw material used by the Group in iron-making, while dolomite and limestone is used in the iron and steel production process as flux, being a binding agent and impurity remover and is finally disposed with other impurities and residuals. Since the production scale of iron ore in the PRC is insufficient to meet production requirement of the PRC iron and steel manufacturing industry, the Group also has to source iron ore produced from distant mines in Australia and Brazil. Certain uncontrollable factors, including weather conditions and availability of vessels, may affect the shipment of iron ore from overseas mines to the PRC and any delay of shipment may pose a risk for the production process of the Company as production process of steel making requires a continuous supply of iron ore. The bulky nature of iron ore limits the ability of the Company to stockpile large amount of iron ore. Moreover, substantial amount of working capital of the Group will be tied up for purchase of iron ore if the Group stockpiles large amount of iron ore and this is not in the interests of the Shareholders. Accordingly, it is strategically beneficial for the Company to secure a domestic source of iron ore. Most of large domestic iron ore mines are owned and/or operated by domestic iron and steel producers or their related companies. The iron ores from these large iron ore mines are firstly supplied to their respective related domestic iron and steel producers with limited amount of iron ores sold in the domestic market. With limited resources, small iron ore mine producers are, in general, unable to guarantee a stable supply of good grade and quality iron ores to the Company.

Apart from its business in iron and steel production through the Company, the Parent Company is principally engaged in mining and sorting of mineral products, construction, manufacturing of construction materials, trading, storage and property management, agriculture and forestry. The Iron Ore supplied by the Parent Company are mined from its mines which are all located in Anhui Province. The mines are close to the off-loading port adjacent to the production facilities of the Company in Maanshan City, Anhui Province. Production scale of the Parent Company's iron ore mines is large and this allows the Parent Company to ensure a stable supply of good grade and quality Iron Ore to the Company. Due to the close proximity of mines of the Parent Company to the off-loading port adjacent to the production facilities of the Company, and the Parent Company's ability to maintain a stable supply of good grade and quality iron ore to the Company, the Directors are of the view that it is in the interests of the Company to source Iron Ore from the Parent Company. As a result of good quality of dolomite and limestone of the Parent Company, the Company also sources certain of dolomite and limestone from the Parent Company. The Company is satisfied with the quality of Ore provided by the Parent Company and the Parent Company has in the past supplied Ore to the Company on an uninterrupted basis.

The terms and pricing of the New Sale and Purchase of Ore Agreement are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

THE NEW ENERGY SAVING AND ENVIRONMENTAL PROTECTION AGREEMENT

Background

The Existing Energy Saving and Environmental Protection Agreement entered into between the Company and Anhui Xinchuang on 12 October 2012 will expire on 31 December 2015. As the PRC government implemented stricter environmental protection regulations, the Company and Anhui Xinchuang entered into the New Energy Saving and Environmental Protection Agreement on 10 September 2015, under which Anhui Xinchuang will continue to provide Energy Saving and Environmental Protection Construction and Services to the Group and the Group will continue to sell the Waste Materials generated from its iron and steel production to Anhui Xinchuang.

Date

10 September 2015

Parties

(1) The Company; and

(2) Anhui Xinchuang

Subject matter

Anhui Xinchuang shall provide Energy Saving and Environmental Protection Construction and Services to the Group. The terms (including but not limited to pricing and payment) of the Energy Saving and Environmental Protection Construction and Services are agreed under arm's length negotiations and under normal commercial terms between the parties and the terms (including but not limited to pricing and payment) shall be no less favourable than those provided by independent third parties to the Group for similar environmental protection construction and services.

The Group shall sell the Waste Materials generated from iron and steel production to Anhui Xinchuang for utilization. The terms (including but not limited to pricing and payment) of sales of Waste Materials generated from iron and steel production are agreed under arm's length negotiations and under normal commercial terms between the parties and the terms (including but not limited to pricing and payment) shall not be more favourable than the terms offered by the Group to independent third parties for the sales of similar waste materials generated from iron and steel production.

Consideration

The parties agreed to adopt an appropriate, reasonable and fair pricing method in accordance with the principle of fairness in formulating the transactions under the New Energy Saving and Environmental Protection Agreement. The pricing shall be based on state-prescribed price. In the absence of the state-prescribed price, the pricing shall be based on market price, agreed through open tender, price comparison and arm's length negotiation under normal commercial terms. At the same time, the price regarding Energy Saving and Environmental Protection Construction and Services shall not be higher than the price of the same categories of energy saving and environmental protection construction and services provided by independent third parties to the Group. The price regarding the Waste Materials shall not be lower than the price of same categories of waste materials sold by the Group to independent third parties.

In accordance with the current pricing standards, except for the pricing of the sintering waste heat power generation services in the Energy Saving and Environmental Protection Construction and Services which shall be based on the state-prescribed price stipulated in the National Development and Reform Commission's Notice on the Adjustment of On-Grid Power Tariff of the East China Power Grid (Tariff Adjustment [2011] No.2622), the pricing of the transactions under the New Energy Saving and Environmental Protection Agreement shall be priced based on market price. The pricing of the sintering waste heat power generation services is determined according to the state-prescribed price of the electricity of Anhui Province. Based on the electricity price of RMB0.645/kilowatt-hour of the large industrial electricity consumption (110 kilovolt), plus the basic electricity charge (including RMB40/kilowatt per month for the charge of maximal use of electricity and RMB30/kilovolt-ampere per month for the charge of transformer capacity), the pricing of the sintering waste heat power generation services is determined at RMB0.65/kilowatt-hour, which is calculated according to the above prices and the estimated generation of electricity for the sintering waste heat power generation services.

Regarding the Energy Saving and Environmental Protection Construction and Services, it is the Group's policy to request Anhui Xinchuang to provide, along with other independent service providers, quotations in respect of the requested services. Following the receipt of quotations from Anhui Xinchuang and other independent service providers, the Group will compare and negotiate the terms of quotations with service providers and determine the selection of service providers by taking into account factors such as price quotations, quality of the services, ability of the service providers in meeting technical specifications and delivery schedules, and qualification and relevant experiences of the service providers. The contract will be awarded to the service provider who offers the best commercial terms and technical terms to the Company.

For certain Energy Saving and Environmental Protection Construction and Services, the Group may source them through a tender to ensure services are obtained under a fair and competitive environment. The contract will be awarded to the service provider after assessment based on the criteria as set out above. Accordingly, Anhui Xinchuang may or may not be awarded the contracts. Regarding the sales of Waste Materials, the sales department shall prepare monthly pricing report based on research on market prices for approval by operation management committee, and in any event, the prices of waste materials sold to Anhui Xinchuang shall not be lower than the prices sold to independent customers.

For the quotations and tenders mentioned above, the Company will try to obtain as many quotations and/or tenders as possible for the Company's interest and it is the Company's practice to obtain at least three quotations and tenders in accordance with "中華人民共和國招標投標法" ("Law of the People's Republic of China on Bid Invitation and Bidding") and "中華人民共和國招標投標法實施條例" ("Regulation on the Implementation of the Law of the People's Republic of China on Bid Invitation and Bidding"). For details, please refer to the section titled of "Internal Management of the Agreements" hereinafter. Accordingly, Anhui Xinchuang may or may not be awarded the contracts.

Payment

The payment terms of Energy Saving and Environmental Protection Construction and Services provided by Anhui Xinchuang to the Group shall be determined according to the normal terms of similar environmental protection construction and services provided by independent third parties to the Group and shall not be less favourable than the payment terms of similar environmental protection construction and services provided by independent third parties to the Group. The payment for Energy Saving and Environmental Protection Construction and Services shall be paid by the Company to Anhui Xinchuang in accordance with the construction progress as verified by the Company's management department.

The payment terms of sales of Waste Materials generated from iron and steel production from the Group to Anhui Xinchuang shall be determined according to the normal terms of sales of similar waste materials generated from iron and steel production by the Company to independent third parties and shall not be less favourable than the payment terms of sales of similar waste materials generated from iron and steel production by the Company to independent third parties. At the end of each month, the Company shall receive an estimated sum from Anhui Xinchuang in advance for the sales with respect to the following month and settlement will be done on a monthly basis.

Condition precedent

The New Energy Saving and Environmental Protection Agreement is conditional upon the Independent Shareholders approving the New Energy Saving and Environmental Protection Agreement and the respective Proposed Annual Caps at the EGM.

Duration

Subject to the fulfillment of the aforementioned condition precedent, the New Energy Saving and Environmental Protection Agreement shall be for a term of three years commencing 1 January 2016 and ending 31 December 2018.

Existing Annual Caps and actual transaction amounts

The Existing Annual Caps (tax exclusive) in respect of Energy Saving and Environmental Protection Construction and Services provided by Anhui Xinchuang to the Group under the Existing Energy Saving and Environmental Protection Agreement for the three years ended/ending 31 December 2013, 31 December 2014 and 31 December 2015 and the actual transaction amounts (tax exclusive) for the two years ended 31 December 2013 and 31 December 2014, and the first seven months ended 31 July 2015 are set out below:

RMB

	For the year ended 31 December 2013	**For the year ended 31 December 2014**	**For the year ending 31 December 2015**	**For the first seven months ended 31 July 2015**
Existing Annual Caps	450,000,000	435,000,000	550,000,000	N/A
Actual transaction amounts	393,077,500	408,701,300	N/A	212,641,400

The Existing Annual Caps (tax exclusive) in respect of the sale of Waste Materials generated from iron and steel production by the Group to Anhui Xinchuang under the Existing Energy Saving and Environmental Protection Agreement for the three years ended/ending 31 December 2013, 31 December 2014 and 31 December 2015 and the actual transaction amounts (tax exclusive) for the two years ended 31 December 2013 and 31 December 2014, and the first seven months ended 31 July 2015 are set out below:

				RMB
	For the year ended 31 December 2013	**For the year ended 31 December 2014**	**For the year ending 31 December 2015**	**For the first seven months ended 31 July 2015**
Existing Annual Caps	20,000,000	45,000,000	45,000,000	N/A
Actual transaction amounts	9,778,300	5,788,400	N/A	6,479,800

The decrease in sales of Waste Materials by the Group to Anhui Xinchuang of approximately 40.8% from 2013 to 2014 is mainly the result of decrease in the average selling price of the Waste Materials, which is mainly caused by decrease in cement prices.

Also, since the quantity of sales of Waste Materials by the Group to Anhui Xinchuang has decreased in 2014, the actual transaction amount has decreased.

Proposed Annual Caps

The Proposed Annual Caps for the transactions contemplated under the New Energy Saving and Environmental Protection Agreement for the three years ending 31 December 2016, 31 December 2017 and 31 December 2018 are set out below:

			RMB
	For the year ending 31 December 2016	**For the year ending 31 December 2017**	**For the year ending 31 December 2018**
Proposed Annual Caps in respect of Energy Saving and Environmental Protection Construction and Services provided by Anhui Xinchuang to the Group	658,500,000	639,500,000	619,500,000
Proposed Annual Caps in respect of sale of Waste Materials generated from iron and steel production by the Group to Anhui Xinchuang	25,000,000	25,000,000	25,000,000
Total	683,500,000	664,500,000	644,500,000

The Proposed Annual Caps in respect of the New Energy Saving and Environmental Protection Agreement for the term commencing 1 January 2016 and ending 31 December 2018 are determined by reference to (i) the state-prescribed price and/or market price regarding the Energy Saving and Environmental Protection Construction and Services and Waste Materials generated from the iron and steel production; (ii) the Group's anticipated demand for Energy Saving and Environmental Protection Construction and Services; (iii) Anhui Xinchuang's anticipated capacity in providing the Energy Saving and Environmental Protection Construction and Services; and (iv) the anticipated production of Waste Materials generated from the Group's iron and steel production and Anhui Xinchuang's anticipated demand for such Waste Materials.

The Proposed Annual Caps are determined due to the following reasons:

(i) Energy Saving and Environmental Protection Construction and Services by Anhui Xinchuang to the Group

The Directors have made reference to the anticipated timing for the need of different construction and services based on the Group's past experience and future operation plan when determining the Proposed Annual Caps with respect to the procurement of Energy Saving and Environmental Protection Construction and Services. The Company has discussed with management of Anhui Xinchuang regarding (1) the production/operation plan of Anhui Xinchuang for the three financial years ending 31 December 2016, 31 December 2017 and 31 December 2018; and (2) Anhui Xinchuang's anticipated capacity in providing the Energy Saving and Environmental Protection Construction and Services. Anhui Xinchuang showed interest in certain of the construction and service projects, and thus only these construction and service projects may be awarded to Anhui Xinchuang for the three financial years ending 31 December 2016, 31 December 2017 and 31 December 2018. Accordingly, the Directors estimate that contracts of (i) construction and maintenance of energy saving and environmental protection facilities (including mainly water recycling and dust removal facilities) of approximately RMB60 million; (ii) dust removal services of approximately RMB10 million; and (iii) fume recirculation of approximately RMB30 million may be awarded to Anhui Xinchuang for the year ending 31 December 2016. For the financial years ending 31 December 2017 and 31 December 2018, the Company has adopted the same basis as set out above to determine the Proposed Annual Caps for the procurement of Energy Saving and Environmental Protection Construction and Services for the respective year. For the year ending 31 December 2017, the Directors estimate that Anhui Xinchuang may be awarded contracts of (i) dust removal services of approximately RMB10 million; (ii) fume recirculation of approximately RMB30 million; and (iii) waste heat recovery of approximately RMB40 million. For the year ending 31 December 2018, the Directors estimate that contracts of (i) construction and maintenance of energy saving and environmental protection facilities (including mainly water recycling and fume facilities) of approximately RMB40 million; and (ii) coke oven gas desulfurization of approximately RMB20 million may be awarded to Anhui Xinchuang.

With the increasingly stringent requirements imposed by the PRC government, the Directors estimate that more environmental protection facilities will be constructed and sub-contracted to Anhui Xinchuang for operation in the coming three financial years from 2016 to 2018. It is expected that certain of the existing environmental protection facilities (such as the Group's facilities of two subsidiaries engaging in iron and steel production in Anhui Province) will also be sub-contracted to Anhui Xinchuang for operation so as to increase the efficiency of energy saving and environmental protection. As a result, the Directors estimate that Anhui Xinchuang may be engaged for sub-contracting of operation of environmental protection facilities for an amount of approximately RMB360 million during the year ending 31 December 2016. In addition, as Anhui Xinchuang possesses high quality technical team specialising in water treatment, the Group has engaged Anhui Xinchuang for water quality management services during the two years of 2013 and 2014, and the seven months ended 31 July 2015. The Directors consider that similar services are required for the coming three years from 2016 to 2018. Together with the increasingly stringent requirements imposed by the PRC government on energy saving and environmental protection, the Directors estimate that water quality management contracts of approximately RMB99 million may be awarded to Anhui Xinchuang for the year ending 31 December 2016. The Directors also estimate that other services (including mainly energy saving projects, facilities maintenance, spare parts processing and sintering waste heat power generation) of approximately RMB99.5 million may be obtained from Anhui Xinchuang for the year ending 31 December 2016. For the two years of 2017 and 2018, the Directors are of the view that Anhui Xinchuang may be awarded similar amount of contracts for the above categories.

(ii) Sale of Waste Materials generated from iron and steel production by the Group to Anhui Xinchuang

The Directors have taken into account the anticipated volume of Waste Materials produced by the Group, and the anticipated processing capacity and anticipated demand of Anhui Xinchuang for the coming years. Following the adoption of the revised environmental protection law in 2015 and higher standards/benchmarks with respect to environmental protection and energy saving imposed on iron and steel industry, more types and quantities of materials produced during the production process of the Group are classified as "waste materials" and sold to Anhui Xinchuang. The Directors estimate that the volume of Waste Materials produced will increase in 2016 as a result of more stringent requirements on energy saving and environmental protection imposed by the PRC government. On the other hand, the Directors understand that Anhui Xinchuang will have an increase in processing capacity of Waste Materials for 2016 after discussions with the management of Anhui Xinchuang regarding their continuous expansion of processing capacity. The Directors estimate that amount of Waste Materials to be sold by the Group to Anhui Xinchuang for 2017 and 2018 will be at the same level as that of 2016.

Reasons for, and benefits of, the New Energy Saving and Environmental Protection Agreement

The PRC government is imposing more stringent requirements on energy saving and environmental protection on companies. These include the adoption of the revised environmental protection law in 2015, raising of certain standards/benchmarks with respect to environmental protection and energy saving imposed on iron and steel industry, and imposing more stringent requirements on the sub-contracting outsourcing of operation and management of environmental protection and energy savings facilities to a professional firm. The Group has to continue to devote further resources for compliance with regulatory requirements on environmental protection. The Company considers that it is more cost efficient to outsource certain environmental protection work and projects to professional firm while focusing its resources on its business and operations.

Anhui Xinchuang is familiar with the operation, energy saving and environmental protection work of the Group and has been engaged by the Group to provide certain energy saving and environmental protection construction and engineering work, and services in respect of energy saving and environmental protection. The Directors also consider that Anhui Xinchuang has hands-on expertise and experience in respect of energy saving and environmental protection work and services and are satisfied with the work and services provided by Anhui Xinchuang.

Waste materials, including slag, will be produced during the iron and steel production process of the Company, and coal ash will be created when coal is burned to generate energy from the Company's coal power plants. The Company may choose to sell such waste materials to Anhui Xinchuang and/or other customers who will further process it for further sales to their customers for use in cement production. This will allow more efficient use of the Group's resources and fulfill the Group's social responsibility through recycling of waste. Waste materials, primarily slag and coal ash, were sold to Anhui Xinchuang in the past. The Group had not encountered any difficulties in collecting sales proceeds from the Parent Group.

The terms and pricing of the New Energy Saving and Environmental Protection Agreement are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

THE NEW CCT AGREEMENT

Background

The Existing CCT Agreement entered into between the Company and the Parent Company on 22 August 2013 will expire on 31 December 2015. In order to secure the Group's stable and continuous production, the Company and the Parent Company entered into the New CCT Agreement on 10 September 2015 for the continuous sale or provision of Services and Products by the Group to the Parent Group and the continuous sale or provision of Services, Products and Construction Engineering by the Parent Group to the Group.

Date

10 September 2015

Parties

(1) The Company; and

(2) The Parent Company

Subject Matter

(1) The Company agreed by itself and the Group to sell or provide the following Services and Products to the Parent Group:

(i) Water, Electricity and Gas;

(ii) Finished Products and Related Commodities; and

(iii) Services.

(2) The Parent Company agreed by itself and the Parent Group to sell or provide the following Services, Products and Construction Engineering to the Group:

(i) Spare-parts, Fittings and Related Products;

(ii) Infrastructure Technical and Renovation Engineering Services; and

(iii) Water and Land Transportation and Related Services.

Both parties agreed to adopt an appropriate, reasonable and fair pricing method in accordance with the principle of fairness in formulating the transactions under the New CCT Agreement. The terms of the Services and Products (including but not limited to pricing and payment) to be provided by the Group to the Parent Group shall not be more favourable than those to the independent third parties provided by the Group for similar categories of services and products. The terms of the Services, Products and Construction Engineering (including but not limited to pricing and payment) to be provided by the Parent Group to the Group shall not be less favourable than those provided by the independent third parties to the Group for similar categories of services, products and construction engineering.

During the term of the New CCT Agreement, the Company has the right to decide whether to enter into transactions with any independent third parties in respect of the transactions contemplated under the New CCT Agreement.

Consideration

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

The pricing regarding the Services and Products to be provided by the Group to the Parent Group shall not be lower than the price of the same type of services and products provided by the Group to independent third parties. The pricing regarding the Services, Products and Construction Engineering to be provided by the Parent Group to the Group shall not be higher than the pricing of the same type of Services, Products and Construction Engineering provided by the independent third parties to the Group.

In accordance with the current pricing standards, except for the pricing of the electricity provided by the Group to the Parent Company which shall be based on the state-prescribed price stipulated in the National Development and Reform Commission's Notice on the Adjustment of On-Grid Tariff of the East China Power Grid (NDRC Power Tariff [2011] No.2622), and the pricing of the domestic water and industrial treated water which shall be based on the state-prescribed price stipulated in the Notice of the People's Government of Maanshan City in the PRC on the Adjustment of Water Supply Tariff and Water Resources and Sewage Treatment Tariff (Maanshan City Government Secretariat (2010) No.65), the pricing of the other transactions under the New CCT Agreement shall be based on market price.

The pricing of electricity is determined according to the time-of-use electricity prices of the large industrial electricity consumption (1-10 kilovolt) in Anhui Province: RMB1.0167/kilowatt-hour during peak season, RMB0.6750/kilowatt-hour during normal season and RMB0.4203/kilowatt-hour during low season, plus the basic electricity charge (including RMB40/kilowatt per month for the charge of maximal use of electricity and RMB30/kilovolt-ampere per month for the charge of transformer capacity). The pricing of domestic water and industrial treated water shall be RMB1.90/ton and RMB1.28/ton respectively, which is based on the state-prescribed price of water consumption by residents of Maanshan City in the PRC.

A professional management department of the Company will carry out the pricing management. Such department will conduct research on market prices for the continuing connected transactions involving the provision of services and supply of goods both by the Group to the Parent Group and by the Parent Group to the Group. Market prices will be obtained through, among other things, quotations from independent third party suppliers and service providers, recent transaction prices of the Group with independent third parties, enquiry with industry players, researches on industry websites, and attending events and gatherings organised by industrial associations. The market price information will be circulated by the department to other departments and companies of the Group to facilitate them to determine prices for the continuing connected transactions.

For the continuing connected transactions involving provision of services and supply of products by the Parent Group to the Group, it is the Group's policy to request suppliers and service providers, including those independent suppliers and service providers, to provide quotations in respect of the requested services. Following the receipt of quotations from those independent suppliers and service providers, the Group will compare and negotiate the terms of quotations with suppliers and service providers, and determine the selection of suppliers and service providers by taking into account factors such as price quotations, quality of the products and services, ability of the suppliers and service providers in meeting technical specifications and delivery schedules, and qualification and relevant experiences of the suppliers and service providers. The contract will be awarded to the supplier and service provider who offers the best commercial terms and technical terms to the Company. Other than obtaining of quotations, the Group may award a contract through a tender process. The contract will be awarded to the supplier and service provider after assessment based on the criteria as set out above.

For the quotations and tenders mentioned above, the Company will try to obtain as many quotations and/or tenders as possible for the Company's interest and it is the Company's practice to obtain at least three quotations and tenders in accordance with "中華人民共和國招標投標法" ("Law of the People's Republic of China on Bid Invitation and Bidding") and "中華人民共和國招標投標法實施條例"("Regulation on the Implementation of the Law of the People's Republic of China on Bid Invitation and Bidding"). For details, please refer to the section titled of "Internal Management of the Agreements" hereinafter. Accordingly, the Parent Company may or may not be awarded the contracts.

Payment

The payment terms of Services and Products sold or provided by the Group to the Parent Group shall be determined according to the normal terms of the same type of services and products sold or provided by the Company to independent third parties and shall not be less favourable than the payment terms of the same type of services and products sold or provided by the Company to independent third parties. Regarding the payment of Water, Electricity and Gas under Services and Products, the sum for the sales with respect to the previous month shall be paid by the Parent Company to the Company each month and settlement will be done on a monthly basis. For the payment of steel, steel ingots, continuous casting billets and iron scales of Finished Products and Related Commodities, at the end of each month, the Parent Company shall pay to the Company the estimated sum in advance for the sales with respect to the following month and settlement will be done on a monthly basis. As for the payment of accessories, materials and other products, the sum for the sales with respect to the previous month shall be paid by the Parent Company to the Company and settlement shall be done on a monthly basis. As for the payment of further processing of steel billets, metering services and related services under Services, the sum for the sales with respect to the previous month shall be paid by the Parent Company to the Company and settlement will be done on a monthly basis.

The payment terms of Services, Products and Construction Engineering sold or provided by the Parent Group to the Group shall be determined according to the normal terms of the same type of services, products and construction engineering sold or provided by independent third parties to the Company and shall not be less favourable than the payment terms of the same type of services, products and construction engineering sold or provided by independent third parties to the Company. For the payment of Spare-parts, Fittings and Related Products under Services, Products and Construction Engineering, the Company shall pay for the relevant Spare-parts, Fittings and Related Products within 30 business days after the Company shall have received and verified the quality of the goods. The payment of Infrastructure Technical and Renovation Engineering Services shall be made by the Company to the Parent Company within 30 business days in accordance with the construction progress after confirmation by the Company's management department. As for the payment of Water and Land Transportation and Related Services, the Company shall pay the Parent Company within 30 business days in accordance with the service progress after the Company shall have verified the quality.

Condition Precedent

The New CCT Agreement is conditional upon the Independent Shareholders approving the New CCT Agreement and respective Proposed Annual Caps at the EGM.

Duration

Subject to the fulfillment of the aforementioned condition precedent, the New CCT Agreement shall be for a term of three years commencing 1 January 2016 and ending 31 December 2018.

Existing Annual Caps and actual transaction amounts

The Existing Annual Caps (tax exclusive) for Services and Products under the Existing CCT Agreement for the two months ended 31 December 2013 and the two years ended/ending 31 December 2014 and 31 December 2015 and the actual transaction amounts (tax exclusive) of Services and Products for the two months ended 31 December 2013, the year ended 31 December 2014, and the first seven months ended 31 July 2015 (tax exclusive) are set as below:

		For the two months ended 31 December 2013	For the year ended 31 December 2014	For the year ending 31 December 2015	For the first seven months ended 31 July 2015
					RMB
1. Water, Electricity and Gas	Existing Annual Caps	29,220,000	197,300,000	241,510,000	N/A
	Actual transaction amounts	28,717,900	99,570,900	N/A	39,334,400
2. Finished Products and Related Commodities	Existing Annual caps	173,650,000	1,200,580,000	1,164,840,000	N/A
	Actual transaction amounts	90,093,000	351,331,900	N/A	117,080,900
3. Services	Existing Annual caps	4,910,000	47,320,000	47,300,000	N/A
	Actual transaction amounts	1,043,000	10,403,400	N/A	1,261,800

(i) Water, Electricity and Gas

Electricity and coke are the two major items in this category. The monthly average amount of the sale of Water, Electricity and Gas by the Group to the Parent Group decreased from approximately RMB14.4 million for the two months ended 31 December 2013 to approximately RMB8.3 million for the financial year ended 31 December 2014, and further decreased to approximately RMB5.6 million for the seven months ended 31 July 2015. The Parent Group carried out a transforming plan from 2013 to the first half of 2015, and as part of its business transformation, a company within the Parent Group, which is engaged in production of equipment and a key user of electricity, ceased its own production of steel ingots and this contributed mainly to the decrease in the monthly average amount of the sale of Water, Electricity and Gas to the Parent Group from 2013 to 2014 and 2015.

(ii) Finished Products and Related Commodities

Sale of steel products (including steel ingots) contributed to a major portion of sale of Finished Products and Related Commodities. The monthly average amount of sale of steel products (including steel ingots) decreased from approximately RMB40.3 million for the two months ended 31 December 2013 to approximately RMB25.3 million for the year ended 31 December 2014, and further decreased to approximately RMB15.6 million for the seven months ended 31 July 2015. The steel industry in the PRC was facing challenges such as overcapacity and oversupply in 2014 and thus the demand of steel products (including steel ingots) from the Parent Group decreased. In addition, the selling price of steel products decreased in 2014 compared to 2013, as indicated by a decrease of approximately 11.05% in the average consolidated price index for domestic steel products between the two years as set out in the Company's 2014 annual report. Accordingly, monthly average amount of sale of steel products (including steel ingots) to the Parent Group decreased from 2013 to 2014. The industry continued to face the challenges in 2015 and the consolidated price index for domestic steel products as at the end of June was approximately 28.28% lower compared to the same period of 2014 as set out in the 2015 interim results announcement of the Company. Therefore the monthly average amount of sale of steel products (including steel ingots) further decreased.

(iii) Services

For the two months ended 31 December 2013, the Group mainly provided metering services and other services to the Parent Group. The Company has its own metering facilities which meet the standard of the PRC authorities for contract and agreement use. Metering service is provided to the Parent Group for measuring the weight and the amounts of usage of materials or products. The quality inspection services can ensure production efficiency, production safety and optimise production process. Provision of further processing of steel billets with a total amount contributing over 61% and 57% respectively of the aggregate amount of the provision of Services for the financial year ended 31 December 2014 and the seven months ended 31 July 2015, are the major services provided by the Group to the Parent Group for the aforesaid periods.

The Existing Annual Caps (tax exclusive) for Services, Products and Construction Engineering under the Existing CCT Agreement for the two months ended 31 December 2013 and the two years ended/ending 31 December 2014 and 31 December 2015 and the actual transaction amounts of Services, Products and Construction Engineering for the two months ended 31 December 2013, the year ended 31 December 2014, and the first seven months ended 31 July 2015 (tax exclusive) are set as below:

RMB

		For the two months ended 31 December 2013	For the year ended 31 December 2014	For the year ending 31 December 2015	For the first seven months ended 31 July 2015
1. Spare-parts, Fittings and Related Products	Existing Annual Caps	285,270,000	1,324,660,000	1,261,580,000	N/A
	Actual transaction amounts	219,936,900	831,687,600	N/A	563,441,800
2. Infrastructure Technical and Renovation Engineering	Existing Annual Caps	150,330,000	643,600,000	576,000,000	N/A
	Actual transaction amounts	142,192,900	271,765,500	N/A	202,931,200
3. Water and Land Transportation and Related Services	Existing Annual Caps	353,860,000	1,633,400,000	1,722,170,000	N/A
	Actual transaction amounts	353,075,300	1,552,492,200	N/A	570,289,600

(i) Spare-parts, Fittings and Related Products

Refractory materials, and spare-parts and complete equipment are the two major items in this category. The Group purchases refractory materials which are fire-resistant materials to protect the production facilities from damages and melting under high temperature during the production process of iron and steel. The Group also purchases spare-parts for repair and maintenance of the production equipment and complete equipment to be used in the production process.

Monthly average purchase of Spare-parts, Fittings and Related Products for the year ended 31 December 2014 was approximately 37.0% lower than that of the two months ended 31 December 2013, which was mainly the result of the decrease in purchase of refractory materials during 2014. As set out above, the refractory materials are fire-resistant materials used to protect the production facilities. Larger amounts of refractory materials (as a result of larger volume and higher quality of refractory materials used) are used for protecting production facilities such as blast furnace. Two of the blast furnaces of the Group encountered production instability issues in 2014. As a result, production with the blast furnaces decreased in 2014, which resulted in a decreased amount of refractory materials purchased from the Parent Group during the year. Purchase of refractory materials increased during the seven months ended 31 July 2015 and thus purchase of Spare-parts, Fittings and Related Products increased during the seven months ended 31 July 2015 on a monthly basis as compared to that of the year ended 31 December 2014.

(ii) Infrastructure Technical and Renovation Engineering Services

The amount of Infrastructure Technical and Renovation Engineering Services provided by the Parent Group to the Group during the relevant year and periods depends on, among other things, the number and size of contracts carried out, the number and size of new contracts awarded, and the progress of the construction and engineering work. As set out above, production from two of the blast furnaces of the Group decreased in 2014 as they encountered production instability issues. Accordingly, the technical and renovation engineering services in relation to blast furnaces decreased during the year ended 31 December 2014. The amount of Infrastructure Technical and Renovation Engineering Services needed by the Group increased in 2015 as the two blast furnaces resumed normal production after tackling the production instability issues.

(iii) Water and Land Transportation and Related Services

For the two months ended 31 December 2013, procurement of Water and Land Transportation and Related Services by the Group amounted to approximately RMB353.1 million, representing a monthly average amount of approximately RMB176.5 million. An amount of approximately RMB60.6 million was incurred for procurement of import and export agent services provided by the Parent Group. Such services of import and export agency was mainly incurred for import of overseas equipment during the two months ended 31 December 2013. For the year of 2014, the monthly average amount of procurement of Water and Land Transportation and Related Services by the Group was approximately RMB129.4 million, representing a decrease of approximately 26.7% compared to that of the two months ended 31 December 2013. The decrease in the monthly average amount was mainly contributed by the decrease in the import and export agent services as mentioned above, as less equipment were imported from overseas during the year. For the seven months ended 31 July 2015, the monthly average amount of procurement of Water and Land Transportation and Related Services by the Group amounted to approximately RMB81.5 million, representing a decrease of approximately 37.0% compared to that of the year ended 31 December 2014, which is mainly due to the decrease in amount of transportation services (including transport for production support, freight, waterway transport and logistics, and integrated port services) and overhaul and medium maintenance equipment during the seven months ended 31 July 2015. The decrease in transportation services was mainly due to the decrease in average charge by the Parent Group. In addition, following the resumption of normal production of the two blast furnaces after tackling the production instability issues, key overhaul and medium maintenance equipment is scheduled in the second half of 2015. As a result, the amount of procurement of overhaul and medium maintenance equipment decreased during the seven months ended 31 July 2015.

Proposed Annual Caps

The Proposed Annual Caps for Services and Products provided by the Group to the Parent Group under the New CCT Agreement for the three years ending 31 December 2016, 31 December 2017 and 31 December 2018 (tax exclusive) are set as below:

			RMB
	For the year ending 31 December 2016	**For the year ending 31 December 2017**	**For the year ending 31 December 2018**
1. Proposed Annual Caps for Water, Electricity and Gas	141,019,800	142,837,800	142,665,800
2. Proposed Annual Caps for Finished Products and Related Commodities	570,688,000	570,688,000	570,688,000
3. Proposed Annual Caps for Services	9,340,400	8,334,000	7,342,400
Total	721,048,200	721,859,800	720,696,200

The Proposed Annual Caps for Services, Products and Construction Engineering provided by the Parent Group to the Group under the New CCT Agreement for the three years ending 31 December 2016, 31 December 2017 and 31 December 2018 (tax exclusive) are set as below:

			RMB
	For the year ending 31 December 2016	**For the year ending 31 December 2017**	**For the year ending 31 December 2018**
1. Proposed Annual Caps for Spare-parts, Fittings and Related Products	1,460,810,000	1,470,170,000	1,475,170,000
2. Proposed Annual Caps for Infrastructure Technical and Renovation Engineering	730,000,000	730,000,000	730,000,000
3. Proposed Annual Caps for Water and Land Transportation and Related Services	1,934,869,700	2,001,808,000	2,028,547,900
Total	4,125,679,700	4,201,978,000	4,233,717,900

The Proposed Annual Caps in respect of the New CCT Agreement for the term commencing 1 January 2016 and ending 31 December 2018 are determined by reference to (i) the historical transaction amounts; (ii) the state-prescribed price or the market price for the continuing connected transactions; (iii) the Group's anticipated capacity to provide the Services and Products to the Parent Group and the Group's anticipated demand for the Parent Group's Services, Products and Construction Engineering to meet its production plan; and (iv) the Parent Group's anticipated demand for the Group's Services and Products and the Parent Group's anticipated capacity to provide the Services, Products and Construction Engineering to the Group.

The Proposed Annual Caps for the Services and Products by the Group to the Parent Group under the New CCT Agreement for term commencing 1 January 2016 and ending 31 December 2018 are determined due to the following reasons:

(i) Water, Electricity and Gas

When estimating the Proposed Annual Caps for the sale of Water, Electricity and Gas by the Group to the Parent Group, the Company discussed with the management of the Parent Group regarding their business and development plan. The Directors understand from the management of the Parent Group that it has plan for further business development following the business transformation carried out from 2013 to the first half of 2015. Accordingly, the Directors estimate that more Water, Electricity and Gas will be consumed by the Parent Group in terms of volume for the three financial years ending 31 December 2016, 31 December 2017 and 31 December 2018, comparing to that of the monthly average volume for the financial year ending 31 December 2015. The price for the electricity, domestic water and purified industrial treated water provided by the Group to the Parent Company is based on the state-prescribed price and gas provided by the Group to the Parent Company is based on market price. It is estimated that the unit price of Water, Electricity and Gas will be generally stable. The Directors also understand from the management of the Parent Group that the demand for Water, Electricity and Gas from the Parent Group will be of similar level for the two financial years ending 31 December 2017 and 31 December 2018.

(ii) Finished Products and Related Commodities

When determining the Proposed Annual Caps for the sale of Finished Products and Related Commodities by the Group to the Parent Group for the coming three years from 2016 to 2018, the Directors have taken into account the anticipated production capacity of the Group and the production plan of the Parent Group. The Company discussed with the management of the Parent Group regarding their business and development plan. A company within the Parent Group, which is engaged in production of equipment, produced steel ingots for its own business. However, such company has ceased its own steel ingots production so as to focus at its equipment production business as part of the business transformation of the Parent Group. Such company has to source steel ingots from the Group in future. As a result, it is expected that the demand of steel ingots (an intermediate steel products) from the Parent Group will increase in 2016 as compared to 2015. The Group has idle capacity of production of steel products as a result of the industry downturn. Accordingly, the Group will be able to provide a larger amount of steel products to the Parent Group. On this basis, the Directors estimate that sale of steel products (including steel ingots) to the Parent Group will amount to approximately RMB396.2 million for the year ending 31 December 2016. Together with other Finished Products and Related Commodities that are expected to be sold to the Parent Group, the Directors estimate the Proposed Annual Cap for the sale of Finished Products and Related Commodities by the Group to the Parent Group to be approximately RMB570.7 million for 2016.

Recent selling prices have been used by the Directors to estimate the amount of sale for the year ending 31 December 2016. The Directors consider that the operating environment of the iron and steel industry may remain difficult in short run due to excess capacity and oversupply issues. Accordingly, it is estimated that selling price will be at a similar level in 2017 and 2018.

(iii) Services

The Directors consider that the provision of Services will allow the Group to utilise its idle capacity. The Group plans to put a new blast furnace into operation starting from the second half of 2016. With the new blast furnace coming into operation, which will increase utilization of the resources and capacity of the Group for its own production, it is expected that less capacity will be available for the provision of further processing of steel billets to the Parent Group. It is estimated that the amount of the provision of further processing of steel billets to the Parent Group will continue to decrease and the aggregate amount of Services to be provided by the Group to the Parent Group in 2017 and 2018 is estimated to further decrease.

The Proposed Annual Caps for the Services, Products and Construction Engineering by the Parent Group to the Group under the New CCT Agreement for term commencing 1 January 2016 and ending 31 December 2018 are determined due to the following reasons:

(i) Spare-parts, Fittings and Related Products

The Directors have estimated the Proposed Annual Caps for the purchase of Spare-parts, Fittings and Related Products based on the business and development plan of the Group, especially the plan for production, repair and maintenance. The Group plans to purchase refractory materials of a higher quality so as to improve the production efficiencies of the production facilities. At the same time, the Group is now in the process of constructing a new blast furnace which is expected to commence operation in second half of 2016. Spare-parts, Fittings and Related Products (such as refractory materials) will be required during the construction of the new blast furnace. As a result, the amount of purchase of refractory materials is expected to increase in 2016. Also, as mentioned above, the new blast furnace of the Group is expected to commence operation in the second half of 2016 and different kinds of Spare-parts, Fittings and Related Products will be needed to support its operation afterwards. The Directors expect that more Spare-parts, Fittings and Related Products (including mainly refractory materials, and spare-parts and complete equipment) will be purchased from the Parent Group. For the two years ending 31 December 2017 and 31 December 2018, the Directors estimate that the purchase amount of Spare-parts, Fittings and Related Products will be similar to that of 2016.

(ii) Infrastructure Technical and Renovation Engineering

When estimating the Proposed Annual Caps of Infrastructure Technical and Renovation Engineering Services for the three years ending 31 December 2016, 31 December 2017 and 31 December 2018, the Directors have taken into account, among other things, the business plan of the Group, the anticipated need for technical and renovation services by the Group for different projects and the anticipated capacity of the Parent Group in providing such technical and renovation services. The Directors have discussed with the management of the Parent Group regarding its business plan and understand that the Parent Group will only be interested in certain of the technical and renovation projects of the Group for 2016 to 2018 taking into account the Parent Group's own capacity and business plans. The Group has planned for its own technical and renovation project to be carried out in different timing so that they Group will have a more stable aggregated cost of Infrastructure Technical and Renovation Engineering Services for each of the three years of 2016 to 2018. For 2016, the Directors anticipate that Infrastructure Technical and Renovation Engineering Services that may be awarded to the Parent Group will include mainly (i) construction of a continuous galvanization plant of approximately RMB230 million; (ii) certain construction and engineering work of new blast furnace together with other supporting facilities and plants for full operation of the blast furnace production plant of approximately RMB150 million; (iii) renovation and improvement projects for existing steel rolling production plant of approximately RMB65 million; and (iv) construction of a new degreasing facilities for cold rolling steel production plant of approximately RMB55 million. The continuous galvanization plant is constructed for production of galvanized steel products, which is one of the steps for broadening the products range of the Group. Also, as an overall strategy to improve the product quality and production efficiency, as well as to comply with the increasingly stringent requirements imposed by the PRC government on environmental protection, the Group has been in the process of transforming and improving the old production facilities. It is expected that the construction of a new blast furnace to replace the old production facilities will help the Group to improve the production efficiency and at the same time enhance the environmental protection ability of the production plant. Different kinds of construction and engineering work have to be done for the supporting facilities and plants of the blast furnace so that the blast furnace production plant will be able to run in full scale. On the above basis, the Directors estimate that the amount of Infrastructure Technical and Renovation Engineering Services that may be awarded to the Parent Group will be approximately RMB730 million for 2016.

For the year ending 31 December 2017, the Directors estimate that key Infrastructure Technical and Renovation Engineering Services that may be awarded to the Parent Group will include (i) construction of a continuous galvanization plant of approximately RMB280 million; (ii) certain construction and engineering work of new blast furnace together with other supporting facilities and plants for full operation of the blast furnace production plant of approximately RMB80 million; (iii) renovation and improvement work to the No. 4 Steel Rolling 1580 mm hot rolling production plant of approximately RMB60 million; and (iv) systematic renovation and improvement project of two blast furnaces of one of the iron production plants of approximately RMB50 million. For the year ending 31 December 2018, the Directors estimate that the key Infrastructure Technical and Renovation Engineering Services that may be awarded to the Parent Group will include (i) renovation and improvement work to the No. 4 Steel Rolling 1580 mm hot rolling production plant of approximately RMB200 million; (ii) systematic renovation and improvement project of two blast furnaces of one of the iron production plants of approximately RMB200 million; and (iii) construction of a continuous galvanization plant of approximately RMB100 million. The Group has planned for its own technical and renovation project to be carried out in different timing so that they Group will have a more stable aggregated cost of Infrastructure Technical and Renovation Engineering Services for each of the three years of 2016 to 2018. On this basis, the Directors estimate that the Proposed Annual Caps for provision of Infrastructure Technical and Renovation Engineering Services by the Parent Group to the Group for 2017 and 2018 will be the same as that of 2016.

(iii) Water and Land Transportation and Related Services

When estimating the Proposed Annual Caps for Water and Land Transportation and Related Services for the three years of 2016, 2017 and 2018, the Directors have made reference to the business and development plan of the Group and the Parent Group. The Group is now in the process of constructing a new blast furnace which is expected to commence operation in second half of 2016. The Group will carry out trial operation and preparation work in 2016 for the new blast furnace. Also, as a result of the commencement of operation of the blast furnace in 2016, the Directors are of the view that production activities of the Group will increase and thus the amount of transportation services (including transport for production support, freight, waterway transport and logistics, and integrated port services) to be provided by the Parent Group will increase, with an aggregate estimated amount of approximately RMB652.5 million for 2016. In addition, as a result of the trial operation and preparation work, together with the commencement of operation of the new blast furnace, the Directors anticipate that more equipment (facility) maintenance services for production support and overhaul and medium maintenance equipment services will be carried out by the Group in 2016, with an estimated amount of approximately RMB966.9 million. In addition, as a result of the increasingly stringent requirements on energy saving and environmental protection as imposed by the PRC government, the Group has to maintain a more advanced information system for monitoring of energy saving and environmental protection level of the Group. Therefore, the Directors estimate that a larger amount will be required for the procurement of operation and maintenance for automation and informatisation from the Parent Group in 2016, with an estimated amount under this category of approximately RMB182.2 million. For the two years of 2017 and 2018, the Directors adopt the same basis in estimating the Proposed Annual Caps and estimate that the Proposed Annual Caps for each of 2017 and 2018 will be at a level similar to that of 2016.

Reasons for, and benefits of, the New CCT Agreement

The New CCT Agreement serves to provide mutual benefits to both the Group and the Parent Group. From the Group's point of view, the stable supply of products and provision of services by the Parent Group to the Group allows the Group to have an assured level of quantity in the product supply and the provision of services for its daily production, while the sale of products and provision of services to the Parent Group contributes to the Group's turnover. The Company is satisfied with the quality of products, services, and construction and engineering work provided by the Parent Group and that the Group had not encountered any difficulties in collecting sales proceeds from the Parent Group.

It will be in the interest of the Group to obtain a reliable and uniquely skilled supply of Services, Products and Construction Engineering from the Parent Group to ensure the Group's stable and continuous production. The terms and pricing of the New CCT Agreement are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

INFORMATION ON THE COMPANY, THE PARENT COMPANY AND ANHUI XINCHUANG

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

The Parent Company is a wholly state-owned enterprise with limited liability and a controlling shareholder of the Company. It is mainly engaged in mining and sorting of mineral products, construction, manufacturing of construction materials, trading, storage and property management, agriculture and forestry.

Anhui Xinchuang is principally engaged in energy saving and environmental protection engineering and operation, industrial water treatment and operation, production of energy saving and environmental protection equipment, energy management under contract, environmental monitoring and comprehensive utilization of solid waste resources.

INTERNAL MANAGEMENT OF THE AGREEMENTS

To ensure effective execution and implementation of the pricing of the transactions under the Agreements, the Company has established "Internal Control Management Measures of Connected Transactions" to regulate the pricing management of related connected transactions.

The continuing connected transaction management committee of the Company, which directly reports to the Board, is responsible for the on-going monitoring of all the continuing connected transactions of the Company, which include the continuing connected transactions contemplated under the Agreements. The responsibilities of the continuing connected transaction management committee include, among other things, approval and monitoring of continuing connected transactions, gathering information for disclosure of continuing connected transactions pursuant to the Listing Rules, and monitoring of pricing procedures for continuing connected transactions to ensure prices to be determined on normal commercial terms. The corporate management department and finance department of the Company will report on quarterly basis to the continuing connected transaction management committee regarding the actual monetary amount of the continuing connected transactions conducted during the quarter and the estimated amount in the following quarter so as to facilitate the continuing connected transaction management committee to (i) monitor the actual amount of continuing connected transactions carried out; and (ii) assess whether the annual cap of any continuing connected transactions will be exceeded. The continuing connected transaction management committee will then report to the Board on quarterly basis.

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

For the purchase of Ore by the Company from the Parent Company, the continuing connected transaction management committee will ensure that the procurement department of the Company will make reference to the prevailing iron ore price as published by Platts. For determining price payable to the Parent Company for dolomite and limestone, the continuing connected transaction management committee will ensure that the Company will make reference to prices payable to independent third party suppliers for same or similar category of dolomite and limestone.

For the continuing connected transactions involving provision of services and supply of products by the Parent Group to the Group (including provision of Energy Saving and Environmental Protection Construction and Services by Anhui Xinchuang to the Group), the continuing connected transaction management committee will ensure that prices are determined based on market prices (determined through open tender/quotations, price comparison and arm's length negotiation under normal commercial terms). Where quotations are obtained from suppliers for the requested services or products, the Group will compare and negotiate the terms of quotations with suppliers and service providers, and determine the selection of suppliers and service providers by taking into account factors such as price quotations, quality of the products and services, ability of the suppliers and service providers in meeting technical specifications and delivery schedules, and qualification and relevant experiences of the suppliers and service providers. The contract will be awarded to the supplier and service provider who offers the best commercial terms and technical terms to the Company. Other than obtaining of quotations, the Group may award a contract through a tender process. For sourcing energy saving and environmental protection construction, the Group will source them through a tender process for contract with value over RMB100,000 to ensure services are obtained under a fair and competitive environment. The contract will be awarded to the supplier and service provider after assessment based on the criteria as set out above.

The Company will try to obtain as many quotations and/or tenders as possible for the Company's interest and it is the Company's practice to obtain at least three quotations and tenders. "中華人民共和國招標投標法" ("Law of the People's Republic of China on Bid Invitation and Bidding") and "中華人民共和國招標投標法實施條例" ("Regulation on the Implementation of the Law of the People's Republic of China on Bid Invitation and Bidding") state, among other things, that a minimum of three tenders are required to be received to render a tender to be valid. As a result, the Company's practice to obtain at least three quotations and/or tenders is consistent with the requirements under "中華人民共和國招標投標法" ("Law of the People's Republic of China on Bid Invitation and Bidding") and 中華人民共和國招標投標法實施條例" ("Regulation on the Implementation of the Law of the People's Republic of China on Bid Invitation and Bidding"). Accordingly, the Parent Group and/or Anhui Xinchuang may or may not be awarded the contracts.

For the continuing connected transactions involving provision of services and supply of products by the Group to the Parent Group, the price shall not be lower than the price of the same type of services and products provided by the Group to independent third parties.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, the Parent Company is interested in approximately 45.54% of the Company's share capital and is a controlling shareholder and connected person of the Company. As at the Latest Practicable Date, Anhui Xinchuang is a company controlled by the Parent Company and the Company is also interested in 20% of Anhui Xinchuang's share capital. As an associate of the Parent Company, Anhui Xinchuang is a connected person of the Company. Accordingly, the transactions contemplated under the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environmental Protection Agreement and the New CCT Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios under the Listing Rules in respect of the respective Proposed Annual Caps for the transactions contemplated under the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environmental Protection Agreement and the New CCT Agreement, on an annual basis, are more than 5%, such continuing connected transactions are subject to requirements including reporting, announcement, annual review and Independent Shareholders' approval under Rule 14A of the Listing Rules.

APPROVAL BY THE BOARD AND INDEPENDENT SHAREHOLDERS

In the 13th meeting of the eighth session of the Board on 10 September 2015, the Board approved the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environment Protection Agreement and the New CCT Agreement.

The Directors attending the Board meeting on 10 September 2015 regarding the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environment Protection Agreement and the New CCT Agreement consider the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environment Protection Agreement and the New CCT Agreement and the Proposed Annual Caps in respect thereof have been negotiated on an arm's length basis and on normal commercial terms and they are of the view that the terms thereof and the Proposed Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole and the Agreements are entered into during the ordinary and usual course of business of the Group.

Of the Directors attending the Board meeting, the Abstained Directors were considered to have material interests by virtue of being employed by the Parent Company and had thus abstained from voting on the Board resolutions in respect of the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environment Protection Agreement and the New CCT Agreement and the Proposed Annual Caps. Save as disclosed above, none of the Directors attended the Board meeting has a material interest in the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environment Protection Agreement and the New CCT Agreement.

In accordance with the Listing Rules, the vote of the Independent Shareholders taken at the EGM to approve the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environmental Protection Agreement, the New CCT Agreement and the transactions contemplated thereunder, including the Proposed Annual Caps will be taken by poll. Any Shareholder with a material interest in the continuing connected transactions contemplated under the Agreements and his/her associates will abstain from voting at the EGM. Accordingly, the Parent Company and its associates, which hold 3,506,467,456 shares of the Company, amounting to approximately 45.54% of the Company's share capital, will abstain from voting at the EGM. The result of the vote will be announced after the EGM.

EGM

A notice of the EGM to be held at 1:30 p.m. on 18 November 2015 at the Magang Office Building, No.8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC, at which resolutions will be proposed to approve the Agreements and the respective Proposed Annual Caps is set out on pages 78 to 79 of this circular.

Whether or not you are able to attend the EGM, please complete and return the proxy form in accordance with the instructions printed thereon to the Company's Hong Kong branch share registrar, Hong Kong Registrars Limited at Rooms 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 24 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting at the EGM or any adjournment thereof should you so wish.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising all the Independent Non-executive Directors, namely Mr. Qin Tongzhou, Ms. Yang Yada and Mr. Liu Fangduan, will consider and advise the Independent Shareholders in relation to the terms of the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environmental Protection Agreement and the New CCT Agreement including the respective Proposed Annual Caps. Your attention is drawn to the letter from Somerley Capital Limited set out on pages 36 to 74 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders as to voting at the EGM.

RECOMMENDATIONS

The Independent Board Committee, having considered the terms of the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environmental Protection Agreement and the New CCT Agreement, including the respective Proposed Annual Caps, and taken into account the advice of the Independent Financial Adviser, considers that the terms of the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environmental Protection Agreement and the New CCT Agreement are on normal commercial terms and in the ordinary and usual cause of business of the Group; and the terms of the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environmental Protection Agreement and the New CCT Agreement, including the respective Proposed Annual Caps, are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environmental Protection Agreement and the New CCT Agreement, including the respective Proposed Annual Caps.

The Board (other than the Abstained Directors) considers that the terms of the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environmental Protection Agreement, the New CCT Agreement and the Proposed Annual Caps are on normal commercial terms and in the ordinary and usual course of business of the Group, fair and reasonable and are in the interest of the Company and the Shareholders as a whole. The Board (other than the Abstained Directors) recommends the Independent Shareholders to vote in favour of the resolutions relating to the Agreements and the Proposed Annual Caps to be proposed at the EGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the general information set out in the appendix to this circular.

Yours faithfully,
By Order of the Board
Hu Shunliang
Company Secretary

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)

19 October 2015

To the Independent Shareholders

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTIONS

IN RELATION TO
NEW SALE AND PURCHASE OF ORE AGREEMENT,
NEW ENERGY SAVING AND ENVIRONMENTAL
PROTECTION AGREEMENT AND
NEW CCT AGREEMENT

We refer to the circular dated 19 October 2015 issued by the Company (the "**Circular**") of which this letter forms part. Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

We, being all the Independent Non-executive Directors, have been appointed by the Board as the members of the Independent Board Committee to advise the Independent Shareholders as to whether, in our opinion, the terms of the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environmental Protection Agreement and the New CCT Agreement, including the respective Proposed Annual Caps, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Somerley Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the fairness and reasonableness of the terms of the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environmental Protection Agreement and the New CCT Agreement, including the respective Proposed Annual Caps.

RECOMMENDATIONS

Your attention is drawn to the letter from the Board set out on pages 5 to 34 of the Circular.

Having considered the terms of the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environmental Protection Agreement and the New CCT Agreement, including the respective Proposed Annual Caps, and taken into account the advice and recommendation of the Independent Financial Adviser set out on pages 36 to 74 of the Circular, we consider the terms of the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environmental Protection Agreement and the New CCT Agreement are on normal commercial terms and in the ordinary and usual course of business of the Group; and the terms of the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environmental Protection Agreement and the New CCT Agreement, including the respective Proposed Annual Caps, are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to approve the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environmental Protection Agreement and the New CCT Agreement, including the respective Proposed Annual Caps.

Yours faithfully,
Independent Board Committee
Qin Tongzhou
Yang Yada
Liu Fangduan
Independent Non-executive Directors

The following is the letter of advice from the Independent Financial Adviser, Somerley Capital Limited, to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.

SOMERLEY CAPITAL LIMITED
20th Floor
China Building
29 Queen's Road Central
Hong Kong

19 October 2015

To: the Independent Board Committee and
the Independent Shareholders

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS IN RELATION TO NEW SALE AND PURCHASE OF ORE AGREEMENT, NEW ENERGY SAVING AND ENVIRONMENTAL PROTECTION AGREEMENT AND NEW CCT AGREEMENT

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the continuing connected transactions contemplated under (i) the New Sale and Purchase of Ore Agreement; (ii) the New Energy Saving and Environmental Protection Agreement; and (iii) the New CCT Agreement, and their respective Proposed Annual Caps. Details of the continuing connected transactions and their respective Proposed Annual Caps are set out in the "Letter from the Board" contained in the circular of the Company to the Shareholders dated 19 October 2015 (the "Circular"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

We are informed by the Company that the Parent Company is interested in approximately 45.54% of the issued share capital of the Company as at the Latest Practicable Date and is a controlling shareholder of the Company. Also, as at the Latest Practicable Date, Anhui Xinchuang is a company controlled by the Parent Company and is therefore an associate of the Parent Company. Accordingly, both the Parent Company and Anhui Xinchuang are connected persons of the Company under the Listing Rules, and the transactions (the "Transactions") contemplated under (i) the New Sale and Purchase of Ore Agreement; (ii) the New Energy Saving and Environmental Protection Agreement; and (iii) the New CCT Agreement constitute continuing connected transactions for the Company under the Listing Rules. As the applicable percentage ratios in respect of the respective Proposed Annual Caps for the transactions contemplated under (i) the New Sale and Purchase of Ore Agreement; (ii) the New Energy Saving and Environmental Protection Agreement; and (iii) the New CCT Agreement, on an annual basis, exceed 5%, the Transactions are subject to the Independent Shareholders' approval requirement, in addition to the reporting, announcement and annual review requirements as stipulated under the Listing Rules. In this connection, the Company will seek the Independent Shareholders' approval for (i) the New Sale and Purchase of Ore Agreement; (ii) the New Energy Saving and Environmental Protection Agreement; (iii) the New CCT Agreement; (iv) the Transactions; and (v) the respective Proposed Annual Caps at the EGM.

The Independent Board Committee, comprising all of the three independent non-executive Directors, namely Mr. Qin Tongzhou, Ms. Yang Yada and Mr. Liu Fangduan, has been established to consider and make a recommendation to the Independent Shareholders on whether (1) the Transactions are in the Group's ordinary and usual course of business; (2) the terms of (i) the New Sale and Purchase of Ore Agreement; (ii) the New Energy Saving and Environmental Protection Agreement; and (iii) the New CCT Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (3) the entering into of the Transactions is in the interests of the Company and the Shareholders as a whole; and (4) the Proposed Annual Caps for the three financial years ending 31 December 2016, 2017 and 2018 are fair and reasonable so far as the Independent Shareholders are concerned. We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

During the past two years, Somerley Capital Limited has acted as the independent financial adviser to the independent board committee and independent shareholders of the Company in relation to a major and connected transaction and continuing connected transactions as detailed in the Company's circular dated 25 September 2013. The past engagement was limited to providing independent advisory services to independent board committee and independent shareholders of the Company pursuant to the Listing Rules. Under the past engagement, Somerley Capital Limited received normal professional fees from the Company. Notwithstanding the past engagement, as at the Latest Practicable Date, there were no relationships or interests between (a) Somerley Capital Limited and (b) the Group and the Parent Group that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of (1) the Transactions contemplated under (i) the New Sale and Purchase of Ore Agreement; (ii) the New Energy Saving and Environmental Protection Agreement; and (iii) the New CCT Agreement; and (2) the Proposed Annual Caps as detailed in the Circular.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Company and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects at the time they were made and up to the date of the EGM. We have also sought and received confirmation from the executive Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have no reason to believe that any material information has been withheld, nor doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group, the Parent Company and Anhui Xinchuang, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the (1) the Transactions are in the Group's ordinary and usual course of business; (2) the terms of (i) the New Sale and Purchase of Ore Agreement; (ii) the New Energy Saving and Environmental Protection Agreement; and (iii) the New CCT Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (3) the entering into of the Transactions is in the interests of the Company and the Shareholders as a whole; and (4) the

Proposed Annual Caps for the three financial years ending 31 December 2016, 2017 and 2018 are fair and reasonable so far as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below:

1. Background to and reasons for the Transactions

(A) The New Sale and Purchase of Ore Agreement

The Company is one of the largest iron and steel producers and marketers in the PRC, and is principally engaged in the manufacturing and sale of iron and steel products. Its principal steel product includes steel plates, section steel, wire rods, train wheels and specialty steel.

The Parent Company is the controlling Shareholder of the Company. Prior to the reorganisation (the "Reorganisation") carried out for the purpose of facilitating the listing of the shares of the Company on the Stock Exchange in November 1993, the businesses of the Group were carried out by the Parent Company group. The supply of Ore was carried out between the Group and the Parent Company prior to the Reorganisation. As part of the Reorganisation, the Parent Company established the Company and transferred its iron and steel business to the Group. The Parent Company retained, among other things, iron ore mining business.

Given the above delineation in businesses of the Group and the Parent Company, the Parent Company continued to supply iron ore to the Group. We consider this is a normal business practice. We note from the recent annual report and the circular dated 22 September 2015 of Angang Steel Company Limited (stock code: 347) ("Angang"), a H-share company listed on the Stock Exchange, that Angang purchased iron concentrate from 鞍鋼集團公司 ("Angang Group Company"), its ultimate controlling shareholder. This is also the case for Chongqing Iron & Steel Company Limited (stock code: 1053) ("Chongqing Steel"), a H-share company listed on the Stock Exchange. As disclosed in its recent annual report, Chongqing Steel sourced iron ore from its controlling shareholder.

Iron ore is a primary raw material used by the Group in iron-making, where limestone and dolomite are used in the iron and steel production process as flux, being a binding agent and impurity remover and is finally disposed with other impurities and residuals. We are advised by the executive Directors that, since the production scale of iron ore in the PRC is insufficient to meet production requirement of the PRC iron and steel manufacturing industry, the Group also has to source iron ore produced from distant mines in Australia and Brazil. Certain uncontrollable factors, including weather conditions and availability of vessels, may affect the shipment of iron ore from overseas mines to the PRC and any delay of shipment may pose a risk for the production process of the Company as production process of steel making requires a continuous supply of iron ore. The bulky nature of iron ore limits the ability of the Company to stockpile large amount of iron ore. Moreover, substantial amount of working capital of the Group will be tied up for purchase of iron ore if the Group stockpiles large amount of iron ore and this is not in the interests of the Shareholders. Accordingly, it is strategically beneficial for the Company to secure a domestic source of iron ore. As advised by the executive Directors, most of large domestic iron ore mines are owned and/or operated by domestic iron and steel producers or their related companies. The iron ores from these large iron ore mines are firstly supplied to their respective related domestic iron and steel producers with limited amount of iron ores sold in the domestic market. With limited resources, small iron ore mine producers are, in general, unable to guarantee a stable supply of good grade and quality iron ores to the Company.

Apart from its business in iron and steel production through the Company, the Parent Company is principally engaged in mining and sorting of mineral products, construction, manufacturing of construction materials, trading, storage and property management, agriculture and forestry. The iron ore supplied by the Parent Company are mined from its mines which are all located in Anhui Province. The mines are close to the off loading port adjacent to the production facilities of the Company in Maanshan City, Anhui Province. Production scale of the Parent Company's iron ore mines is large and this allows the Parent Company to ensure a stable supply of good grade and quality iron ore to the Company. Due to the close proximity of mines of the Parent Company to the off loading port adjacent to the production facilities of the Company, and the Parent Company's ability to maintain a stable supply of good grade and quality iron ore to the Company, the executive Directors are of the view that it is in the interests of the Company to source iron ore from the Parent Company. As a result of good quality of limestone and dolomite of the Parent Company, the Company also sources certain of limestone and dolomite from the Parent Company. We understand from the executive Directors that the Company is satisfied with the quality of Ore provided by the Parent Company and the Parent Company has in the past supplied Ore to the Company on an uninterrupted basis.

The Existing Sale and Purchase of Ore Agreement will expire on 31 December 2015. The executive Directors are of the view that it is in the interests of the Company and the Shareholders as a whole to continue the transactions in respect of iron ore, limestone and dolomite with the Parent Company for the coming three years ending 31 December 2016, 2017 and 2018.

(B) The New Energy Saving and Environmental Protection Agreement

As stated in the Company's 2014 annual report, for a long time, the Company has been committed to promote comprehensive and cohesive development between its business, society and the environment by persistently adhering to the practice of "a low-carbon economy and green production". Certain pollutants and wastes will be generated during the production process of iron and steel. Measures have been adopted by the Group to tackle various pollution control issues.

The PRC Government is imposing more stringent requirements on energy saving and environmental protection on companies. This includes the adoption of the revised environmental protection law in 2015, raising of certain standards/benchmarks with respect to environmental protection and energy saving imposed on iron and steel industry and requirements on the sub-contracting of operation and management of environmental protection and energy savings facilities to a professional firm. The Group has to continue to devote further resources for compliance with regulatory requirements on environmental protection. The Company considers that it is more cost efficient to outsource certain environmental protection work and projects to professional firm while focusing its resources on its business and operations.

Anhui Xinchuang is familiar with the operation, energy saving and environmental protection work of the Group and has been engaged by the Group to provide certain energy saving and environmental protection construction and engineering work, and services in respect of energy saving and environmental protection. The executive Directors also consider that Anhui Xinchuang has hands-on expertise and experience in respect of energy saving and environmental protection work and services and are satisfied with the work and services provided by Anhui Xinchuang.

Waste materials, including slag, will be produced during the iron and steel production process of the Company, and coal ash will be created when coal is burned to generate energy from the Company's coal power plants. The Company may choose to sell such waste materials to Anhui Xinchuang and/or other customers who will further process it for further sales to their customers for use in cement production. This will allow more efficient use of the Group's resources and fulfill the Group's social responsibility through recycling of waste. Waste materials, primarily slag and coal ash, were sold to Anhui Xinchuang in the past. We were informed by the executive Directors that the Group had not encountered any difficulties in collecting sales proceeds from the Parent Group.

The Existing Energy Saving and Environmental Protection Agreement will expire on 31 December 2015. The executive Directors are of the view that it is in the interests of the Company and the Shareholders as a whole to continue to engage Anhui Xinchuang to provide certain energy saving and environmental protection construction and engineering work and services, and to sell waste materials to Anhui Xinchuang for the coming three years ending 31 December 2016, 2017 and 2018.

(C) The New CCT Agreement

In late October 2013, the Company disposed certain companies and assets to the Parent Company and the Existing CCT Agreement was entered into between the Company and the Parent Company with respect to the continuing connected transactions contemplated thereunder which have been carried out to serve both parties' internal needs. The Services and Products, and the Services, Products and Construction Engineering specified in the CCT Agreement are principally day-to-day production and services relating to the respective businesses of the Group and the Parent Group.

The executive Directors consider that the New CCT Agreement serves to provide mutual benefits to both the Group and the Parent Group. From the Group's point of view, the stable supply of products and provision of services by the Parent Group to the Group allows the Group to have an assured level of quantity in the product supply and the provision of services for its daily production, while the sale of products and provision of services to the Parent Group contributes to the Group's turnover. The executive Directors advised us that they are satisfied with the quality of products, services, and construction and engineering work provided by the Parent Group and that the Group had not encountered any difficulties in collecting sales proceeds from the Parent Group. Nevertheless, the executive Directors consider that the Group does not heavily rely on the continuing connected transactions contemplated under the New CCT Agreement for its operation as the Group has other independent customers and/or suppliers for goods and services contemplated under the New CCT Agreement.

The Existing CCT Agreement will expire on 31 December 2015. The executive Directors are of the view that it is in the interests of the Company and the Shareholders as a whole to continue to carry out the continuing connected transactions contemplated under the New CCT Agreement for the coming three years ending 31 December 2016, 2017 and 2018.

The New Sale and Purchase of Ore Agreement, the New Energy Saving and Environmental Protection Agreement and the New CCT Agreement were entered into with a view to regulating the relationship among parties on the continuing connected transactions. Based on the above and given that the continuing connected transactions will be conducted on normal commercial terms (as more particularly discussed in the section headed "Principal terms of the Transactions" below), we consider that the entering into of the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environmental Protection Agreement and the New CCT Agreement is in the interests of the Company and the Shareholders as a whole. In light of the principal activities of the Group, we also consider that the continuing connected transactions are entered into in the ordinary and usual course of business of the Group.

2. Principal terms of the Transactions

(A) The New Sale and Purchase of Ore Agreement

The New Sale and Purchase of Ore Agreement was entered into on 10 September 2015, whereby the Company has agreed to purchase and the Parent Company has agreed to supply Ore for a term of three financial years ending 31 December 2016, 2017 and 2018. Both parties have the right to terminate the New Sale and Purchase of Ore Agreement by giving six-month notice in writing to the other. Principal terms of the New Sale and Purchase of Ore Agreement are set out in the section headed "The New Sale and Purchase of Ore Agreement" in the "Letter from the Board" in the Circular. Summary of the principal terms of the New Sale and Purchase of Ore Agreement is as follows:

(i) First priority to meet the Company's demand of Ore

Pursuant to the New Sale and Purchase of Ore Agreement, the Parent Company shall supply all its Ore produced to the Company with first priority to meet the Company's demand subject to the Proposed Annual Caps. Such Ore is not allowed to be sold by the Parent Company to any other party unless prior written consent is given by the Company. In addition, if the Parent Company develops or acquires any new mines, whether in the PRC or overseas, during the term of the New Sale and Purchase of Ore Agreement, the first priority provision to supply Ore produced from the new mines to the Company and the restriction of selling the Ore produced from the new mines to any other party shall apply. We consider that these clauses, which enable the Company to secure a stable source of supply of Ore, are in the interests of the Company.

(ii) Terms as compared to independent third party

The Parent Company has provided an undertaking under the New Sale and Purchase of Ore Agreement that it shall supply Ore to the Company on terms no less favourable than terms agreed between the Company with any independent third party.

(iii) Pricing

Pursuant to the New Sale and Purchase of Ore Agreement, price for Iron Ore in tonne will be determined after arm's length negotiations between the Company and the Parent Company. The prices for Iron Ore in tonne will be determined based on normal commercial terms with reference to the market price and shall not be higher than (i) the average value of the mid-point of the Platts 62% iron for CFR North China (Qingdao port) as published daily by *SBB Steel Markets Daily* during the transaction period, plus the freight and miscellaneous expenses from Beilun port to the Company ("Base Price"), in which, the adjustment of Iron Ore price in tonne for different grades (品位) shall be based on the Platts 62% iron ore price in tonne (i.e. divide the Base Price by 62 and multiply by the actual product grade as advised by the executive Directors); and (ii) the market price of the same types of iron ore provided by the independent third parties to the vicinity of the Company in Maanshan City, Anhui Province, the PRC. The grade (品位) of iron ore refers to the content of iron in the iron ore, which is usually denoted by percentage point. Pricing of the iron ore will be affected by the difference in grading. A better grading of iron ore, which contains a higher amount of iron, is represented by a higher percentage point. The Group makes reference to the Platts iron ore index published in the *SBB Steel Markets Daily* which is used commonly in the industry and internationally for the determination of the price of iron ore. This allows the Group's pricing standard to be in line with the pricing standards used in the international market.

As set out in the New Sale and Purchase of Ore Agreement and as advised by the executive Directors, price for dolomite and limestone will be determined after arm's length negotiation between the Company and the Parent Company under normal commercial terms with reference to the market price quoted on open market taking into account factors such as quality of the product and shall not be higher than the market price of the same categories of dolomite and limestone provided by independent third parties in the same area to the vicinity of the Company in Maanshan City, Anhui Province, the PRC.

(iv) Payment term

It is stipulated under the New Sale and Purchase of Ore Agreement that the Company shall settle the payment for iron ore purchased within 30 days and limestone and dolomite within 50 days after the respective iron ore, limestone and dolomite have been delivered to, and inspected and confirmed by the Company as being in good quality. As advised by the executive Directors, the Company has to make full or partial payment of iron ore to its major independent iron ore suppliers upon off loading of iron ore through letter of credit arrangement in accordance with the purchase agreements with the major independent iron ore suppliers. Accordingly the credit term offered by the Parent Company is more favourable than those offered by major independent iron ore suppliers. We note from the Company's 2014 annual report that the normal credit term of the Group's accounts payable is within three months. The credit term for purchases of limestone and dolomite is within the range of the normal credit term of the Group's accounts payable as stated in the 2014 annual report of the Company.

(B) The New Energy Saving and Environmental Protection Agreement

The New Energy Saving and Environmental Protection Agreement was entered into on 10 September 2015 for a term of three financial years ending 31 December 2016, 2017 and 2018. Principal terms of the New Energy Saving and Environmental Protection Agreement are set out in the section headed "The New Energy Saving and Environmental Protection Agreement" in the "Letter from the Board" in the Circular. Summary of the principal terms of the New Energy Saving and Environmental Protection Agreement is as follows:

(i) Pricing

The New Energy Saving and Environmental Protection Agreement governs the relationship between the Group and Anhui Xinchuang with respect to (a) the provision of Energy Saving and Environmental Protection Construction and Services by Anhui Xinchuang to the Group; and (b) the sale of Waste Materials to Anhui Xinchuang by the Group. According to the New Energy Saving and Environmental Protection Agreement, the pricing shall be based on state-prescribed price. In the absence of the state-prescribed price, the pricing shall be based on market price, agreed through open tender, price comparison and arm's length negotiation under normal commercial terms. At the same time, the price regarding Energy Saving and Environmental Protection Construction and Services shall not be higher than the price of the same categories of energy saving and environmental protection construction and services provided by the independent third parties to the Group. As set out in the section headed "The New Energy Saving and Environmental Protection Agreement" in the "Letter from the Board" in the Circular, in accordance with the current pricing standards, the pricing of the sintering waste heat power generation services in the Energy Saving and Environmental Protection Construction and Services are priced based on the state-prescribed price stipulated in the National Development and Reform Commission's Notice on the Adjustment of On-Grid Power Tariff of the East China Power Grid (Tariff Adjustment【2011】No.2622). Further details of the state-prescribed price are set out in the section headed "The New Energy Saving and Environmental Protection Agreement" in the "Letter from the Board" contained in the Circular. As advised by the executive Directors, save for the above, the pricing of the transactions under the New Energy Saving and Environmental Protection Agreement shall be priced based on market price obtained through open tender for contract with value over RMB100,000 to ensure services are obtained under a fair and competitive environment and it is the Company's practice to obtain at least three tenders for each contract. Further details are set out in the section headed "Internal control measures regarding continuing connected transactions" of this letter below. The prices with respect to the sales of Waste Materials to Anhui Xinchuang shall not be lower than the price of the same categories of waste materials sold to independent third parties by the Group. As advised by the executive Directors, pricing shall be determined based on market price as quoted on the open market through price enquiry on products of the same category within the Anhui Province and surrounding areas.

(ii) Payment term

As set out in the New Energy Saving and Environmental Protection Agreement, for Energy Saving and Environmental Protection Construction and Services, payment shall be made by the Company to Anhui Xinchuang in accordance with progress of construction as verified by the Company's management department. We understand from the executive Directors that this is consistent with the arrangement with independent service providers. For the sales of Waste Materials to Anhui Xinchuang, at the end of each month, the Company shall receive an estimated sum from Anhui Xinchuang in advance for the sales with respect to the following month and settlement will be done on a monthly basis. We note from the Company's 2014 annual report that the normal credit term of the Group's trade receivables is thirty to ninety days, thus the payment term for the sales of Waste Materials to Anhui Xinchuang is more favourable.

(ii) Other term

Pursuant to the New Energy Saving and Environmental Protection Agreement, the terms (including but not limited to pricing and payment) with respect to the provision of Energy Saving and Environmental Protection Construction and Services, and the sales of Waste Materials should be agreed under arm's length negotiations and under normal commercial terms between the parties. For the provision of Energy Saving and Environmental Protection Construction and Services to the Group, terms (including but not limited to pricing and payment) should be no less favourable than those offered by independent third parties to the Group for similar construction and services. For the sales of Waste Materials to Anhui Xinchuang, the terms (including but not limited to pricing and payment terms) should not be more favourable than those offered to independent third parties by the Group for similar waste materials.

(C) The New CCT Agreement

The New CCT Agreement was entered into on 10 September 2015. Principal terms of the New CCT Agreement are set out in the section headed "The New CCT Agreement" in the "Letter from the Board" in the Circular. Summary of the principal terms of the New CCT Agreement is as follows:

(i) Duration

The New CCT Agreement shall have a duration for the three financial years ending 31 December 2016, 2017 and 2018. Pursuant to the New CCT Agreement, both parties have the right to terminate part or all of the transactions contemplated under the New CCT Agreement by giving at least one-month notice in writing to the other.

(ii) Products and services involved

Pursuant to the New CCT Agreement, the following continuing connected transactions will be conducted between the Group and the Parent Group, including (1) sale or provision of Services and Products (including (a) Water, Electricity and Gas; (b) Finished Products and Related Commodities; and (c) Services) by the Group to the Parent Group; and (2) sale or provision of Services, Products and Construction Engineering (including (d) Spare-parts, Fittings and Related Products; (e) Infrastructure Technical and Renovation Engineering Services; and (f) Water and Land Transportation and Related Services) by the Parent Group to the Group. Further details of the Services and Products, and Services, Products and Construction Engineering are as follows:

(a) Sale of Water, Electricity and Gas by the Group to the Parent Group

The Group has agreed to supply water, electricity and gas, including electricity, water, industrial treated water, blast furnace gas, coke oven gas, converter gas, vapour, compressed air and other gases, to the Parent Group.

(b) Sale of Finished Products and Related Commodities by the Group to the Parent Group

The Group has agreed to sell finished products and related commodities, including steel, steel ingots, continuous casting billets, accessories, materials (cables and tools, etc.), iron oxide red and iron scales, and other commodities (labor protection and office supplies, etc.) to the Parent Group.

(c) Provision of Services by the Group to the Parent Group

The Group has agreed to provide services, including further processing of steel billets, metering services and related services (railway transportation, inspection, etc.), to the Parent Group.

(d) Purchase of Spare-parts, Fittings and Related Products by the Group from the Parent Group

The Group has agreed to purchase spare-parts, fittings and related products, including refractory materials, spare-parts and complete equipment, nonstandard spare-parts, recycled steel scraps and related products (cokes, pig irons and coals, etc.) from the Parent Group.

(e) Provision of Infrastructure Technical and Renovation Engineering Services by the Parent Group to the Group

The Parent Group has agreed to provide infrastructure technical and renovation engineering services to the Group.

(f) *Provision of Water and Land Transportation and Related Services by the Parent Group to the Group*

The Parent Group has agreed to provide water and land transportation and related services, including transport for production support, freight, waterway transport and logistics, integrated port services (including cargo loading and unloading, storage, lump ore screening, transfer and short-distance handling, weighing, pickup and delivery, etc.), equipment (facility) maintenance services for production support, overhaul and medium maintenance equipment, project and maintenance services for electrical, motor and transformer, operation and maintenance for automation and informatisation, lifting logistics services, import and export agency services and related services (automobile repair, monitoring and diagnostic services, etc.) to the Group.

(iii) Pricing

The Company and the Parent Company agreed to adopt an appropriate, reasonable and fair pricing method in accordance with the principle of fairness in formulating the transactions under the New CCT Agreement. The price shall be based on (1) state-prescribed price; or (2) in the absence of state-prescribed price, market price to be determined through open tenders, price comparison and arm's length negotiations between the parties, based on normal commercial terms. The price for the Services and Products to be provided by the Group to the Parent Group shall not be lower than the price of the same type of services and products provided by the Group to the independent third parties. The price for the Services, Products and Construction Engineering to be provided by the Parent Group to the Group shall not be higher than the price of the same type of services, products and construction engineering offered by the independent third parties to the Group. As set out in the section headed "The New CCT Agreement" in the "Letter from the Board" contained in the Circular, in accordance with the current pricing standards, the electricity provided by the Group to the Parent Company is priced based on the state-prescribed price stipulated in the National Development and Reform Commission's Notice on the Adjustment of On-Grid Tariff of the East China Power Grid (NDRC Power Tariff【2011】No.2622) and the domestic water and industrial treated water are priced based on the state-prescribed price stipulated in the Notice of the People's Government of Maanshan City in the PRC on the Adjustment of Water Supply Tariff and Water Resources and Sewage Treatment Tariff (Maanshan City Government Secretariat (2010) No.65). Further details of the state-prescribed prices are set out in the section headed "The New CCT Agreement" in the "Letter from the Board" contained in the Circular. As advised by the executive Directors, all the other transactions under the New CCT Agreement shall be priced based on market price obtained through, among other things, quotations from independent third party suppliers and service providers, recent transaction prices of the Group with independent third parties, price enquiry and comparison with industry players, researches on industry websites and attending events and gatherings organised by industrial associations. For the provision of services and supply of products by the Parent Group to the Group, the Group will request suppliers and service providers to provide quotations in respect of the requested services or the Group may award a contract through a tender process. It is the Company's practice to obtain at least three quotations and tenders.

(iv) Other terms

During the term of the New CCT Agreement, the Company has the right to decide whether to enter into transactions with any independent third parties in respect of the six types of the continuing connected transactions contemplated under the New CCT Agreement. Pursuant to the New CCT Agreement, the terms (including but not limited to pricing and payment) with respect to the continuing connected transactions should be conducted, after arm's length negotiations among parties, on normal commercial terms. For the provision of the Services and Products by the Group to the Parent Group, terms (including but not limited to pricing and payment) shall not be more favourable than those offered to independent third parties by the Group for similar categories of services and products. For the provision of the Services, Products and Construction Engineering by the Parent Group to the Group, terms (including but not limited to pricing and payment) shall not be less favourable than those offered by independent third parties to the Group for similar categories of services, products and construction engineering. As advised by the executive Directors, factors being considered by the Company during arm's length negotiations include pricing of the products/ services, and suppliers and service providers' ability in meeting technical specifications and delivery schedule. The payments for the continuing connected transactions contemplated under the New CCT Agreement will be made (where applicable) (a) monthly in the next month (for payment of (i) Water, Electricity and Gas; (ii) accessories, materials and other products of Finished Products and Related Commodities; and (iii) Services by the Parent Group to the Group); (b) in advance in the month before with settlement on a monthly basis (for payment of steel, steel ingots, continuous casting billets and iron scales of Finished Products and Related Commodities by the Parent Group to the Group); (c) within thirty business days after the recipient receiving and verifying the quality of the goods (for payment of Spare-parts, Fittings and Related Products by the Group to the Parent Group); or (d) within thirty business days after confirmation by the Company in accordance with the progress of the construction engineering and services (for payment of (i) Infrastructure Technical and Renovation Engineering Services; and (ii) Water and Land Transportation and Related Services by the Group to the Parent Group). Further details of the payment terms are set out in the sub-section headed "Payment" under the section headed "The New CCT Agreement" in the "Letter from the Board" contained in the Circular. We note from the Company's 2014 annual report that the normal credit term of the Group's trade receivables is thirty to ninety days and the normal credit term of the Group's accounts payable is within three months. The credit term of the abovementioned categories of the transactions under the New CCT Agreement is within the range of the normal credit terms of the Group's trade receivables and accounts payable as stated in the 2014 annual report of the Company.

3. Internal control measures regarding continuing connected transactions

The Company has implemented the "Internal Control Management Measures of Connected Transactions" to regulate the pricing management of connected transactions, including all the transactions contemplated under the New Sale and Purchase of Ore Agreement, the New Energy Saving and Environmental Protection Agreement and the New CCT Agreement. The chairman of the Company is in charge of the continuing connected transaction management committee of the Company, which directly reports to the Board, and is responsible for the on-going monitoring of all the continuing connected transactions of the Company, including the Transactions. The executive Directors advised us that managers and staff from working levels of different departments including, among others, the corporate management department, finance department and marketing department, are involved in the continuing connected transaction management committee. The responsibilities of the continuing connected transaction management committee include, among other things, approval and monitoring of continuing connected transactions, gathering information for disclosure of continuing connected transactions pursuant to the Listing Rules, and monitoring of pricing procedures for continuing connected transactions to ensure prices to be determined on normal commercial terms. The corporate management department and finance department of the Company will report on quarterly basis to the continuing connected transaction management committee regarding, among other things, implementation of the continuing connected transactions and the actual monetary amount of the continuing connected transactions conducted during the quarter so as to facilitate the continuing connected transaction management committee to (i) monitor the actual amount of continuing connected transactions carried out; and (ii) assess whether the annual cap of any continuing connected transactions will be exceeded. The continuing connected transaction management committee will then report to the Board on quarterly basis.

The pricing management will be carried out centrally by the marketing department. The marketing department will coordinate with other departments to conduct research on market prices for the continuing connected transactions. Market prices will be obtained through, among other things, open tenders/quotations from independent third party suppliers and service providers, recent transaction prices of the Group with independent third parties, pricing information obtained through subscription service, price enquiry and comparison with industry players, researches on industry websites and attending events and gatherings organised by industrial associations. The market price information will be circulated by the marketing department to other departments and companies of the Group to facilitate them to determine prices for the continuing connected transactions.

For the purchase of Iron Ore by the Company from the Parent Company, the procurement department of the Company will make reference to the prevailing iron ore price as published by Platts, a division of McGraw Hill Financial (NYSE: MHFI) and a leading global provider of energy, petrochemicals, metals and agriculture information, and a premier source of benchmark price assessments for those commodity markets. As stated in Platts' official website, Platts serves more than 10,000 public and private sector organisations in over 180 countries. The Company has subscribed services provided by Platts to obtain daily report on iron ore price and such market information are being used by the Company to determine iron ore price prior to entering into a transaction with the Parent Company and independent third party suppliers. For determining price payable to the Parent Company for limestone and dolomite, the Company will make reference to prices payable to independent third party suppliers for same or similar category of limestone and dolomite.

For the continuing connected transactions involving provision of services and supply of products by the Parent Group to the Group (including provision of Energy Saving and Environmental Protection Construction and Services by Anhui Xinchuang to the Group), prices are determined based on market prices (determined through open tender/quotations, price comparison and arm's length negotiation under normal commercial terms). Where quotations are obtained from suppliers for the requested services or products, the Group will compare and negotiate the terms of quotations with suppliers and service providers, and determine the selection of suppliers and service providers by taking into account factors such as price quotations, quality of the products and services, ability of the suppliers and service providers in meeting technical specifications and delivery schedules, and qualification and relevant experiences of the suppliers and service providers. The contract will be awarded to the supplier and service provider who offers the best commercial terms and technical terms to the Company. Other than obtaining of quotations, the Group may award a contract through a tender process. For sourcing energy saving and environmental protection construction, the Group will source them through a tender process for contract with value over RMB100,000 to ensure services are obtained under a fair and competitive environment. The contract will be awarded to the supplier and service provider after assessment based on the criteria as set out above.

We understand from the executive Directors that the Company does not have a formal policy regarding the number of quotations and/or tenders to be obtained. However, the Company will try to obtain as many quotations and/or tenders as possible for the Company's interest and it is the Company's practice to obtain at least three quotations and tenders. We note from "中華人民共和國招標投標法" ("Law of the People's Republic of China on Bid Invitation and Bidding") and "中華人民共和國招標投標法實施條例" ("Regulation on the Implementation of the Law of the People's Republic of China on Bid Invitation and Bidding"), which state, among other things, that a minimum of three tenders are required to be received to render a tender to be valid. As a result, the Company's practice to obtain at least three quotations and/or tenders is consistent with the requirements under "中華人民共和國招標投標法" ("Law of the People's Republic of China on Bid Invitation and Bidding") and "中華人民共和國招標投標法實施條例" ("Regulation on the Implementation of the Law of the People's Republic of China on Bid Invitation and Bidding"). Accordingly, the Parent Group and/or Anhui Xinchuang may or may not be awarded the contracts.

For the continuing connected transactions involving provision of services and supply of products by the Group to the Parent Group, the price shall not be lower than the price of the same type of services and products provided by the Group to independent third parties.

We have discussed with, and reviewed sample documents obtained from the Company (including, among other things, invoices, contracts, tender documents and other related documents) with respect to a transaction (the "Sample Transaction") from each category of the Transactions for the seven months ended 31 July 2015 (i.e. the "Review Period") conducted with the Parent Group, and where applicable, sample documents (including, among other things, invoices, contracts, tender documents and other related documents) of comparable transactions conducted with independent third parties. Based on the review of sample document(s) of those Sample Transactions in which pricing and credit terms details are shown and as confirmed by the Company, we note that the prices and credit terms of those Sample Transactions are no less/more favourable than those offered by/to independent third parties.

For certain categories of the Transactions, namely Energy Saving and Environmental Protection Construction and Services provided by Anhui Xinchuang to the Group; the sale of Waste Materials by the Group to Anhui Xinchuang; the provision of Services by the Group to the Parent Group, and purchase of Spare-parts, Fittings and Related Products by the Group from the Parent Group, there was no comparable independent third party transaction available for comparison with the Sample Transaction with respect to that particular category. As set out in this section above, for sourcing energy saving and environmental protection construction and services, the Group will source them through a tender process for contract with value over RMB100,000 and it is the Company's practice to obtain at least three quotations and tenders. The contract will be awarded to the supplier and service provider after assessment based on the criteria as set out above. For the sales of Waste Materials to Anhui Xinchuang, we understand from the executive Directors that, the marketing department prepares pricing report (such as on quarterly basis) based on research on market prices for determining the pricing. For provision of Services by the Group to the Parent Group, pricing shall be based on market price, which shall be determined through arm's length negotiations between the parties based on normal commercial terms. For the Sample Transaction relating to the provision of Services by the Group to the Parent Group, the executive Directors advised us that, when determining the pricing, the Group make references to, among other things, historical amounts and benchmark pricing as set by industry association. For the purchase of Spare-parts, Fittings and Related Products by the Group from the Parent Group, pricing shall be based on market price, which shall be determined through price comparison and arm's length negotiations between the parties based on normal commercial terms. For the Sample Transaction relating to the purchase of Spare-parts, Fittings and Related Products by the Group from the Parent Group, the executive Directors advised us that during arm's length negotiations with the Parent Group, the Group makes reference to the costing information obtained through enquiries with a number of industry players in the PRC for purchase of similar products. We have discussed with the Company, obtained from the Company and reviewed relevant documents in relation to the Sample Transaction for these categories and note that they are consistent with the pricing policy as described above. We note from the Company's 2014 annual report that the normal credit term of the Group's trade receivables is thirty to ninety days and the normal credit term of the Group's accounts payable is within three months. The credit term of the abovementioned categories of the Transactions is within the range of the normal credit terms of the Group's trade receivables and accounts payable as stated in the 2014 annual report of the Company.

We consider that the abovementioned measures are in the interests of the Independent Shareholders as their interests are safeguarded by (a) obtaining and comparing independent third party quotations and market prices; (b) awarding contracts by tendering process; and (c) the set up of continuing connected transactions management committee.

4. Review of the continuing connected transactions by auditors

The auditors of the Company were engaged to report on the Group's continuing connected transactions as set out in the 2013 and 2014 annual report (the "Past Transactions") in accordance with *Hong Kong Standard on Assurance Engagements 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to *Practice Note 740 Auditor's Letter on Continuing Connected Transaction under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. We understood from the executive Directors that the auditors were of the conclusion that (a) nothing had come to their attention that caused them to believe that the Past Transactions had not been approved by the Board; (b) for the Past Transactions involving the provision of goods or services by the Group, nothing had come to their attention that caused them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company; (c) nothing had come to their attention that caused them to believe that the Past Transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and (d) nothing had come to their attention that caused them to believe that the Past Transactions had exceeded the maximum aggregate annual value disclosed in previous announcements made.

Based on the obligations of the Directors to comply with the Listing Rules to conduct the continuing connected transactions on normal commercial terms, we consider that the continuing connected transactions will be conducted on normal commercial terms.

5. The Proposed Annual Caps

The Transactions will be subject to the Proposed Annual Caps whereby for each of the three financial years ending 31 December 2016, 2017 and 2018, the amount of the Transactions will not exceed the applicable annual amounts stated in the "Letter from the Board" contained in the Circular. In assessing the reasonableness of the Proposed Annual Caps, we have discussed with the executive Directors and management of the Company the basis and underlying assumptions for the purpose of setting the Proposed Annual Caps.

(A) Purchase of Ore by the Company from the Parent Company

Set out below are the approximate aggregate amounts (excluding tax) of purchase of iron ore, limestone and dolomite from the Parent Company for each of the two financial years ended 31 December 2013 and 2014 and the seven months ended 31 July 2015:

	Financial year ended 31 December		**Seven months ended 31 July**
	2013	**2014**	**2015**
	RMB ('000)	*RMB ('000)*	*RMB ('000)*
Approximate aggregate amount (excluding tax) of purchase of iron ore, limestone and dolomite from the Parent Company	3,806,655.7	3,489,875.0	1,520,118.9
Approximate decrease as compared to the previous year (%)		(8.3)%	

The amount of purchase of iron ore contributed to a significant aggregate amount of purchase from the Parent Company for the past two years of 2013 and 2014, and for the seven months ended 31 July 2015 (2013: approximately 98.0 % and 2014: approximately 95.7%, and 2015 seven months: approximately 94.3%). The Company purchased similar volume of iron ore from the Parent Company for the two years ended 31 December 2013 and 2014 (2013: approximately 5.07 million tonnes and 2014: approximately 5.01 million tonnes). The decrease in aggregate amount of purchase of iron ore from the Parent Company was mainly driven by the decrease in iron ore price. For the seven months ended 31 July 2015, the Company purchased approximately 2.89 million tonnes of iron ore from the Parent Company and the amount of purchase of iron ore, limestone and dolomite amounted to approximately RMB1,520.1 million. The quantities of limestone and dolomite purchased from the Parent Company were approximately 0.65 million tonnes and 0.74 million tonnes for the two years ended 31 December 2013 and 2014 respectively and 1.14 million tonnes for the seven months of 2015. The total quantity of Ore purchased from the Parent Company amounted to approximately 5.72 million tonnes, 5.75 million tonnes and 4.03 million tonnes for the two years ended 31 December 2013 and 2014 and the period of first seven months ended 31 July 2015 respectively, representing approximately 21.5%, 22.3% and 27.4% of the total Ore purchased by the Group of approximately 26.63 million tonnes, 25.76 million tonnes and 14.71 million tonnes for the corresponding periods.

We are advised by the executive Directors that, based on existing production plan, it is estimated that annual total quantity of iron ore to be purchased by the Group for the coming three years ending 31 December 2016, 2017 and 2018 will be close to existing level. In addition to making reference to production plan of the Group for the coming three years, the executive Directors discuss with the Parent Company regarding the production and development plan of the mines. A new mine in Anhui Province commences operation in second half of 2015 and its production capacity is expected to increase gradually in coming years. Furthermore, another mine is undergoing preparatory work for modification, and it is expected that the production capacity of such mine will increase after completion of the modification in the end of 2016. As stated in the sub-section headed "The New Sale and Purchase of Ore Agreement" under the section headed "Background to and reasons for the Transactions" of this letter, the executive Directors consider that it is in the interests of the Company to source more iron ore from the Parent Company mainly because (a) it allows the Company to have a stable supply of good grade and quality iron ore; and (b) this can reduce the Group's reliance on suppliers for overseas iron ore so as to mitigate the risk of delay of shipments when purchasing from these suppliers. Accordingly, the Company plans to source for more iron ores from the Parent Company for the coming three years ending 31 December 2016, 2017 and 2018. It is estimated that the Company will purchase approximately 7.43 million tonnes, 8.30 million tonnes and 8.66 million tonnes of iron ores from the Parent Company for the coming three years ending 31 December 2016, 2017 and 2018 respectively. Also, as stated in the sub-section headed "The New Sale and Purchase of Ore Agreement" under the section headed "Background to and reasons for the Transactions" of this letter, the Parent Company provides good quality of limestone and dolomite. For similar reasons as mentioned above, the executive Directors also plan to source more limestone and dolomite from the Parent Company in 2016 and with expected quantity not exceeding approximately 2.2 million tonnes, and such quantity is expected to remain stable in 2017 and 2018. We have obtained the budgeted production capacity of mines for the three years ending 31 December 2016, 2017 and 2018 issued by the Parent Company from the executive Directors and noted that the above expected purchase volumes of Ore by the Company agree to the budgeted production capacity of the Parent Company's mines for the three years ending 31 December 2016, 2017 and 2018 respectively. One of the iron ore mine of the Parent Company commences operation in second half of 2015 and its production capacity is expected to increase gradually in coming years. Furthermore, another mine is undergoing preparatory work for modification, and it is expected that the production capacity of such mine will increase after completion of the modification in the end of 2016. In view of this, the executive Directors estimate that the quantity of iron ore to be purchased from the Parent Company will increase by approximately 11.7% in 2017 as compared to 2016 and with a slight increase in 2018. Based on the above, we are of the view that a reasonable basis has been adopted by the Company to estimate the purchasing volume of Ore for the coming three years ending 31 December 2016, 2017 and 2018.

When estimating future price for purchase of iron ore from the Parent Company for the coming three years, the executive Directors make reference to the iron ore price forecast made by (i) Morgan Stanley as set out in its research report released in March 2015; and (ii) J.P. Morgan as set out in its research report released in June 2015. Based on the aforesaid research reports, the iron ore price estimate, when averaged, is expected to be in the region of US$59 per tonne in 2016 and with an estimated increase of approximately 8.5% and 7.8% in 2017 and 2018 respectively. On this basis, the executive Directors estimate the future price for purchase of iron ore from the Parent Company for 2016, and an approximate increase of 8.5% and 7.8% is adopted to estimate the respective 2017 and 2018 iron ore purchase price with the Parent Company.

A buffer of 10% has also been incorporated in determining the annual caps of iron ore purchase in 2016, 2017 and 2018 to cater for possible adjustments in prices, and further growth in businesses of the Group. We concur with the executive Directors that it is appropriate to include the buffers because it is extremely difficult to predict accurately the future price of iron ore for the coming three years and the buffers would provide flexibility for the Group to purchase more iron ore from the Parent Company should the Company consider to be in its interest. In addition, given the Parent Company's undertaking to supply Ore to the Company on terms not less favourable than terms agreed between the Company with any independent third party, we consider the buffers to be acceptable. Taking into account the aforesaid factors, including, among other things, the estimated purchase volume and the estimated purchase price of iron ore for the coming three years from 2016 to 2018 and also the buffer of 10%, the executive Directors estimate the Proposed Annual Caps (excluding tax) for the purchase of iron ore from the Parent Company to be approximately RMB3.6 billion, RMB4.7 billion and RMB5.2 billion for the three years ending 31 December 2016, 2017 and 2018 respectively.

For purchase of limestone and dolomite from the Parent Company, the executive Directors forecast that the purchase prices of limestone and dolomite will increase in 2016 due to increase in labour costs and transportation expenses and more stringent rules and regulations for environmental standards. Therefore, the executive Directors estimate that the purchase prices of limestone and dolomite for the year ending 31 December 2016, 2017 and 2018 will increase by approximately 3% each year. Taking into account the aforesaid factors, including, among other things, the estimated purchase volume and estimated purchase price of limestone and dolomite, the executive Directors estimate the Proposed Annual Caps (excluding tax) for the purchase of limestone and dolomite from the Parent Company to be approximately RMB183.9 million, RMB189.4 million and RMB195.1 million for the three years ending 31 December 2016, 2017 and 2018 respectively.

Taking into account the aforesaid factors, the Proposed Annual Caps (excluding tax) for the purchase of Ore from the Parent Company are set as follows:

	Financial year ending 31 December		
	2016	**2017**	**2018**
	RMB ('000)	*RMB ('000)*	*RMB ('000)*
Proposed Annual Caps (excluding tax) for the purchase of Ore from the Parent Company	3,815,450.0	4,873,170.0	5,425,240.0
Approximate increase as compared to the annual cap of previous year (%)		27.7%	11.3%

(B) Procurement of Energy Saving and Environmental Protection Construction and Services and sales of Waste Materials

(a) Procurement of Energy Saving and Environmental Protection Construction and Services by the Group from Anhui Xinchuang

Set out below are the approximate aggregate amounts (excluding tax) of procurement of Energy Saving and Environmental Protection Construction and Services by the Group from Anhui Xinchuang for each of the two financial years ended 31 December 2013 and 2014 and the seven months ended 31 July 2015:

	Financial year ended 31 December		**Seven months ended 31 July**
	2013	**2014**	**2015**
	RMB ('000)	*RMB ('000)*	*RMB ('000)*
Approximate aggregate amount (excluding tax) of procurement of Energy Saving and Environmental Protection Construction and Services	393,077.5	408,701.3	212,641.4
Approximate increase as compared to the previous year (%)		4.0%	

Provision of Energy Saving and Environmental Protection Construction and Services by Anhui Xinchuang to the Group for the past two financial years of 2013 and 2014 and for the seven months ended 31 July 2015 mainly included (i) environmental protection construction and maintenance; (ii) energy management services; (iii) sub-contracting of operation of environmental protection facilities; and (iv) water quality management, which in aggregate accounted for approximately 87%, 85% and 86% respectively of the total amounts for the two financial years ended 31 December 2013 and 2014, and the seven months ended 31 July 2015.

As set out in the sub-section headed under "The New Energy Saving and Environmental Protection Agreement" in the section headed "Background to and reasons for the Transactions" above of this letter, the Group has to continue to devote further resources for compliance with regulatory requirements on environmental protection as a result of more stringent requirements imposed by the PRC Government. When determining the Proposed Annual Caps with respect to the procurement of Energy Saving and Environmental Protection Construction and Services by the Group from Anhui Xinchuang for the coming three years ending 31 December 2016, 2017 and 2018, the executive Directors make reference to (i) expected demand for certain key Energy Saving and Environmental Protection Construction and Services from the Group based on past experience and future requirements; (ii) the state-prescribed price and/ or market price regarding those services; and (iii) Anhui Xinchuang's anticipated capacity in providing the relevant construction and services. As advised by the executive Directors, key Energy Saving and Environmental Protection Construction and Services required by the Group for the three financial years from 2016 to 2018 include (i) environmental protection construction and maintenance; (ii) sub-contracting of operation of environmental protection facilities; and (iii) water quality management.

As advised by the executive Directors, environmental protection construction and maintenance mainly includes (a) construction and maintenance of energy saving and environmental protection facilities, including construction of, among other things, water recycling system, dust removal facilities and gas recirculation facilities; (b) dust removal services; (c) fume recirculation, which helps to reduce emission of nitrogen oxide during production process; (d) waste heat recovery, which helps to increase the efficiency of energy usage and reduce wastage of fuels during the production process; and (e) coke oven gas desulfurization, which aims to reduce emission of sulphur dioxide during the production process. As advised by the executive Directors, they have made reference to the anticipated timing for the need of different construction and services based on the Group's past experience and future operation plan when determining the Proposed Annual Caps with respect to the procurement of Energy Saving and Environmental Protection Construction and Services. We are informed by the executive Directors that the Company has discussed with management of Anhui Xinchuang regarding (1) the production/operation plan of Anhui Xinchuang for the three financial years ending 31 December 2016, 2017 and 2018; and (2) Anhui Xinchuang's anticipated capacity in providing the Energy Saving and Environmental Protection Construction and Services. The executive Directors advised us that Anhui Xinchuang showed interest in certain of the construction and service projects, and thus only these construction and service projects may be awarded to Anhui Xinchuang for the three financial years ending 31 December 2016, 2017 and 2018. Accordingly, the executive Directors estimate that contracts of (i) construction and maintenance of energy saving and environmental protection facilities (including mainly water recycling and dust removal facilities) of approximately RMB60 million; (ii) dust removal services of approximately RMB10 million; and (iii) fume recirculation of approximately RMB30 million may be awarded to Anhui Xinchuang for the year ending 31 December 2016. For the financial years ending 31 December 2017 and 2018, the Company has adopted the same basis as set out above to determine the Proposed Annual Caps for the procurement of Energy Saving and Environmental Protection Construction and Services for the respective year. For the year ending 31 December 2017, the executive Directors estimate that Anhui Xinchuang may be awarded contracts of (i) dust removal services of approximately RMB10 million; (ii) fume recirculation of approximately RMB30 million; and (iii) waste heat recovery of approximately RMB40 million. For the year ending 31 December 2018, the executive Directors estimate that contracts of (i) construction and maintenance of energy saving and environmental protection facilities (including mainly water recycling and fume facilities) of approximately RMB40 million; and (ii) coke oven gas desulfurization of approximately RMB20 million may be awarded to Anhui Xinchuang.

As set out above, the Group has to continue to devote further resources for compliance with regulatory requirements on energy saving and environmental protection as a result of more stringent requirements imposed by the PRC Government. As Anhui Xinchuang has hands-on expertise and experience in respect of energy saving and environmental protection work and services and has been providing energy saving and environmental protection construction and services to the Group, the executive Directors are of the view that it is more cost efficient to engage Anhui Xinchuang for sub-contracting of operation of certain environmental protection facilities. With the increasingly stringent requirements imposed by the PRC Government, the executive Directors estimate that more environmental protection facilities will be constructed and sub-contracted to Anhui Xinchuang for operation in the coming three financial years from 2016 to 2018. It is expected that certain of the existing environmental protection facilities (such as the Group's facilities of two subsidiaries engaging in iron and steel production in Anhui Province) will also be sub-contracted to Anhui Xinchuang for operation so as to increase the efficiency of energy saving and environmental protection. As a result, the executive Directors estimate that Anhui Xinchuang may be engaged for sub-contracting of operation of environmental protection facilities for an amount of approximately RMB360 million during the year ending 31 December 2016. In addition, as Anhui Xinchuang possesses high quality technical team specialising in water treatment, the Group has engaged Anhui Xinchuang for water quality management services during the two years of 2013 and 2014, and the seven months ended 31 July 2015. The executive Directors consider that similar services are required for the coming three years from 2016 to 2018. Together with the increasingly stringent requirements imposed by the PRC Government on energy saving and environmental protection, the executive Directors estimate that water quality management contracts of approximately RMB99 million may be awarded to Anhui Xinchuang for the year ending 31 December 2016. The executive Directors also estimate that other services (including mainly energy saving projects, facilities maintenance, spare parts processing and sintering waste heat power generation) of approximately RMB99.5 million may be obtained from Anhui Xinchuang for the year ending 31 December 2016. For the two years of 2017 and 2018, the executive Directors are of the view that Anhui Xinchuang may be awarded similar amount of contracts for the above categories.

A table is set out below which summarises the expected contract values which may be awarded to Anhui Xinchuang under each category:

	Financial year ending 31 December		
	2016	**2017**	**2018**
	RMB ('000)	*RMB ('000)*	*RMB ('000)*
Environmental protection construction and maintenance			
– construction and maintenance of energy saving and environmental protection facilities	60,000	–	40,000
– dust removal services	10,000	10,000	–
– fume recirculation	30,000	30,000	–
– waste heat recovery	–	40,000	–
– coke oven gas desulfurization	–	–	20,000
	100,000	80,000	60,000
Sub-contracting of operation of environmental protection facilities	360,000	360,000	360,000
Water quality management	99,000	99,000	99,000
Other services (including mainly energy saving projects, facilities maintenance, spare parts processing and sintering waste heat power generation)	99,500	100,500	100,500
Proposed Annual Caps	**658,500**	**639,500**	**619,500**

We have reviewed a minute of the Company's energy and environmental protection department setting out the budget for total estimated expenditure to be incurred by the Group with respect to Energy Saving and Environmental Protection Construction and Services for the coming three years from 2016 to 2018. In determining the contract value which may be awarded to Anhui Xinchuang in relation to the Energy Saving and Environmental Protection Construction and Services, the executive Directors have taken into account the anticipated capacity of Anhui Xinchuang in providing such services. Therefore, with reference to the Company's total budgeted expenditure relating to these areas, full or only part of the total budgeted expenditure have been included in the proposed value of contracts which may be awarded to Anhui Xinchuang.

Taking into account the aforesaid factors, including, among other things, the expected contract values which may be awarded to Anhui Xinchuang, the Proposed Annual Caps (excluding tax) for the provision of Energy Saving and Environmental Protection Construction and Services by Anhui Xinchuang to the Group are set as follows:

	Financial year ending 31 December		
	2016	**2017**	**2018**
	RMB ('000)	*RMB ('000)*	*RMB ('000)*
Proposed Annual Caps (excluding tax) for the procurement of Energy Saving and Environmental Protection Construction and Services	658,500.0	639,500.0	619,500.0
Approximate decrease as compared to the annual cap of previous year (%)		(2.9)%	(3.1)%

(b) Sales of Waste Materials by the Group to Anhui Xinchuang

Set out below are the approximate aggregate amounts (excluding tax) of the sales of Waste Materials by the Group to Anhui Xinchuang for each of the two financial years ended 31 December 2013 and 2014 and the seven months ended 31 July 2015:

	Financial year ended 31 December		**Seven months ended 31 July**
	2013	**2014**	**2015**
	RMB ('000)	*RMB ('000)*	*RMB ('000)*
Approximate aggregate amount (excluding tax) of the sales of Waste Materials by the Group to Anhui Xinchuang	9,778.3	5,788.4	6,479.8
Approximate decrease as compared to the previous year (%)		(40.8)%	

As set out in the sub-section headed "The New Energy Saving and Environmental Protection Agreement" under the section headed "Background to and reasons for the Transactions" above of this letter, waste materials (e.g. slag produced during the iron and steel production and coal ash created when coal is burned to generate energy) will be produced during the production process of the Group. The Company may choose to sell such waste materials to Anhui Xinchuang who will further process them for further sales to its customers for use in cement production. As advised by the executive Directors, the decrease in sales of Waste Materials by the Group to Anhui Xinchuang of approximately 40.8% from 2013 to 2014 is mainly the result of decrease in the average selling price of the Waste Materials, which is mainly caused by decrease in cement prices. For the seven months ended 31 July 2015, sales of Waste Materials by the Group to Anhui Xinchuang amounted to approximately RMB6.5 million.

When determining the Proposed Annual Caps with respect to the sales of Waste Materials to Anhui Xinchuang, the executive Directors have taken into account the anticipated volume of Waste Materials produced by the Group, and the anticipated processing capacity and anticipated demand of Anhui Xinchuang for the coming years. Following the adoption of the revised environmental protection law in 2015 and higher standards/benchmarks with respect to environmental protection and energy saving imposed on iron and steel industry, more types and quantities of materials produced during the production process of the Group are classified as "waste materials" and sold to Anhui Xinchuang. The executive Directors estimate that the volume of Waste Materials produced will increase in 2016 as a result of more stringent requirements on energy saving and environmental protection imposed by the PRC Government. On the other hand, the executive Directors understand that Anhui Xinchuang will have an increase in processing capacity of Waste Materials for 2016 after discussions with the management of Anhui Xinchuang regarding their continuous expansion of processing capacity. The executive Directors estimate that the amount of Waste Materials to be sold by the Group to Anhui Xinchuang for 2017 and 2018 will be at the same level as that of 2016. Taking into account the aforesaid factors, including, among other things, the estimated sales volume of Waste Materials and estimated future selling price, the Proposed Annual Caps (excluding tax) for the sales of Waste Materials by the Group to Anhui Xinchuang are set as follows:

	Financial year ending 31 December		
	2016	**2017**	**2018**
	RMB ('000)	*RMB ('000)*	*RMB ('000)*
Proposed Annual Caps (excluding tax) for the sales of Waste Materials	25,000.0	25,000.0	25,000.0
Approximate change as compared to the annual cap of previous year (%)		0%	0%

(C) Continuing connected transactions contemplated under the New CCT Agreement

(a) Sale of Water, Electricity and Gas

Set out below are the approximate aggregate amounts (excluding tax) of sale of Water, Electricity and Gas by the Group to the Parent Group for the two months ended 31 December 2013, the financial year ended 31 December 2014 and the seven months ended 31 July 2015:

	Two months ended 31 December 2013 *RMB ('000)*	**Financial year ended 31 December 2014** *RMB ('000)*	**Seven months ended 31 July 2015** *RMB ('000)*
Approximate aggregate amount (excluding tax) of sale of Water, Electricity and Gas	28,717.9	99,570.9	39,334.4

As discussed in the sub-section headed "The New CCT Agreement" under the section headed "Background to and reasons for the Transactions" above, the Group has been supplying Water, Electricity and Gas to the Parent Group. The two major items in this category are electricity and coke oven gas with a total amount contributing to approximately 78%, 77% and 81% respectively of the aggregate amount of sale of Water, Electricity and Gas for the two months ended 31 December 2013, the financial year ended 31 December 2014, and the seven months ended 31 July 2015. Vapour produced during the iron and steel production process is used to generate electricity in the Group's power plant. This is one of the measures adopted by the Group for environmental protection. Coke oven gas is a co-product during the production process of the Group. Electricity and coke oven gas will be consumed by the Group with remaining amount to be supplied to other parties to generate revenue of the Group. The monthly average amount of the sale of Water, Electricity and Gas by the Group to the Parent Group decreased from approximately RMB14.4 million for the two months ended 31 December 2013 to approximately RMB8.3 million for the financial year ended 31 December 2014, and further decreased to approximately RMB5.6 million for the seven months ended 31 July 2015. As advised by the executive Directors, the Parent Group carried out a transforming plan from 2013 to the first half of 2015, and as part of its business transformation, a company within the Parent Group, which is engaged in production of equipment and a key user of electricity, ceased its own production of steel ingots and this contributed mainly to the decrease in the monthly average amount of the sale of Water, Electricity and Gas to the Parent Group from 2013 to 2014 and 2015.

When estimating the Proposed Annual Caps for the sale of Water, Electricity and Gas by the Group to the Parent Group, the Company discussed with the management of the Parent Group regarding their business and development plan. The executive Directors understand from the management of the Parent Group that it has plan for further business development following the business transformation carried out from 2013 to the first half of 2015. Accordingly, the executive Directors estimate that more Water, Electricity and Gas will be consumed by the Parent Group in terms of volume for the three financial years ending 31 December 2016, 2017 and 2018, comparing to that of the monthly average volume for the financial year ending 31 December 2015. As mentioned in the paragraph "Pricing" under the sub-section headed "The New CCT Agreement" of the section headed "Principal terms of the Transactions" of this letter above, the price for the electricity, domestic water and industrial treated water provided by the Group to the Parent Company is based on the state-prescribed price and gas provided by the Group to the Parent Company is based on market price. It is estimated by the executive Directors that the unit price of Water, Electricity and Gas will be generally stable.

The executive Directors understand from the management of the Parent Group that the demand for Water, Electricity and Gas from the Parent Group will be of similar level for the two financial years ending 31 December 2017 and 2018. Taking into account the aforesaid factors, including, among other things, the estimated quantity of Water, Electricity and Gas to be sold and estimated state-prescribed price/future selling price, the Proposed Annual Caps (excluding tax) for the sale of Water, Electricity and Gas by the Group to the Parent Group are set as follows:

	Financial year ending 31 December		
	2016	**2017**	**2018**
	RMB ('000)	*RMB ('000)*	*RMB ('000)*
Proposed Annual Caps (excluding tax) for sale of Water, Electricity and Gas	141,019.8	142,837.8	142,665.8
Approximate increase/(decrease) as compared to the annual cap of previous year (%)		1.3%	(0.1)%

(b) Sale of Finished Products and Related Commodities

Set out below are the approximate aggregate amounts (excluding tax) of sales of Finished Products and Related Commodities by the Group to the Parent Group for the two months ended 31 December 2013, the financial year ended 31 December 2014 and the seven months ended 31 July 2015:

	Two months ended 31 December 2013	**Financial year ended 31 December 2014**	**Seven months ended 31 July 2015**
	RMB ('000)	*RMB ('000)*	*RMB ('000)*
Approximate aggregate amount (excluding tax) of sales of Finished Products and Related Commodities by the Group to the Parent Group	90,093.0	351,331.9	117,080.9

Sale of steel products (including steel ingots) contributed to a major portion of sale of Finished Products and Related Commodities, with amounts of approximately RMB80.6 million, RMB303.5 million and RMB109.2 million for the two months ended 31 December 2013, the year ended 31 December 2014 and the seven months ended 31 July 2015 respectively. The monthly average amount of sale of steel products (including steel ingots) decreased from approximately RMB40.3 million for the two months ended 31 December 2013 to approximately RMB25.3 million for the year ended 31 December 2014, and further decreased to approximately RMB15.6 million for the seven months ended 31 July 2015. As advised by the executive Directors, the steel industry in the PRC was facing challenges such as overcapacity and oversupply in 2014 and thus the demand of steel products (including steel ingots) from the Parent Group decreased. In addition, the selling price of steel products decreased in 2014 compared to 2013, as indicated by a decrease of approximately 11.05% in the average consolidated price index for domestic steel products between the two years as set out in the Company's 2014 annual report. Accordingly, monthly average amount of sale of steel products (including steel ingots) to the Parent Group decreased from 2013 to 2014. The industry continued to face the challenges in 2015 and the consolidated price index for domestic steel products as at the end of June was approximately 28.28% lower compared to the same period of 2014 as set out in the 2015 interim report of the Company. Therefore the monthly average amount of sale of steel products (including steel ingots) further decreased.

When determining the Proposed Annual Caps for the sale of Finished Products and Related Commodities by the Group to the Parent Group for the coming three years from 2016 to 2018, the executive Directors have taken into account the anticipated production capacity of the Group and the production plan of the Parent Group. As advised by the executive Directors, they have discussed with the management of the Parent Group regarding their business and development plan. As advised by the executive Directors, a company within the Parent Group, which is engaged in production of equipment, produced steel ingots for its own business. However, as set out above, such company has ceased its own steel ingots production so as to focus at its equipment production business as part of the business transformation of the Parent Group. Such company has to source steel ingots from the Group in future. As a result, it is expected that the demand of steel ingots (an intermediate steel products) from the Parent Group will increase in 2016 as compared to 2015. As advised by the executive Directors, the Group has idle capacity of production of steel products as a result of the industry downturn. Accordingly, they are of the view that the Group will be able to provide a larger amount of steel products to the Parent Group. On this basis, the executive Directors estimate that sale of steel products (including steel ingots) to the Parent Group will amount to approximately RMB396.2 million for the year ending 31 December 2016. Together with other Finished Products and Related Commodities that are expected to be sold to the Parent Group, the executive Directors estimate the Proposed Annual Cap for the sale of Finished Products and Related Commodities by the Group to the Parent Group to be approximately RMB570.7 million for 2016.

Recent selling prices have been used by the executive Directors to estimate the amount of sale for the year ending 31 December 2016. The executive Directors consider that the operating environment of the iron and steel industry may remain difficult in short run due to excess capacity and oversupply issues. Accordingly, it is estimated that selling price will be at a similar level in 2017 and 2018.

Taking into account the aforesaid factors, including, among other things, the estimated sales volume of Finished Products and Related Commodities and estimated future selling price, the Proposed Annual Caps (excluding tax) for the sale of Finished Products and Related Commodities by the Group to the Parent Group are set as follows:

	Financial year ending 31 December		
	2016	**2017**	**2018**
	RMB ('000)	*RMB ('000)*	*RMB ('000)*
Proposed Annual Caps (excluding tax) for sales of Finished Products and Related Commodities	570,688.0	570,688.0	570,688.0
Approximate change as compared to the annual cap of previous year (%)		0%	0%

(c) Provision of Services

Set out below are the approximate aggregate amounts (excluding tax) of provision of Services by the Group to the Parent Group for the two months ended 31 December 2013, the financial year ended 31 December 2014 and the seven months ended 31 July 2015:

	Two months ended 31 December 2013	**Financial year ended 31 December 2014**	**Seven months ended 31 July 2015**
	RMB ('000)	*RMB ('000)*	*RMB ('000)*
Approximate aggregate amount (excluding tax) of provision of Services	1,043.0	10,403.4	1,261.8

For the two months ended 31 December 2013, the Group mainly provided metering services and other services to the Parent Group. The Company has its own metering facilities which meet the standard of the PRC authorities for contract and agreement use. Metering service is provided to the Parent Group for measuring the weight and the amounts of usage of materials or products. The quality inspection services can ensure production efficiency, production safety and optimise production process. Provision of further processing of steel billets with a total amount contributing over 61% and 57% respectively of the aggregate amount of the provision of Services for the financial year ended 31 December 2014 and the seven months ended 31 July 2015, are the major services provided by the Group to the Parent Group for the aforesaid periods. As advised by the executive Directors, they consider that the provision of further processing of steel billets will allow the Group to utilise its idle capacity.

The executive Directors advised us that the Group plans to put a new blast furnace into operation starting from the second half of 2016. With the new blast furnace coming into operation, which will increase utilization of the resources and capacity of the Group for its own production, it is expected that less capacity will be available for the provision of further processing of steel billets to the Parent Group. The executive Directors estimate that the amount of the provision of further processing of steel billets to the Parent Group will continue to decrease and the aggregate amount of Services to be provided by the Group to the Parent Group in 2017 and 2018 is estimated to further decrease.

Taking into account the aforesaid factors, including, among other things, the estimated amount of Services to be provided and the estimated service charge, the Proposed Annual Caps (excluding tax) for the provision of Services by the Group to the Parent Group are set as follows:

	Financial year ending 31 December		
	2016	**2017**	**2018**
	RMB ('000)	*RMB ('000)*	*RMB ('000)*
Proposed Annual Caps (excluding tax) for provision of Services	9,340.4	8,334.0	7,342.4
Approximate decrease as compared to the annual cap of previous year (%)		(10.8)%	(11.9)%

(d) Purchase of Spare-parts, Fittings and Related Products

Set out below are the approximate aggregate amounts (excluding tax) of purchase of Spare-parts, Fittings and Related Products by the Group from the Parent Group for the two months ended 31 December 2013, the financial year ended 31 December 2014 and the seven months ended 31 July 2015:

	Two months ended 31 December 2013	**Financial year ended 31 December 2014**	**Seven months ended 31 July 2015**
	RMB ('000)	*RMB ('000)*	*RMB ('000)*
Approximate aggregate amount (excluding tax) of purchase of Spare-parts, Fittings and Related Products	219,936.9	831,687.6	563,441.8

Spare-parts, Fittings and Related Products include refractory materials, spare-parts and complete equipment, nonstandard spare-parts, recycled steel scraps and related products. Refractory materials, and spare-parts and complete equipment are the two major items in this category, with a total amount contributing to over 85% of the aggregate amount of purchase of Spare-parts, Fittings and Related Products for each of the two months ended 31 December 2013, the year ended 31 December 2014 and the seven months ended 31 July 2015. The Group purchases refractory materials which are fire-resistant materials to protect the production facilities from damages and melting under high temperature during the production process of iron and steel. The Group also purchases spare-parts for repair and maintenance of the production equipment and complete equipment to be used in the production process.

Monthly average purchase of Spare-parts, Fittings and Related Products for the year ended 31 December 2014 was approximately 37.0% lower than that of the two months ended 31 December 2013, which was mainly the result of the decrease in purchase of refractory materials during 2014. As set out above, the refractory materials are fire-resistant materials used to protect the production facilities. As advised by the executive Directors, larger amounts of refractory materials (as a result of larger volume and higher quality of refractory materials used) are used for protecting production facilities such as blast furnace. We are advised by the executive Directors that two of the blast furnaces of the Group encountered production instability issues in 2014. As a result, production with the blast furnaces decreased in 2014, which resulted in a decreased amount of refractory materials purchased from the Parent Group during the year. Purchase of refractory materials increased during the seven months ended 31 July 2015 and thus purchase of Spare-parts, Fittings and Related Products increased during the seven months ended 31 July 2015 on a monthly basis as compared to that of the year ended 31 December 2014.

The executive Directors have estimated the Proposed Annual Caps for the purchase of Spare-parts, Fittings and Related Products based on the business and development plan of the Group, especially the plan for production, repair and maintenance. The executive Directors advised that the Group plans to purchase refractory materials of a higher quality so as to improve the production efficiencies of the production facilities. At the same time, the Group is now in the process of constructing a new blast furnace which is expected to commence operation in second half of 2016. As advised by the executive Directors, Spare-parts, Fittings and Related Products (such as refractory materials) will be required during the construction of the new blast furnace. As a result, the amount of purchase of refractory materials is expected to increase in 2016. Also, as mentioned above, the new blast furnace of the Group is expected to commence operation in the second half of 2016 and different kinds of Spare-parts, Fittings and Related Products will be needed to support its operation afterwards. The executive Directors expect that more Spare-parts, Fittings and Related Products (including mainly refractory materials, and spare-parts and complete equipment) will be purchased from the Parent Group. For the two years ending 31 December 2017 and 2018, the executive Directors estimate that the purchase amount of Spare-parts, Fittings and Related Products will be similar to that of 2016.

Taking into account the aforesaid factors, including, among other things, the estimated amount of Spare-parts, Fittings and Related Products needed and estimated future unit price, the Proposed Annual Caps (excluding tax) for purchase of Spare-parts, Fittings and Related Products by the Group from the Parent Group are set as follows:

	Financial year ending 31 December		
	2016	**2017**	**2018**
	RMB ('000)	*RMB ('000)*	*RMB ('000)*
Proposed Annual Caps (excluding tax) for purchase of Spare-parts, Fittings and Related Products	1,460,810.0	1,470,170.0	1,475,170.0
Approximate increase as compared to the annual cap of previous year (%)		0.6%	0.3%

(e) Procurement of Infrastructure Technical and Renovation Engineering Services

Set out below are the approximate aggregate amounts (excluding tax) of procurement of Infrastructure Technical and Renovation Engineering Services by the Group from the Parent Group for the two months ended 31 December 2013, the financial year ended 31 December 2014 and the seven months ended 31 July 2015:

	Two months ended 31 December 2013 *RMB ('000)*	**Financial year ended 31 December 2014** *RMB ('000)*	**Seven months ended 31 July 2015** *RMB ('000)*
Approximate aggregate amount (excluding tax) of procurement of Infrastructure Technical and Renovation Engineering Services	142,192.9	271,765.5	202,931.2

The amount of Infrastructure Technical and Renovation Engineering Services provided by the Parent Group to the Group during the relevant year and periods depends on, among other things, the number and size of contracts carried out, the number and size of new contracts awarded, and the progress of the construction and engineering work. As set out above, production from two of the blast furnaces of the Group decreased in 2014 as they encountered production instability issues. Accordingly, the technical and renovation engineering services in relation to blast furnaces decreased during the year ended 31 December 2014. The amount of Infrastructure Technical and Renovation Engineering Services needed by the Group increased in 2015 as the two blast furnaces resumed normal production after tackling the production instability issues. As a result, the aggregate amount of Infrastructure Technical and Renovation Engineering Services provided by the Parent Group to the Group increased during the seven months ended 31 July 2015.

When estimating the Proposed Annual Caps for Infrastructure Technical and Renovation Engineering Services for the three years ending 31 December 2016, 2017 and 2018, the executive Directors have taken into account, among other things, the business plan of the Group, the anticipated need for technical and renovation services by the Group for different projects and the anticipated capacity of the Parent Group in providing such technical and renovation services. The executive Directors have discussed with the management of the Parent Group regarding its business plan and understand that the Parent Group will only be interested in certain of the technical and renovation projects of the Group for 2016 to 2018 taking into account the Parent Group's own capacity and business plans. As advised by the executive Directors, the Group has planned for its own technical and renovation project to be carried out in different timing so that the Group will have a more stable aggregated cost of Infrastructure Technical and Renovation Engineering Services for each of the three years of 2016 to 2018. For 2016, the executive Directors anticipate that Infrastructure Technical and Renovation Engineering Services that may be awarded to the Parent Group will include mainly (i) construction of a continuous galvanization plant of approximately RMB230 million; (ii) certain construction and engineering work of new blast furnace together with other supporting facilities and plants for full operation of the blast furnace production plant of approximately RMB150 million; (iii) renovation and improvement projects for existing steel rolling production plant of approximately RMB65 million; and (iv) construction of a new degreasing facilities for cold rolling steel production plant of approximately RMB55 million. As advised by the executive Directors, the continuous galvanization plant is constructed for production of galvanized steel products, which is one of the steps for broadening the products range of the Group. Also, as an overall strategy to improve the product quality and production efficiency, as well as to comply with the increasingly stringent requirements imposed by the PRC Government on environmental protection, the Group has been in the process of transforming and improving the old production facilities. It is expected that the construction of a new blast furnace to replace the old production facilities will help the Group to improve the production efficiency and at the same time enhance the environmental protection ability of the production plant. As advised by the executive Directors, different kinds of construction and engineering work have to be done for the supporting facilities and plants of the blast furnace so that the blast furnace production plant will be able to run in full scale. On the above basis, the executive Directors estimate that the amount of Infrastructure Technical and Renovation Engineering Services that may be awarded to the Parent Group will be approximately RMB730 million for 2016.

For the year ending 31 December 2017, the executive Directors estimate that key Infrastructure Technical and Renovation Engineering Services that may be awarded to the Parent Group will include (i) construction of a continuous galvanization plant of approximately RMB280 million; (ii) certain construction and engineering work of new blast furnace together with other supporting facilities and plants for full operation of the blast furnace production plant of approximately RMB80 million; (iii) renovation and improvement work to the No. 4 Steel Rolling 1580 mm hot rolling production plant of approximately RMB60 million; and (iv) systematic renovation and improvement project of two blast furnaces of one of the iron production plants of approximately RMB50 million. For the year ending 31 December 2018, the executive Directors estimate that the key Infrastructure Technical and Renovation Engineering Services that may be awarded to the Parent Group will include (i) renovation and improvement work to the No. 4 Steel Rolling 1580 mm hot rolling production plant of approximately RMB200 million; (ii) systematic renovation and improvement project of two blast furnaces of one of the iron production plants of approximately RMB200 million; (iii) construction of a continuous galvanization plant of approximately RMB100 million; and (iv) restructuring to the section steel manufacturing facilities of the No. 2 steel rolling plant of approximately RMB100 million. As discussed above, the Group has planned for its own technical and renovation project to be carried out in different timing so that they Group will have a more stable aggregated cost of Infrastructure Technical and Renovation Engineering Services for each of the three years of 2016 to 2018. On this basis, the executive Directors estimate that the Proposed Annual Caps for provision of Infrastructure Technical and Renovation Engineering Services by the Parent Group to the Group for 2017 and 2018 will be the same as that of 2016.

A table is set out below which summarises the expected contract values which may be awarded to the Parent Group under each category:

	Financial year ending 31 December		
	2016	**2017**	**2018**
	RMB ('000)	*RMB ('000)*	*RMB ('000)*
Construction of a continuous galvanization plant	230,000	280,000	100,000
Certain construction and engineering work of new blast furnace together with other supporting facilities and plants for full operation	150,000	80,000	–
Renovation and improvement projects for existing steel rolling production plant	65,000	25,000	–
Construction of a new degreasing facilities for cold rolling steel production plant	55,000	20,000	–
Renovation and improvement work to the No. 4 Steel Rolling 1580mm hot rolling production plant	–	60,000	200,000
Systematic renovation and improvement project of two blast furnaces of one of the iron production plants	–	50,000	200,000
Restructuring to the section steel manufacturing facilities of the No. 2 steel rolling plant	–	30,000	100,000
Other services (including mainly construction of new reroll inspection line at the cold-roll plant, construction of advanced processing and production base for automobile sheet, and new full coke dry quenching project) and miscellaneous projects	230,000	185,000	130,000
Proposed Annual Caps	**730,000**	**730,000**	**730,000**

We have reviewed a summary of the Group's plan of Infrastructure Technical and Renovation Engineering Services for the three years from 2016 to 2018. As discussed with the executive Directors, they have taken into account the anticipated capacity of the Parent Group in providing the services to the Group when determining the Proposed Annual Caps. Therefore, we note from the aforesaid summary that only parts of the total budgeted expenditure have been included in the proposed value of service contracts which may be awarded to the Parent Group.

Taking into account the aforesaid factors, including, among other things, the expected contract values which may be awarded to the Parent Group, the Proposed Annual Caps (excluding tax) for procurement of Infrastructure Technical and Renovation Engineering Services by the Group from the Parent Group are set as follows:

	Financial year ending 31 December		
	2016	**2017**	**2018**
	RMB ('000)	*RMB ('000)*	*RMB ('000)*
Proposed Annual Caps (excluding tax) for procurement of Infrastructure Technical and Renovation Engineering Services	730,000.0	730,000.0	730,000.0
Approximate change as compared to the annual cap of previous year (%)		0%	0%

(f) Procurement of Water and Land Transportation and Related Services

Set out below are the approximate aggregate amounts (excluding tax) of procurement of Water and Land Transportation and Related Services by the Group from the Parent Group for the two months ended 31 December 2013, the financial year ended 31 December 2014 and the seven months ended 31 July 2015:

	Two months ended 31 December 2013	**Financial year ended 31 December 2014**	**Seven months ended 31 July 2015**
	RMB ('000)	*RMB ('000)*	*RMB ('000)*
Approximate aggregate amount (excluding tax) of procurement of Water and Land Transportation and Related Services	353,075.3	1,552,492.2	570,289.6

Water and Land Transportation and Related Services provided by the Parent Group to the Group include transport for production support, freight, waterway transport and logistics, integrated port services, equipment (facility) maintenance services for production support, overhaul and medium maintenance equipment, operation and maintenance for automation and informatisation, project and maintenance services for electrical, motor and transformer, lifting logistics services, import and export agency services and related services. Among those services mentioned above, transport for production support, freight, waterway transport and logistics, integrated port services, equipment (facility) maintenance services for production support, overhaul and medium maintenance equipment, operation and maintenance for automation and informatisation are the key items in this category, with a total amount contributing to approximately 60%, 88% and 93% respectively of the aggregate amount of procurement of Water and Land Transportation and Related Services for the two months ended 31 December 2013, the year ended 31 December 2014 and the seven months ended 31 July 2015. Transport for production support refers mainly to transportation of raw materials and products within the production plant of the Group while freight refers principally to transportation services of materials and products between the port/ train station and the production plant of the Group. Waterway transport and logistics services are mainly used by the Group to transfer raw materials, semi-products and other products by waterway transport. Integrated port services are mainly provided to the Group at the port in Maanshan City for handling the raw materials purchased by the Group through waterway, and the iron and steel products delivered through waterway. Overhaul and medium maintenance equipment are the scheduled overhaul services for the production equipment and facilities while equipment (facility) maintenance services for production support are the daily maintenance services for the production equipment and facilities. Operation and maintenance for automation and informatisation relate to information technology services provided by the Parent Group to the Group for system maintenance and development.

For the two months ended 31 December 2013, procurement of Water and Land Transportation and Related Services by the Group amounted to approximately RMB353.1 million, representing a monthly average amount of approximately RMB176.5 million. As advised by the executive Directors, an amount of approximately RMB60.6 million was incurred for procurement of import and export agent services provided by the Parent Group. As advised by the executive Directors, such services of import and export agency was mainly incurred for import of overseas equipment during the two months ended 31 December 2013. For the year of 2014, the monthly average amount of procurement of Water and Land Transportation and Related Services by the Group was approximately RMB129.4 million, representing a decrease of approximately 26.7% compared to that of the two months ended 31 December 2013. The decrease in the monthly average amount was mainly contributed by the decrease in the import and export agent services as mentioned above, as less equipment were imported from overseas during the year. For the seven months ended 31 July 2015, the monthly average amount of procurement of Water and Land Transportation and Related Services by the Group amounted to approximately RMB81.5 million, representing a decrease of approximately 37.0% compared to that of the year ended 31 December 2014, which is mainly due to the decrease in amount of transportation services (including transport for production support, freight, waterway transport and logistics, and integrated port services) and overhaul and medium maintenance equipment during the seven months ended 31 July 2015. The executive Directors advised us that the decrease in transportation services was mainly due to the decrease in average charge by the Parent Group. In addition, as advised by the executive Directors, following the resumption of normal production of the two blast furnaces after tackling the production instability issues, key overhaul and medium maintenance equipment is scheduled in the second half of 2015. As a result, the amount of procurement of overhaul and medium maintenance equipment decreased during the seven months ended 31 July 2015.

When estimating the Proposed Annual Caps for Water and Land Transportation and Related Services for the three years of 2016, 2017 and 2018, the executive Directors have made reference to the business and development plan of the Group and the Parent Group. As discussed above, the Group is now in the process of constructing a new blast furnace which is expected to commence operation in second half of 2016. As advised by the executive Directors, the Group will carry out trial operation and preparation work in 2016 for the new blast furnace. Also, as a result of the commencement of operation of the blast furnace in 2016, the executive Directors are of the view that production activities of the Group will increase and thus the amount of transportation services (including transport for production support, freight, waterway transport and logistics, and integrated port services) to be provided by the Parent Group will increase, with an aggregate estimated amount of approximately RMB652.5 million for

2016. In addition, as a result of the trial operation and preparation work, together with the commencement of operation of the new blast furnace, the executive Directors anticipate that more equipment (facility) maintenance services for production support and overhaul and medium maintenance equipment services will be carried out by the Group in 2016, with an estimated amount of approximately RMB966.9 million. In addition, as a result of the increasingly stringent requirements on energy saving and environmental protection as imposed by the PRC Government, the Group has to maintain a more advanced information system for monitoring of energy saving and environmental protection level of the Group. Therefore, the executive Directors estimate that a larger amount will be required for the procurement of operation and maintenance for automation and informatisation from the Parent Group in 2016, with an estimated amount under this category of approximately RMB182.2 million. For the two years of 2017 and 2018, the executive Directors adopts the same basis in estimating the Proposed Annual Caps and estimate that the Proposed Annual Caps for each of 2017 and 2018 will be at a level similar to that of 2016.

Taking into account the aforesaid factors, including, among other things, the estimated amount of Water and Land Transportation and Related Services needed and the estimated service charge, the Proposed Annual Caps (excluding tax) for procurement of Water and Land Transportation and Related Services by the Group from the Parent Group are set as follows:

	Financial year ending 31 December		
	2016	**2017**	**2018**
	RMB ('000)	*RMB ('000)*	*RMB ('000)*
Proposed Annual Caps (excluding tax) for procurement of Water and Land Transportation and Related Services	1,934,869.7	2,001,808.0	2,028,547.9
Approximate increase as compared to the annual cap of previous year (%)		3.5%	1.3%

Discussion on the Proposed Annual Caps

The table below summarises the historical transaction amounts of each of the Transactions for the seven months ended 31 July 2015:

	Historical transaction amount for the seven months ended 31 July 2015	**Annualised transaction amount for the year ending 31 December 2015** *(Note 1)*	**Existing Annual Caps for the year ending 31 December 2015**	**Utilisation rate** *(Note 2)*
	RMB('000)	*RMB('000)*	*RMB('000)*	*%*
Purchase of Ore	1,520,118.9	2,605,918.1	8,469,690.8	30.8
Procurement of Energy Saving and Environmental Protection Construction and Services	212,641.4	364,528.1	550,000.0	66.3
Sale of Waste Materials	6,479.8	11,108.2	45,000.0	24.7
Sale of Water, Electricity and Gas	39,334.4	67,430.4	241,510.0	27.9
Sale of Finished Products and Related Commodities	117,080.9	200,710.1	1,164,840.0	17.2
Provision of Services	1,261.8	2,163.1	47,300.0	4.6
Purchase of Spare-parts, Fittings and Related Products	563,441.8	965,900.2	1,261,580.0	76.6
Procurement of Infrastructure Technical and Renovation Engineering Services	202,931.2	347,882.1	576,000.0	60.4
Procurement of Water and Land Transportation and Related Services	570,289.6	977,639.3	1,722,170.0	56.8

Notes:

1. The annualised transaction amounts for each of the Transactions were calculated based on the respective historical transaction amounts for the seven months ended 31 July 2015.

2. Utilisation rate is calculated based on the annualised transaction amounts and the Existing Annual Caps for each of the Transactions.

We note from the table above that the Existing Annual Caps for each of the Transactions are likely to be underutilised based on the annualised transaction amounts for the year ending 31 December 2015. In particular, we note a low utilisation rate of below 35% of the Existing Annual Caps for (1) purchase of Ore; (2) sale of Waste Materials; (3) sale of Water, Electricity and Gas; (4) sale of Finished Products and Related Commodities; and (5) provision of Services. We have discussed with the executive Directors regarding the underutilisation of the Existing Annual Caps and our analysis on the historical transaction amounts for each of the Transactions is set out in this section above. In addition, we are advised by the executive Directors that they have considered the low utilisation rates of the Existing Annual Caps, especially those of the five categories with utilisation rate below 35%, when determining the Proposed Annual Caps although the executive Directors are of the view that a balanced approach should be adopted when determining the Proposed Annual Caps considering the Group's future requirements. For the five categories relating to (1) purchase of Ore; (2) sale of Waste Materials; (3) sale of Water, Electricity and Gas; (4) sale of Finished Products and Related Commodities; and (5) provision of Services, the executive Directors consider that downward adjustments to the proposed annual cap will be appropriate for the year ending 31 December 2016 compared to that of 2015, which is detailed in the table below.

	Existing Annual Caps for the year ending 31 December 2015	**Proposed Annual Caps for the year ending 31 December 2016**	**Downward adjustments from 2015 to 2016**
	RMB('000)	*RMB('000)*	*%*
Purchase of Ore	8,469,690.8	3,815,450.0	55.0
Sale of Waste Materials	45,000.0	25,000.0	44.4
Sale of Water, Electricity and Gas	241,510.0	141,019.8	41.6
Sale of Finished Products and Related Commodities	1,164,840.0	570,688.0	51.0
Provision of Services	47,300.0	9,340.4	80.3

Having considered the basis on which the Proposed Annual Caps are determined as described above, together with the fact that (i) the Transactions contemplated under the Agreements will be conducted on normal commercial terms and on terms no more/less favourable than terms provided by/offered to the Group to/from independent third parties; (ii) the Proposed Annual Caps provide flexibility for the Group; and (iii) whilst the approval of the Proposed Annual Caps gives the Group flexibility to carry out transactions with the Parent Group (including Anhui Xinchuang), the Group is not committed to do so, we are of the view that the Proposed Annual Caps for the Transactions are fair and reasonable.

6. Conditions of the continuing connected transactions

In compliance with the Listing Rules, the Transactions contemplated under (i) the New Sale and Purchase of Ore Agreement; (ii) the New Energy Saving and Environmental Protection Agreement; and (iii) the New CCT Agreement are subject to a number of conditions which include, among other things:

(i) the Proposed Annual Caps for the Transactions for each of the three financial years ending 31 December 2016, 2017 and 2018 will not be exceeded;

(ii) the independent non-executive Directors must, in accordance with the Listing Rules, review annually the Transactions and confirm in the Company's annual report whether the Transactions have been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;

(iii) the auditors of the Company must, in accordance with the Listing Rules, review annually the Transactions and they must confirm in a letter to the Board (a copy of which letter will be provided to the Stock Exchange at least ten business days prior to the bulk printing of the annual report of the Company) whether anything has come to their attention that causes them to believe that the Transactions:

  (a) have not been approved by the Board;

  (b) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group;

  (c) were not entered into, in all material respects, in accordance with the relevant agreement(s) governing the Transactions; and

  (d) have exceeded the Proposed Annual Caps with respect to the Transactions;

(iv) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or the auditors cannot confirm the matters as required;

(v) the Company must allow, and ensure that both the Parent Company and Anhui Xinchuang allow, the auditors of the Company sufficient access to their records of the Transactions for the purpose of the auditors' reporting on the Transactions. The Board must state in the annual report whether the auditors of the Company have confirmed the matters set out in Rule 14A.56 of the Listing Rules; and

(vi) the Company must comply with the applicable provisions of the Listing Rules governing continuing connected transactions in the event that the total amount of the Transactions exceeds the relevant Proposed Annual Caps, or that there is any material amendment to the terms of (i) the New Sale and Purchase of Ore Agreement; (ii) the New Energy Saving and Environmental Protection Agreement; and (iii) the New CCT Agreement.

In light of the conditions imposed on the Transactions, in particular, (1) the limit of the value of the Transactions by way of the relevant Proposed Annual Caps; (2) the on-going review by the independent non-executive Directors and auditors of the Company regarding the terms of the Transactions; and (3) the on-going review by the auditors of the Company confirming the relevant Proposed Annual Caps not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the Transactions and safeguard the interests of the Independent Shareholders.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that (1) the Transactions are in the Group's ordinary and usual course of business; (2) the terms of (i) the New Sale and Purchase of Ore Agreement; (ii) the New Energy Saving and Environmental Protection Agreement; and (iii) the New CCT Agreement in relation to the Transactions are on normal commercial terms and are fair and reasonable; (3) the entering into of the Transactions is in the interests of the Company and the Shareholders as a whole; and (4) the Proposed Annual Caps for the three financial years ending 31 December 2016, 2017 and 2018 are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
M.N. Sabine
Chairman

Mr. M.N. Sabine is a licensed person registered with the SFC and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over thirty years' experience in the corporate finance industry.

The English translations of the Chinese names are included in this letter for identification purpose only and should not be regarded as their official English translations. In the event of any inconsistency, the Chinese names prevail.

1. RESPONSIBILITY STATEMENT

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

2. INTERESTS OF DIRECTORS

(a) Interests in the Company

As at the Latest Practicable Date, none of the Directors, supervisors and chief executive of the Company have any interests and short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such Director, chief executive or supervisor is taken or deemed to have under such provisions of the SFO) or which was required to be entered into the register required to be kept by the Company under section 352 of the SFO or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

Save as that Mr. Ding Yi, Mr. Qian Haifan, Mr. Su Shihuai and Mr. Ren Tianbao who are also directors of Magang Group, none of the Directors is also a director or employee of a company which has an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(b) Interests in contracts and assets

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2014, being the date to which the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement which is significant in relation to the business of the Group, other than those business in which such Directors have been appointed to represent the interests of the Company and/or other members of the Group.

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into any service contract with any member of the Group which will not expire and is not terminable by the relevant member of the Group within one year without payment of any compensation, other than statutory compensation.

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associates were considered to have any interest in a business which competes or may compete with the business of the Group.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2014, being the date to which the latest published audited consolidated financial statements of the Company were prepared.

6. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or claims of material importance and no litigation or claims of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

7. MATERIAL CONTRACT

There is no material contract (not being contract entered into in the ordinary course of business) which has been entered into by members of the Group within the two years immediately preceding the Latest Practicable Date.

8. EXPERT AND CONSENT

(a) The following is the qualification of the expert who has given its opinion or advice which is contained in this circular:

Name	Qualification
Somerley Capital Limited	A corporation licensed to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

(b) As at the Latest Practicable Date, the Independent Financial Adviser:

(i) did not have any shareholding in the Group nor any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Group;

(ii) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which it appears;

(iii) did not have any direct or indirect interests in any assets which since 31 December 2014 (being the date of which the latest published audited consolidated financial statements of the Company were made of) had been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, any member of the Group.

9. MISCELLANEOUS

(a) The registered office and the office address of the Company is at No.8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC.

(b) The share registrar and transfer office of the Company in Hong Kong is Hong Kong Registrars Limited at Rooms 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(c) The company secretary of the Company is Mr. Hu Shunliang.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office address of the Company at No.8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC and at Room 502, China Building, No.29 Queen's Road Central, Hong Kong during normal business hours on any business day from the date of this circular until 18 November 2015:

(a) the New Sale and Purchase of Ore Agreement;

(b) the New Energy Saving and Environmental Protection Agreement;

(c) the New CCT Agreement;

(d) the letter from the Independent Board Committee dated 19 October 2015;

(e) the letter from the Independent Financial Adviser dated 19 October 2015; and

(f) the written consent from Independent Financial Adviser referred to in paragraph 8 headed "Expert and Consent" above.

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)

NOTICE OF 2015 THIRD EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2015 third extraordinary general meeting (the "EGM") of Maanshan Iron & Steel Company Limited (the "Company") will be held at the Magang Office Building, No.8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC at 1:30 p.m. on Wednesday, 18 November 2015.

This EGM will deal with the following matters through voting by way of ordinary resolutions:

1. To consider and approve the transactions contemplated under the Sale and Purchase of Ore Agreement for 2016 to 2018, entered into between the Company and Magang (Group) Holding Company Limited and the proposed annual caps.

2. To consider and approve the transactions contemplated under the Energy Saving and Environmental Protection Agreement for 2016 to 2018, entered into between the Company and Anhui Xinchuang Energy Saving and Environmental Protection Technology Company Limited and the proposed annual caps.

3. To consider and approve the transactions contemplated under the Continuing Connected Transactions Agreement for 2016 to 2018, entered into between the Company and Magang (Group) Holding Company Limited and the proposed annual caps.

By Order of the Board
Hu Shunliang
Company Secretary

29 September 2015
Maanshan City, Anhui Province, the PRC

As at the date of this notice, the directors of the Company include:

Executive Directors: Ding Yi, Qian Haifan
Non-executive Directors: Su Shihuai, Ren Tianbao
Independent Non-executive Directors: Qin Tongzhou, Yang Yada, Liu Fangduan

Notes:

I. Persons entitled to attend the EGM

Persons who hold H shares of the Company and are registered as holders of H shares on the register of members maintained by The Hong Kong Registrars Limited after the market close of Friday, 16 October 2015 shall have the right to attend the EGM after completing the registration procedures for attending the meeting. (Holders of A shares will be notified separately.)

II. Registration procedures for attending the EGM

1. Holders of H shares shall deliver their written replies for attending the EGM, copies of transfers, share certificates or copies of receipts of share transfer and copies of their own identity cards to the Company by no later than Wednesday, 28 October 2015. If proxies are appointed by shareholders to attend the EGM, they shall, in addition to the aforementioned documents, deliver the proxy forms and copies of their own identity cards to the Company.

2. Shareholders can deliver the necessary documents for registration to the Company in one of the following ways: in person, by post or by facsimile. Upon receipt of such documents, the Company will complete the registration procedures for attending the EGM.

III. Appointing Proxies

1. Shareholders who have the right to attend and vote at the EGM are entitled to appoint in writing one or more proxies (whether a shareholder or not) to attend the EGM and vote on their behalves.

2. The instrument of appointing a proxy must be in writing signed by the appointer or his attorney duly authorised in writing. If that instrument is signed by an attorney of the appointer, the power of attorney authorising that attorney to sign or other documents of authorisation must be notarially certified. The notarially certified power of attorney or other documents of authorisation and proxy forms must be delivered to the registered office of the Company by not less than 24 hours before the time appointed for the holding of the EGM in order for such documents to be valid.

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

V. The Company's register of members for H shares will be closed from Saturday, 17 October 2015 to Wednesday, 18 November 2015 (both days inclusive), during which period no transfer of H shares will be registered. Holders of H shares who wish to be entitled to attend the EGM must deliver their instruments of transfer together with the relevant share certificates to The Hong Kong Registrars Limited, the Registrar of H shares of the Company, by no later than Friday, 16 October 2015.

The address of the Registrar for the Company's H shares: Rooms 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

Share registration date for holders of A shares will be announced later.

VI.

Company's registered address:	No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC, postal code: 243003
Telephone:	86-555-2888158
Fax:	86-555-2887284
Contact persons:	Ms. He Hongyun and Mr. Xu Yayan