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## **RELATIONSHIP WITH THE PARENT GROUP AND CONNECTED TRANSACTIONS**

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### **OVERVIEW**

We were established as a joint stock limited company on December 1, 2008 in accordance with PRC law. The Parent is one of our promoters. The Parent owned 99% of our issued share capital when we were established.

Pursuant to the Reorganization Agreement, the Parent transferred to us substantially all of its assets, liabilities and interests in relation to its engineering and construction, resources development, equipment manufacturing, property development and other business (including, without limitation, import and export and consulting services). Currently, the Parent Group is primarily engaged in papermaking business which are different from our core businesses.

Our core businesses include engineering and construction, resources development, equipment manufacturing and property development.

### **RETAINED OPERATIONS**

As part of our Reorganization, the Retained Operations were retained by the Parent, which principally include:

- Papermaking — including MCC Meili Paper Industry Co., Ltd and MCC Paper Yinhe Co., Ltd., which do not compete with us;
- MCC Hengtong Cold Rolling Technology Co., Ltd. (“Hengtong”) — Its core business is the production and sale of metallic-calendered coating strip, and non-standard component parts for self use and consigned processing, such as galvanizing strip, Al-Zn silicon coating strip and color coating strip. Our equipment manufacturing business primarily consists of the development and production of metallurgical equipment, steel structures and other metal products. In addition, the scope of business of Hengtong includes the production and sales of metallurgical industrial assembly equipment and machinery equipment, which are similar to our equipment manufacturing business. However, the production and the sales of metallurgical industrial assembly equipment and machinery equipment of Hengtong are on a much smaller scale. Hengtong has a registered capital of RMB1,600,000,000 and unaudited net assets of approximately RMB1,150,555,662 as at December 31, 2008. Its unaudited pre-tax losses for the year ended December 31, 2008 were approximately RMB563,949,183. The total unaudited revenue of Hengtong for the year ended December 31, 2008 was approximately RMB5,000,000,000, of which the unaudited revenue generated from the sale of metallurgical industrial assembly equipments and machinery equipments was approximately RMB11,633,909. With the implementation of the relevant arrangements as set out in the Non-competition Undertaking Letter and the Non-competition Agreement below, we believe that Hengtong does not substantially compete with us. Hengtong has not been injected into us as part of the Reorganization because, amongst other things: a) the Parent’s joint venture partner of Hengtong has not agreed on mutually acceptable terms for the transfer of the Parent’s equity interests in Hengtong to us and b) Hengtong’s assets contain various outstanding title defects and were considered not suitable for injection into us; and
- Beijing Dongxing Metallurgical New Technology Development Company (北京東星冶金新技術開發公司) (“Dongxing”) — Its assets mainly include:
  - (1) enterprises engaging in non-core businesses which, in accordance with the relevant PRC laws and regulations, have been separated from our core businesses. The non-core businesses mainly consist of assets management, property management, hospital operation and school operation;

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- (2) ancillary business units proposed to be closed, deregistered or transferred, including enterprises and assets such as hotels and swimming pools. The ancillary business units mainly consist of enterprises engaging in ancillary construction services and property management; and
- (3) land assets and housing property, including land and housing assets not included into us due to defect in legal ownership.

With the implementation of the relevant arrangements as set out in the Non-competition Undertaking Letter and the Non-competition Agreement below, we believe that the businesses in which the subsidiaries of Dongxing are engaged are in effect incapable of substantially competing with our core businesses. In addition, after separating its core business from its ancillary business, the Parent will no longer have the controlling stake, and some of the ancillary business units will be deregistered or transferred. As such, we are of the view that we are not currently in any substantial competition with Dongxing and its subsidiaries.

Other than the circumstances stated above, there are no other circumstances in which the Parent and its controlled subsidiaries operate in the business which, directly or indirectly, competes with our business.

Our Directors are of the view that the Retained Operations do not materially compete with our core businesses. In addition, the Parent has issued a Non-competition Undertaking Letter to us and has entered into a Non-competition Agreement with us, pursuant to which the Parent has agreed that the Parent Group shall not, directly or indirectly, compete with us and to grant us options and pre-emptive rights to acquire the Retained Operations. With the implementation of the precautionary measures as prescribed in the Non-competition Undertaking Letter and the Non-competition Agreement below, our Directors believe that we will not encounter any material competition from the Parent Group. In connection with our Reorganization, we have entered into a number of agreements and arrangements to regulate the transactions between us and the Parent Group. See “— Continuing Connected Transactions.”

### **NON-COMPETITION UNDERTAKING LETTER**

In relation to certain enterprises in the Retain Operations which conduct businesses in competition with us, the Parent issued a Non-competition Undertaking Letter in favour of us on December 5, 2008, with the following undertakings:

- as long as the Parent still, directly or indirectly, holds the controlling interests in such assets, such enterprises shall no longer develop any business that will or may compete with any of our business;
- the Parent shall, within certain period and by way of the transfer of property rights and disposal of assets, no longer hold such enterprises or controlling interests in such enterprises. To the extent permitted by applicable laws, we shall have the pre-emptive right to be transferred with such property rights or acquire such disposable assets if the conditions offered by us and other parties are the same;
- upon our request in exercising our rights over those enterprises from time to time, we shall adopt methods such as asset custody and acquisition so as to enable us to acquire or to effectively control all or part of such enterprises; and
- the Parent shall fulfill all its relevant obligations and undertakings under the Non-competition Agreement, including, but not limited to, granting us options and pre-emptive rights in respect

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of any new business opportunities during the effective period of the Non-competition Agreement.

The Parent will take all reasonable steps to guarantee the implementation of the above undertakings, including but not limited to passing the relevant internal resolutions, executing the relevant agreements to fulfill the relevant provisions contained in the Non-competition Undertaking Letter and the Non-competition Agreement. The undertakings made by the Parent will be effective from the signing date of the Non-competition Undertaking Letter and will continue to be binding until the termination of the Non-competition Agreement.

### **NON-COMPETITION AGREEMENT**

In order to avoid any potential competition, the Parent entered into a Non-competition Agreement with us on [ • ], 2009. The Parent confirms that neither itself nor its subsidiaries engage or participate in whatever manner in any business that competes directly or indirectly or may compete with our current or any possible future core businesses within and outside the PRC, except for those businesses in the Retained Operations which compete directly or indirectly or may compete with our current or any possible future core businesses within and outside the PRC and all businesses resulting from the new business opportunities referred to below which have not been purchased or taken up by us and have been taken up by the Parent, and undertakes that it will procure any of its subsidiaries not to:

- whether within or outside the PRC and whether on its own or jointly with other parties, be directly or indirectly engaged or participate in whatever manner (including but not limited to investment, merger and acquisition, joint venture, joint equity, cooperation, partnership, contracted or lease operation, purchase of shares of listed companies or equity participation) in any business that directly or indirectly competes or may compete with our core businesses;
- support in whatever manner, whether within or outside the PRC, any party other than us or our subsidiaries to engage in any business that directly or indirectly competes or may compete with our core businesses; and
- get involved in whatever manner (whether directly or indirectly) in any business that directly or indirectly competes or may compete with our core businesses.

Apart from the above undertakings, if the Parent or its subsidiaries become aware of any new business opportunity that competes or may compete directly or indirectly with our core businesses, they will immediately notify us in writing of such opportunity, and will endeavor to procure that we or any of our subsidiaries will be given priority in acquiring such business opportunity on reasonable and fair terms and conditions. Our independent non-executive Directors will decide whether to take up such new business opportunity. In accordance with our relevant internal corporate governance rules, any conflicting Directors will abstain from voting on the resolutions at the meetings of the Board to consider such new business opportunity and not be physically present at the relevant meeting of the Board whilst the Board is considering such new business opportunity. In the event that the Parent or any of its subsidiaries obtains the abovementioned new business opportunity with our consent, and subsequently intends to transfer, sell, lease, license or otherwise assign or give permission for the use of the new business to a third party during the term of the Non-competition Agreement, we shall have the pre-emptive right with respect to such new business. Any decision on whether to exercise the pre-emptive rights will be made by our independent non-executive Directors. When considering whether or not to exercise the pre-emptive rights, our independent non-executive Directors will consider, amongst others, the following factors: the valuation of the relevant business, the performance of the relevant business, the compatibility of the strategy of the relevant business with that of the

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Company, the prevailing market conditions, the available resources of the Company and other options available to the Company to purchase similar businesses from third parties or establish similar businesses.

The Non-competition Agreement shall take effect from the time it is executed by the two parties thereto.

The Company and the Parent have agreed that the Parent will make an annual declaration on compliance with the Non-competition Undertaking Letter and the Non-competition Agreement in our annual report. The Parent further undertakes to provide all information necessary for the annual review by our independent non-executive Directors and the enforcement of the Non-competition Undertaking Letter and the Non-competition Agreement. Our independent non-executive Directors will review, on an annual basis, the information provided by the Parent in respect of the compliance and enforcement of the Non-competition Undertaking Letter and the Non-competition Agreement.

### **INDEPENDENCE FROM THE PARENT GROUP**

Given the following factors, we believe that we will be able to operate independently of the Parent and its associates:

#### **Management Independence**

Four of the nine members of our Board, namely, Mr. Liu Benren (“Mr. Liu”), Mr. Wang Weimin (“Mr. Wang”), Mr. Shen Heting (“Mr. Shen”) and Mr. Guo Wenqing (“Mr. Guo”), also hold offices as directors with the Parent. Mr. Liu does not have any executive functions within, and does not have any involvement in the day-to-day management of, the Parent. Mr. Liu, our chairman and a non-executive director, is principally responsible for formulating our corporate and business strategies and making our major corporate and operational decisions. Mr. Liu is not involved in our day-to-day management. Mr. Wang is involved in our management but is not responsible for our daily operations. Mr. Wang, our executive Director and vice chairman, assists the chairman in the daily management of the operations of the Board and is responsible for our day-to-day strategic decisions and important human resources management decisions. Mr. Wang is also principally responsible for assisting the chairman in formulating our corporate and business strategies and making our major corporate and operational decisions. Pursuant to the Articles of Association, Mr. Wang will exercise the chairman’s power if authorized by the chairman to do so or if the chairman is not able to, or does not, perform his duty. Mr. Wang is also responsible for the day-to-day management of the Parent. Mr. Shen devotes most of his time managing our daily operations, and is not involved in the Parent’s day-to-day management. Mr. Guo is involved in our high level decision-making of important strategic and policy matters but is not involved in our daily operations. Mr. Guo is involved in important strategic decision-making of the Parent and is not involved in its daily management.

Two of the three Supervisors of our Supervisory Committee, Mr. Peng Haiqing and Mr. Shao Jinhui, do not hold any positions within the Parent Group. The chairman of our Supervisory Committee, Mr. Han Changlin (“Mr. Han”), also serves as a director of the Parent and is responsible for its high level decision-making of important strategic and policy matters. Mr. Han is not involved in the day-to-day management of the Parent. Mr. Han performs his duty as our Supervisor in accordance with the Articles of Association and is not involved in our daily management.

None of our current five vice presidents, namely Ms. Huang Dan, Mr. Wang Yongguang, Mr. Li Shiyu, Mr. Zhang Zhaoxiang and Mr. Wang Xiufeng, serves as a director or holds any position in the senior management within the Parent Group. Ms. Huang Dan, Mr. Wang Yongguang, Mr. Li Shiyu, Mr. Zhang Zhaoxiang and Mr. Wang Xiufeng along with Mr. Shen Heting, our executive Director and president, are collectively responsible for our day-to-day operational management on a full time basis.

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Where relevant Directors have to abstain from voting at our Board meetings in respect of matters that may give rise to any potential conflict of interest between us and the Parent Group, we believe that the remaining five independent non-executive Directors have sufficient relevant industry expertise and experience to make decisions for us. Furthermore, while a minimum of three independent non-executive directors are required by the Hong Kong Listing Rules, we have appointed five independent non-executive Directors, representing a majority of our Board which currently has nine members. Therefore, there is a greater counterweight to maintain the balance in our Board and promote the interest of us and our Shareholders as a whole. Based on the above, and taking into account the fact that the connected transactions between us and the Parent Group and the competition issues from the Retained Operations are immaterial, we believe that the Board and our management are sufficiently independent of the Parent Group.

### **Operational Independence**

Pursuant to the Reorganization Agreement, the Parent has transferred to us substantially all of its assets, liabilities and interests relating to its engineering and construction, resources development, equipment manufacturing and property development businesses. The above businesses have complete business systems and independent operations directly catering to the market. We have complete legal person property rights, including operational decision making power and execution power. We are engaged in businesses that are independent of those operated by the Parent and other enterprises controlled by the Parent and have carried out independent accounting in their operation and management. We and our holding subsidiaries have relevant qualifications required for their business operations, independent production and operation premises, and personnel, equipment and ancillary facilities needed for their businesses, and with an independent and complete business system building on such foundation and comprising production, supply and sales systems, we may organize and commence relevant businesses successfully and is capable of conducting independent marketing operations.

In addition, we have set up decision making, operation, management and regulatory bodies such as the general meeting, the Board of Directors, the Supervisory Committee and the management and specified clearly the terms of reference of all these bodies in accordance with the requirements of the PRC Company Law, the Articles of Association and other relevant laws and regulations and regulatory documents, so as to establish a regulated and effective legal person governance structure. We have our own organizational structure comprised of independent departments that suit its business features and cater to its business development needs. All of our departments have clear division of labour and specific areas of responsibility, and cooperate with one another to ensure our regulated operation. Therefore, we are completely separated from and operate independently of the Parent Group. We have autonomy in administrative setup and do not mix with the operation of the Parent Group.

Based on the above reasons, the Directors are of the view that we are not dependent on the Parent Group in our operations.

### **Financial Independence**

As at the date of this document, we do not have any outstanding loans granted by the Parent or its associates to us and all guarantees provided to us by the Parent and its associates have been released. We have settled all amounts due to the Parent Group in non-trade nature. We have sufficient capital and banking facilities to operate our business independently, and have adequate internal resources and a strong credit profile to support its daily operations. We have independent access to third party financing and do not need to depend on the Parent Group. See “Financial Information — Assets and Liabilities — Working Capital.”

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We have established an independent finance department with a team of independent financial staff, as well as a sound and independent audit system, a standardized financial and accounting system and a complete financial management system. We can make financial decisions independently and the Parent Group does not intervene with our use of funds. We have opened basic accounts with banks independently and the Parent Group does not share any bank account with us. We have made independent tax registrations and paid tax independently pursuant to laws. There has not been any tax paid by us together with the Parent and other enterprises under its control on a combined basis.

### CONTINUING CONNECTED TRANSACTIONS

#### Summary of Continuing Connected Transactions

Set out below is a summary of the continuing connected transactions between us and our connected persons:

Type of Transaction	Applicable Hong Kong Listing Rule	Waiver Sought	Historical Figures (RMB million)				Cap (RMB million)			
			Financial Year Ended December 31,		Six Months Ended June 30,	Financial Year Ending December 31,				
			2006	2007	2008	2009	2009	2010	2011	
<i>Continuing Connected Transactions with Baosteel</i>										
1	Procurement of integrated products by us from Baosteel	14A.34	Announcement requirement	1,003	1,011	257	77	1,200	1,200	1,200
2	Supply of services by us to Baosteel	14A.35	Announcement and independent shareholders approval requirements	5,938	7,500	5,567	3,838	11,100	13,200	15,000
<i>Continuing Connected Transactions with Wusteel</i>										
3	Procurement of integrated products by us from Wusteel	14A.34	Announcement requirement	404	6	6	8	1,000	1,000	1,000
4	Supply of services by us to Wusteel	14A.34 (Note 1) 14A.35 (Note 2)	Announcement requirement (Note 1) Announcement and independent shareholders approval requirements (Note 2)	1,289	1,749	1,246	1,110	4,000	10,000	10,000
<i>Continuing Connected Transactions with Ansteel</i>										
5	Procurement of integrated products by us from Ansteel	14A.34	Announcement requirement	15	5	172	0	500	500	500
6	Supply of services by us to Ansteel	14A.34	Announcement requirement	1,527	3,125	2,806	585	2,800	3,500	4,000
<i>Continuing Connected Transactions with Pansteel</i>										
7	Procurement of integrated products by us from Pansteel	14A.34	Announcement requirement	9	1	171	17	500	500	500
8	Supply of services by us to Pansteel	14A.34 (Note 1) 14A.35 (Note 2)	Announcement requirement (Note 1) Announcement and independent shareholders approval requirements (Note 2)	1,163	3,010	1,746	742	3,000	8,000	9,000
<i>Continuing Connected Transactions with Tangsteel</i>										
9	Supply of services by us to Tangsteel	14A.34	Announcement requirement	1,333	3,317	3,106	1,453	3,500	4,100	4,600
<i>Continuing Connected Transactions with the Parent Group</i>										
10	Leasing of land use rights from the Parent Group to us (note 3)	14A.33(3)	—	0	0	2	0	N/A	N/A	N/A
11	Leasing of properties from the Parent Group to (note 3)	14A.33(3)	—	0	0	15	10	N/A	N/A	N/A
12(a)	Supply of raw materials, products and services by the Parent Group to us (note 3)	14A.33(3)	—	15	19	33	21	N/A	N/A	N/A
12(b)	Supply of raw materials, products and services by us to the Parent Group	14A.34	Announcement requirement	18	36	346	204	550	650	700



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Type of Transaction	Applicable Hong Kong Listing Rule	Waiver Sought	Historical Figures (RMB million)				Cap (RMB million)			
			Financial Year Ended December 31,		Six Months Ended June 30,		Financial Year Ending December 31,			
			2006	2007	2008	2009	2009	2010	2011	
13	Licensing of patents by us to the Parent Group ( <i>note 3</i> )	14A.33(3)	—	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<i>Continuing Connected Transactions with Nanjing Hexi</i>										
14	Economically affordable housing project undertaken by Zhongye Zhengxing	14A.34	Announcement requirement	0	0	0	457	888	944	1,016

*Notes:*

- (1) For the year ending December 31, 2009.
- (2) For the years ending December 31, 2010 and 2011, respectively.
- (3) Each of the percentage ratios (other than the profits ratio) for the three years ending December 31, 2011 is estimated to be less than 0.1%. Therefore, under Rule 14A.33(3) of the Hong Kong Listing Rules, the transaction is therefore exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

### Relevant Connected Persons

Under the Hong Kong Listing Rules, the following entities, amongst others, will be regarded as our connected persons:

#### *Promoters*

Each of the Parent and Baosteel is our promoter and therefore each of the Parent and Baosteel, together with its associates, constitutes our connected person under the Hong Kong Listing Rules.

#### *The Parent Group*

The Parent directly holds 99% of our equity interest. It is our controlling shareholder and our promoter. Each of the Parent and its associates therefore constitutes our connected person under the Hong Kong Listing Rules.

#### *Wusteel*

Wusteel has an indirect 10% equity interest in Anshan Huatai CDQ Engineering & Technology Co., Ltd. (鞍山華泰幹熄焦工程技術有限公司) (“Anshan Huatai”), our indirect non wholly-owned subsidiary. It is a substantial shareholder of our subsidiary. Each of Wusteel and its associates therefore constitutes our connected person under the Hong Kong Listing Rules. The subsidiary of Wusteel made a capital injection of RMB1.6 million to Anshan Huatai in 1999 and subsequently reduced its capital contribution to RMB0.8 million in July 2005.

#### *Ansteel*

Ansteel has a 10.67% and 10% equity interests in ACRE Coking & Refractory Engineering Consulting Corporation, MCC (“ACRE”) and Northern Engineering & Technology Corporation, MCC (“Northern”) respectively, both of which are our non wholly-owned subsidiaries. Ansteel is therefore a substantial shareholder of two of our subsidiaries, and it and its associates therefore constitute our connected persons under the Hong Kong Listing Rules. Ansteel made a capital injection of RMB6.4 million to ACRE in October 2004 and RMB5.1 million to Northern in February 2005, respectively.

#### *Pansteel*

Pansteel has a 13.34% equity interest in CISDI Engineering Co., Ltd. (“CISDI”), our non wholly-owned subsidiary. It is a substantial shareholder of our subsidiary. Each of Pansteel and its associates therefore constitutes

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our connected person under the Hong Kong Listing Rules. Pansteel made a capital injection of RMB17 million to CISDI in February 2003 and subsequently increased its capital contribution to RMB38.25 million in July 2007.

### ***Tangsteel***

Tangsteel has a 10% equity interest in MCC Jingtang Construction Corporation Limited (“Jingtang”), our non wholly-owned subsidiary. It is a substantial shareholder of our subsidiary. Each of Tangsteel and its associates therefore constitutes our connected person under the Hong Kong Listing Rules. Tangsteel made a capital injection of RMB20 million to Jingtang in April 2007.

### ***Nanjing Hexi***

Nanjing Hexi New District State-owned Asset Management Holding (Group) Co., Ltd. (南京市河西新城區國有資產經營控股(集團)有限公司) (“Nanjing Hexi”) has a 40% equity interest in Nanjing Zhongye Zhengxing Real Estate Co., Ltd. (南京中冶正興置業有限責任公司) (“Zhongye Zhengxing”) and a 28% equity interest in Nanjing Zhongye Hexi Real Estate Co., Ltd. (南京中冶和熙置業有限責任公司), both of which are our subsidiaries. Nanjing Hexi is therefore a substantial shareholder of two of our subsidiaries, and it and its associates therefore constitute our connected persons under the Hong Kong Listing Rules.

Each of the steel companies referred to above is a connected person only by virtue of being a substantial shareholder of our single (or in the case of Ansteel, two) non wholly-owned subsidiary, which is a typical structure for companies in the metallurgical construction industry in China. In relation to the above four steel companies, namely Wusteel, Ansteel, Pansteel and Tangsteel, we believe that in the context of our issued share capital of approximately RMB13 billion as of June 30, 2009, the capital contribution of the above four steel companies in our relevant subsidiaries (being 0.006%, 0.05% and 0.04% (in the case of Ansteel), 0.3% and 0.15% respectively) is immaterial.

We have established internal policies and rules to review, approve and monitor our transactions with connected persons.

## **Arrangements Relating to the Reorganization**

### ***Reorganization Agreement***

To effect the Reorganization, we entered into the Reorganization Agreement with the Parent on December 5, 2008. Pursuant to the Reorganization Agreement, the Reorganization took effect from December 1, 2008 and the Parent agreed to indemnify us against, amongst other things:

- (i) claims assumed by the Parent pursuant to the Reorganization Agreement, which arose prior to our establishment and are related to the tax liabilities arising from the assets and/or interests transferred by the Parent to us;
- (ii) taxes incurring from the assets, interests and liabilities and the related businesses retained by the Parent;
- (iii) claims incurred in connection with the assets transferred to us which arose on or before December 31, 2007, unless estimates of such expenditure have been disclosed and provision has been made in the financial statement;



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- (iv) claims arose from the negligence and defaults of the Parent Group in performing the duties under any contracts on behalf of and in our interest pursuant to the Reorganization Agreement, on and after the Effective Date of the Reorganization onwards; and
- (v) claims suffered on incurred by the Parent for breach of any provisions of the Reorganization Agreement.

In respect of the transactions described in the Reorganization Agreement, except for the mutual indemnification provisions given by the Parent and us to each other and the warranties given by the Parent in the Reorganization Agreement, the Parent’s and our rights and obligations under the Reorganization Agreement have been substantially performed.

Apart from being disclosed herein, the Reorganization Agreement is not subject to any reporting, announcement or independent shareholders’ approval requirements relating to connected transactions under the Hong Kong Listing Rules. In respect of the indemnities under the Reorganization Agreement, any payment which in the future might be made by either party in the performance of its obligations would not constitute a new transaction. Any such payment would merely be performance of a transaction which was previously entered into.

### ***Non-Competition Undertaking Letter Relating to the Parent’s Retained Operations***

In connection with the Reorganization, we entered into the Non-competition Undertaking Letter with the Parent on December 5, 2008, pursuant to which the Parent has undertaken that all the Retained Operations (including certain ancillary assets, proposed deregistration companies and other controlled enterprises) retained by the Parent which conduct businesses in competition with us will not be further developed and the Parent will dispose all the assets which are, directly or indirectly, in competition with our business so that it will no longer hold these assets or have controlling interests in these assets. For more details of the Non-competition Undertaking Letter, see “— Non-Competition Undertaking Letter.”

### ***Non-Competition Agreement Relating to the Parent Group’s Future Business***

In connection with the Reorganization, we entered into the Non-competition Agreement with the Parent on [ • ], 2009, pursuant to which the Parent has undertaken to us that, for so long as the Non-competition Agreement remains effective, it will not, and will procure its subsidiaries not to, directly or indirectly and in whatever manner, engage, participate or provide support to, any business that directly or indirectly competes or may compete with our core business. The Parent has also granted us an option and pre-emptive rights to acquire certain new business that competes or may compete directly or indirectly with our core business. For further details of the Non-competition Agreement, see “— Non-Competition Agreement.”

Both the Non-competition Undertaking Letter and the Non-competition Agreement were entered into for our benefits. Furthermore, the arrangements do not involve any monetary consideration. Accordingly, these arrangements qualify under Rule 14A.33(3) of the Hong Kong Listing Rules as *de minimis* transactions and are exempt from reporting, announcement and independent shareholders’ approval requirements. Should we elect to exercise the option or pre-emptive rights granted to us under such arrangements to acquire any interests from the Parent Group, we will comply with the relevant requirements of the Hong Kong Listing Rules in relation to notifiable and/or connected transactions.

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### Continuing Connected Transactions

#### *Continuing Connected Transactions with Baosteel*

##### *1. Procurement of Integrated Products*

###### *Description of Existing and Future Transactions and Principal Terms*

In the ordinary and usual course of business, we and/or our subsidiaries have been and will be purchasing integrated products from Baosteel on the basis of actual needs primarily for our engineering and construction business. The integrated products mainly include steel (“Baosteel Integrated Products”).

The procurement of the Baosteel Integrated Products is and will be made pursuant to our internal procurement procedure for engineering and construction projects. Our subsidiaries have each set up a construction procurement department to monitor the process of procurement. Our subsidiaries have also each set up a procurement team to implement the procurement procedure.

We and/or our subsidiaries will enter into written agreements with Baosteel and/or its associates in respect of each individual connected transaction between them in relation to the procurement of the Baosteel Integrated Products.

We believe that it is in our interests to procure the Baosteel Integrated Products from Baosteel, one of the leading steel products manufacturers in the PRC, on terms acceptable to us for our engineering and construction projects and confirm that the transactions contemplated under the above written agreements will be conducted on normal commercial terms after arm’s length negotiation.

###### *Price Determination*

The fees payable in respect of the Baosteel Integrated Products has been and will be determined based on market price. Such market price is defined by reference to the price at which the same or similar type of products are provided by independent third parties in the ordinary course of business.

###### *Historical Figures*

For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our expenditure for the Baosteel Integrated Products was RMB1,003 million, RMB1,011 million, RMB257 million and RMB77 million, respectively. The significant decrease of our expenditure for the Baosteel Integrated Products for 2008 is due to an economic downturn in the domestic iron and steel industry and the slowdown in the requirement for the Baosteel Integrated Products.

###### *Annual Caps*

For the years ending December 31, 2009, 2010 and 2011, the total forecast revenue amount to be paid by us to Baosteel for the Baosteel Integrated Products is RMB1,200 million, RMB1,200 million and RMB1,200 million, respectively. The forecasts are based on our consideration of the following factors: (i) historical transaction values; (ii) the current requirement and requirement for our ongoing projects conducted in our engineering and construction business and (iii) our future need for the Baosteel Integrated Products.

##### *2. Supply of Services*

###### *Description of Existing and Future Transactions and Principal Terms*

In the ordinary and usual course of business, we and/or our subsidiaries have been and will be providing certain engineering and construction services to Baosteel from time to time. The engineering and construction

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services include research, planning, surveying, consulting, design, procurement, construction, installation, maintenance, supervision and certain technical services (“Baosteel E&C Services”).

The Baosteel E&C Services for particular projects are and will be undertaken by our relevant subsidiaries under existing and pursuant to an engineering and construction contract. The contracts for the provision of the Baosteel E&C Services are mainly awarded through public tendering process required and implemented under PRC laws, and in any event on market terms. For example, Baosteel will, according to the relevant laws and regulations in the PRC, issue a call for tender in relation to its Baosteel E&C Services. Potential bidders will need to go through a pre-qualification process, estimate the cost of the project and deliver bidding documents. For more details of the public tendering process, see “Business — Engineering and Construction — Business Process.”

We and/or our subsidiaries will enter into written agreements with Baosteel and/or its associates in respect of each individual connected transaction between them in relation to the provision of the Baosteel E&C Services on winning a project contract, or on normal commercial terms after arm’s length negotiation, where no tendering process is required to be adopted.

We believe that it is in our interests to undertake the transactions in relation to the provision of the Baosteel E&C Services based on the terms disclosed herein as they form part of our core business and will be conducted on normal commercial terms after arm’s length negotiations.

### *Price Determination*

The fees payable in respect of the Baosteel E&C Services are and will be determined through the tender and bidding process if the selection of the relevant service providers has to be determined through a tender and bidding process. Where service fees are not required to be determined by a tender and bidding process, the service fees have been and will be determined with reference to the prevailing market prices of labour, materials, equipment and other things and taking into account the complexity of projects contracted for as well.

The terms of the transactions for the Baosteel E&C Services generally involve we (or our subsidiaries) agreeing to a total price cap or a unit price cap for a project. Some contracts contain price adjustment clauses to cover increases in the costs of raw materials, changes in design or work scope, or other specific factors that would cause an interruption of construction and an increase in the cost, such as lack of water or electricity.

### *Historical Figures*

For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our revenue from the provision of the Baosteel E&C Services was RMB5,938 million, RMB7,500 million, RMB5,567 million and RMB3,838 million, respectively.

### *Annual Caps*

For the years ending December 31, 2009, 2010 and 2011, the total forecast revenue amount to be paid by Baosteel to us for the Baosteel E&C Services is RMB11,100 million, RMB13,200 million and RMB15,000 million, respectively. We have arrived at the annual caps disclosed above based on expected normal growth of the industry and the business of the relevant iron and steel company and their impact on our business. In particular, we have taken into account:

- a. existing Baosteel E&C Services contracts already entered into by us and those that we believe that we have reasonable prospects to be awarded with in the future;
- b. historical transaction amounts and proportional percentage of Baosteel E&C Services transactions compared to our historical total revenue;

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## **RELATIONSHIP WITH THE PARENT GROUP AND CONNECTED TRANSACTIONS**

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- c. the cyclical nature of the revenue amount received by us in the EPC industry;
- d. estimated growth in our revenue based on our reasonable expected production rate;
- e. decrease in the historical transaction amount during the year ended December 31, 2008 as compared to the previous year, which was primarily due to the global economic downturn that led to the decline of the domestic iron and steel industry and specifically the slowdown or suspension of certain existing Baosteel E&C Services contracts. Most of these suspended Baosteel E&C Services contracts were or are expected to be resumed in 2009 or later. We therefore expect the transaction amounts for the three years ending December 31, 2011 to resume to normal levels; and
- f. the recent restructuring and consolidation of the domestic iron and steel industry, which we currently expect will lead to a significant growth of the domestic iron and steel industry and in particular Baosteel’s iron and steel business. As a result, we currently expect the demand for Baosteel E&C Services from us would increase for the three years ending December 31, 2011.

### ***Continuing Connected Transactions with Wusteel***

#### ***3. Procurement of Integrated Products***

##### ***Description of Existing and Future Transactions and Principal Terms***

In the ordinary and usual course of business, we and/or our subsidiaries have been and will be purchasing integrated products from Wusteel on the basis of actual needs primarily for our engineering and construction business. The integrated products mainly include steel (“Wusteel Integrated Products”).

The procurement of the Wusteel Integrated Products is and will be made pursuant to our internal procurement procedure for engineering and construction projects. Our subsidiaries have each set up a construction procurement department to monitor the process of procurement. Our subsidiaries have also each set up a procurement team to implement the procurement procedure.

We and/or our subsidiaries will enter into written agreements with Wusteel and/or its associates in respect of each individual connected transaction between them in relation to the procurement of the Wusteel Integrated Products.

We believe that it is in our interests to procure the Wusteel Integrated Products from Wusteel, one of the leading steel products manufacturers in the PRC, on terms acceptable to us for our engineering and construction projects and confirm that the transactions contemplated under the above written agreements will be conducted on normal commercial terms after arm’s length negotiation.

##### ***Price Determination***

The fees payable in respect of the Wusteel Integrated Products has been and will be determined based on market price. Such market price is defined by reference to the price at which the same or similar type of products are provided by independent third parties in the ordinary course of business.

##### ***Historical Figures***

For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our expenditure for the Wusteel Integrated Products was RMB404 million, RMB6 million, RMB6 million and RMB8 million, respectively. The significant decrease of our expenditure for the Wusteel Integrated Products for 2007 and 2008 is due to the completion of certain major E&C service projects with Wusteel in 2006 and subsequent decrease of the requirement for the Wusteel Integrated Products in 2007 and 2008.

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## **RELATIONSHIP WITH THE PARENT GROUP AND CONNECTED TRANSACTIONS**

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### *Annual Caps*

For the years ending December 31, 2009, 2010 and 2011, the total forecast revenue amount to be paid by us to Wusteel for the Wusteel Integrated Products is RMB1,000 million, RMB1,000 million and RMB1,000 million, respectively. The forecasts are based on our consideration of the following factors: (i) historical transaction values; (ii) the current requirement and requirement for our ongoing projects conducted in our engineering and construction business and (iii) our future need for the Wusteel Integrated Products.

### *4. Supply of Services*

#### *Description of Existing and Future Transactions and Principal Terms*

In the ordinary and usual course of business, we and/or our subsidiaries have been and will be providing certain engineering and construction services to Wusteel from time to time. The engineering and construction services include research, planning, surveying, consulting, design, procurement, construction, installation, maintenance, supervision and certain technical services (“Wusteel E&C Services”).

The Wusteel E&C Services for particular projects are and will be undertaken by our relevant subsidiaries under existing and pursuant to an engineering and construction contract. The contracts for the provision of the Wusteel E&C Services are mainly awarded through public tendering process required and implemented under PRC laws, and in any event on market terms. For example, Wusteel will, according to the relevant laws and regulations in the PRC, issue a call for tender in relation to its Wusteel E&C Services. Potential bidders will need to go through a pre-qualification process, estimate the cost of the project and deliver bidding documents. For more details of the public tendering process, see “Business — Engineering and Construction — Business Process.”

We and/or our subsidiaries will enter into written agreements with Wusteel and/or its associates in respect of each individual connected transaction between them in relation to the provision of the Wusteel E&C Services on winning a project contract, or on normal commercial terms after arm’s length negotiation, where no tendering process is required to be adopted.

We believe that it is in our interests to undertake the transactions in relation to the provision of the Wusteel E&C Services based on the terms disclosed herein as they form part of our core business and will be conducted on normal commercial terms after arm’s length negotiations.

#### *Price Determination*

The fees payable in respect of the Wusteel E&C Services are and will be determined through the tender and bidding process if the selection of the relevant service providers has to be determined through a tender and bidding process. Where service fees are not required to be determined by a tender and bidding process, the service fees have been and will be determined with reference to the prevailing market prices of labour, materials, equipment and other things and taking into account the complexity of projects contracted for as well.

The terms of the transactions for the Wusteel E&C Services generally involve we (or our subsidiaries) agreeing to a total price cap or a unit price cap for a project. Some contracts contain price adjustment clauses to cover increases in the costs of raw materials, changes in design or work scope, or other specific factors that would cause an interruption of construction and an increase in the cost, such as lack of water or electricity.

#### *Historical Figures*

For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our revenue from the Wusteel E&C Services provided to Wusteel was RMB1,289 million, RMB1,749 million, RMB1,246 million and RMB1,110 million, respectively. The decrease in our revenue from the Wusteel E&C

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Services provided to Wusteel for 2008 is due to an economic downturn in the domestic iron and steel industry and the slowdown in the specific Wusteel E&C Services projects.

### *Annual Caps*

For the years ending December 31, 2009, 2010 and 2011, the total forecast revenue amount to be paid by Wusteel to us for the Wusteel E&C Services is RMB4,000 million, RMB10,000 million and RMB10,000 million, respectively. In arriving at the annual caps disclosed above for the three years ending December 31, 2009, 2010 and 2011, respectively, we have taken into account the following two main factors:

- 1) expected normal growth of the industry and the business of the relevant iron and steel company and their impact on our business:

For the years ending December 31, 2009, 2010 and 2011, we estimate up to the total forecast revenue amount RMB2,400 million, RMB3,400 million and RMB4,500 million, respectively, to be paid by Wusteel to us for future Wusteel E&C Services. These estimated amounts were arrived at after having considered the following factors/considerations:

- a. existing Wusteel E&C Services contracts already entered into by us and those that we believe that we have reasonable prospects to be awarded with in the future;
  - b. historical transaction amounts and proportional percentage of Wusteel E&C Services transactions compared to our historical total revenue;
  - c. the cyclical nature of the revenue amount received by us in the EPC industry;
  - d. estimated growth in our revenue based on our reasonable expected production rate;
  - e. decrease in the historical transaction amount during the year ended December 31, 2008 as compared to the previous year, which was primarily due to the global economic downturn that led to the decline of the domestic iron and steel industry and specifically the slowdown or suspension of certain existing Wusteel E&C Services contracts. Most of these suspended Wusteel E&C Services contracts were or are expected to be resumed in 2009 or later. We therefore expect the transaction amounts for the three years ending December 31, 2011 to resume to normal levels;
  - f. the recent restructuring and consolidation of the domestic iron and steel industry, which we currently expect will lead to a significant growth of the domestic iron and steel industry and in particular Wusteel's iron and steel business. As a result, we currently expect the demand for Wusteel E&C Services from us would increase for the three years ending December 31, 2011; and
- 2) the impact of a particular new sizeable project of Wusteel:

For the years ending December 31, 2009, 2010 and 2011, we estimate up to the total forecast revenue amount RMB1,600 million, RMB6,600 million and RMB5,500 million, respectively to be paid by Wusteel to us from future Wusteel E&C Services derived from a new large-scale iron and steel base Wusteel E&C Services project ("New Wusteel Project") which is expected to commence its Phase I construction in 2009. These amounts were arrived at having considered the following factors/considerations:

- a. the reported estimated total investment amount of approximately RMB68,600 million for the New Wusteel Project;
- b. that certain of our subsidiaries have already been awarded with relevant Wusteel E&C Services contracts relating to the New Wusteel Project;



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- c. our current estimated construction progress and overall development plan of the New Wusteel Project; and
- d. owing to the significance and scale of the New Wusteel Project and our strong capabilities in design and construction among metallurgical engineering and construction contractors in China, we believe that we have reasonable prospects to be awarded with more Wusteel E&C Services contracts under the New Wusteel Project by Wusteel.

### ***Continuing Connected Transactions with Ansteel***

#### ***5. Procurement of Integrated Products***

##### ***Description of Existing and Future Transactions and Principal Terms***

In the ordinary and usual course of business, we and/or our subsidiaries have been and will be purchasing integrated products from Ansteel on the basis of actual needs primarily for our engineering and construction business. The integrated products mainly include steel (“Ansteel Integrated Products”).

The procurement of the Ansteel Integrated Products is and will be made pursuant to our internal procurement procedure for engineering and construction projects. Our subsidiaries have each set up a construction procurement department to monitor the process of procurement. Our subsidiaries have also each set up a procurement team to implement the procurement procedure.

We and/or our subsidiaries will enter into written agreements with Ansteel and/or its associates in respect of each individual connected transaction between them in relation to the procurement of the Ansteel Integrated Products.

We believe that it is in our interests to procure the Ansteel Integrated Products from Ansteel, one of the leading steel products manufacturers in the PRC, on terms acceptable to us for our engineering and construction projects and confirm that the transactions contemplated under the above written agreements will be conducted on normal commercial terms after arm’s length negotiation.

##### ***Price Determination***

The fees payable in respect of the Ansteel Integrated Products has been and will be determined based on market price. Such market price is defined by reference to the price at which the same or similar type of products are provided by independent third parties in the ordinary course of business.

##### ***Historical Figures***

For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our expenditure for the Ansteel Integrated Products was RMB15 million, RMB5 million, RMB172 million and RMB0, respectively. The significant increase of our expenditure for the Ansteel Integrated Products for 2008 is due to an increase of the requirement for the Ansteel Integrated Products for a major E&C service project with Ansteel in 2008.

##### ***Annual Caps***

For the years ending December 31, 2009, 2010 and 2011, the total forecast revenue amount to be paid by us to Ansteel for the Ansteel Integrated Products is RMB500 million, RMB500 million and RMB500 million, respectively. The forecasts are based on our consideration of the following factors: (i) historical transaction values; (ii) the current requirement and requirement for our ongoing projects conducted in our engineering and construction business and (iii) our future need for the Ansteel Integrated Products.

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## **RELATIONSHIP WITH THE PARENT GROUP AND CONNECTED TRANSACTIONS**

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### *6. Supply of Services*

#### *Description of Existing and Future Transactions and Principal Terms*

In the ordinary and usual course of business, we and/or our subsidiaries have been and will be providing certain engineering and construction services to Ansteel from time to time. The engineering and construction services include research, planning, surveying, consulting, design, procurement, construction, installation, maintenance, supervision and certain technical services (“Ansteel E&C Services”).

The Ansteel E&C Services for particular projects are and will be undertaken by our relevant subsidiaries under existing and pursuant to an engineering and construction contract. The contracts for the provision of the Ansteel E&C Services are mainly awarded through public tendering process required and implemented under PRC laws, and in any event on market terms. For example, Ansteel will, according to the relevant laws and regulations in the PRC, issue a call for tender in relation to its Ansteel E&C Services. Potential bidders will need to go through a pre-qualification process, estimate the cost of the project and deliver bidding documents. For more details of the public tendering process, see “Business — Engineering and Construction — Business Process.”

We and/or our subsidiaries will enter into written agreements with Ansteel and/or its associates in respect of each individual connected transaction between them in relation to the provision of the Ansteel E&C Services on winning a project contract, or on normal commercial terms after arm’s length negotiation, where no tendering process is required to be adopted.

We believe that it is in our interests to undertake the transactions in relation to the provision of the Ansteel E&C Services based on the terms disclosed herein as they form part of our core business and will be conducted on normal commercial terms after arm’s length negotiations.

#### *Price Determination*

The fees payable in respect of the Ansteel E&C Services are and will be determined through the bidding process if the selection of the relevant service providers has to be determined through a tender and bidding process. Where service fees are not required to be determined by a tender and bidding process, the service fees have been and will be determined with reference to the prevailing market prices of labour, materials, equipment and other things and taking into account the complexity of projects contracted for as well.

The terms of the transactions for the Ansteel E&C Services generally involve we (or our subsidiaries) agreeing to a total price cap or a unit price cap for a project. Some contracts contain price adjustment clauses to cover increases in the costs of raw materials, changes in design or work scope, or other specific factors that would cause an interruption of construction and an increase in the cost, such as lack of water or electricity.

#### *Historical Figures*

For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our revenue from the provision of the Ansteel E&C Services was RMB1,527 million, RMB3,125 million, RMB2,806 million and RMB585 million, respectively.

#### *Annual Caps*

For the years ending December 31, 2009, 2010 and 2011, the total forecast revenue amount to be paid by Ansteel to us for the Ansteel E&C Services is RMB2,800 million, RMB3,500 million and RMB4,000 million, respectively. The forecasts are based on our consideration of the following factors: (i) the historical transaction volume; (ii) payments to be received under the existing Ansteel E&C Services contracts; (iii) the increasing production capacity of Ansteel; and (iv) foreseeable new Ansteel E&C Services projects that we may be awarded by

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Ansteel. In addition, China’s iron and steel industry is in a period of consolidation and reorganization. Ansteel’s potential acquisition of other steel companies in China may result in more potential contracts to be awarded to us and/or our subsidiaries.

### *Continuing Connected Transactions with Pansteel*

#### *7. Procurement of Integrated Products*

##### *Description of Existing and Future Transactions and Principal Terms*

In the ordinary and usual course of business, we and/or our subsidiaries have been and will be purchasing integrated products from Pansteel on the basis of actual needs primarily for our engineering and construction business. The integrated products mainly include steel (“Pansteel Integrated Products”).

The procurement of the Pansteel Integrated Products is and will be made pursuant to our internal procurement procedure for construction and engineering projects. Our subsidiaries have each set up a construction procurement department to monitor the process of procurement. Our subsidiaries have also each set up a procurement team to implement the procurement procedure.

We and/or our subsidiaries will enter into written agreements with Pansteel and/or its associates in respect of each individual connected transaction between them in relation to the procurement of the Pansteel Integrated Products.

We believe that it is in our interests to procure the Pansteel Integrated Products from Pansteel, one of the leading steel products manufacturers in the PRC, on terms acceptable to us for our engineering and construction projects and confirm that the transactions contemplated under the above written agreements will be conducted on normal commercial terms after arm’s length negotiation.

##### *Price Determination*

The fees payable in respect of the Pansteel Integrated Products has been and will be determined based on market price. Such market price is defined by reference to the price at which the same or similar type of products are provided by independent third parties in the ordinary course of business.

##### *Historical Figures*

For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our expenditure for the Pansteel Integrated Products was RMB9 million, RMB1 million, RMB171 million and RMB17 million, respectively. The significant increase of our expenditure for the Pansteel Integrated Products for 2008 is due to an increase of the requirement for the Pansteel Integrated Products for a major E&C service project with Pansteel in 2008.

##### *Annual Caps*

For the years ending December 31, 2009, 2010 and 2011, the total forecast revenue amount to be paid by us to Pansteel for the Pansteel Integrated Products is RMB500 million, RMB500 million and RMB500 million, respectively. The forecasts are based on our consideration of the following factors: (i) historical transaction values; (ii) the current requirement and requirement for our ongoing projects conducted in our engineering and construction business and (iii) our future need for the Pansteel Integrated Products.

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## **RELATIONSHIP WITH THE PARENT GROUP AND CONNECTED TRANSACTIONS**

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### *8. Supply of Services*

#### *Description of Existing and Future Transactions and Principal Terms*

In the ordinary and usual course of business, we and/or our subsidiaries have been and will be providing certain engineering and construction services to Pansteel from time to time. The engineering and construction services include research, planning, surveying, consulting, design, procurement, construction, installation, maintenance, supervision and certain technical services (“Pansteel E&C Services”).

The Pansteel E&C Services for particular projects are and will be undertaken by our relevant subsidiaries under existing and pursuant to an engineering and construction contract. The contracts for the provision of the Pansteel E&C Services are mainly awarded through public tendering process required and implemented under PRC laws, and in any event on market terms. For example, Pansteel will, according to the relevant laws and regulations in the PRC, issue a call for tender in relation to its Pansteel E&C Services. Potential bidders will need to go through a pre-qualification process, estimate the cost of the project and deliver bidding documents. For more details of the public tendering process, see “Business — Engineering and Construction — Business Process.”

We and/or our subsidiaries will enter into written agreements with Pansteel and/or its associates in respect of each individual connected transaction between them in relation to the provision of the Pansteel E&C Services on winning a project contract, or on normal commercial terms after arm’s length negotiation, where no tendering process is required to be adopted.

We believe that it is in our interests to undertake the transactions in relation to the provision of the Pansteel E&C Services based on the terms disclosed herein as they form part of our core business and will be conducted on normal commercial terms after arm’s length negotiations.

#### *Price Determination*

The fees payable in respect of the Pansteel E&C Services are and will be determined through the tender and bidding process if the selection of the relevant service providers has to be determined through a tender and bidding process. Where service fees are not required to be determined by a tender and bidding process, the service fees have been and will be determined with a reference to the prevailing market prices of labour, materials, equipment and other things and taking into account the complexity of projects contracted for as well.

The terms of the transactions for the Pansteel E&C Services generally involve we (or our subsidiaries) agreeing to a total price cap or a unit price cap for a project. Some contracts contain price adjustment clauses to cover increases in the costs of raw materials, changes in design or work scope, or other specific factors that would cause an interruption of construction and an increase in the cost, such as lack of water or electricity.

#### *Historical Figures*

For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our revenue from the provision of the Pansteel E&C Services was RMB1,163 million, RMB3,010 million, RMB1,746 million and RMB742 million, respectively. The decrease in our revenue from the Pansteel E&C Services for 2008 is due to an economic downturn in the domestic iron and steel industry and the slowdown in the specific Pansteel E&C Services projects.

#### *Annual Caps*

For the years ending December 31, 2009, 2010 and 2011, the total forecast revenue amount to be paid by Pansteel to us for the Pansteel E&C is RMB3,000 million, RMB8,000 million and RMB9,000 million, respectively.

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## RELATIONSHIP WITH THE PARENT GROUP AND CONNECTED TRANSACTIONS

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In arriving at the annual caps disclosed above for the three years ending December 31, 2009, 2010 and 2011, respectively, we have taken into account the following two main factors:

- 1) expected normal growth of the industry and the business of the relevant iron and steel company and their impact on our business:

For the years ending December 31, 2009, 2010 and 2011, we estimate up to the total forecast revenue amount RMB2,000 million, RMB2,400 million and RMB3,000 million, respectively, to be paid by Pansteel to us for future Pansteel E&C Services. These estimated amounts were arrived at after having considered the following factors/considerations:

- a. existing Pansteel E&C Services contracts already entered into by us and those that we believe that we have reasonable prospects to be awarded with in the future;
- b. historical transaction amounts and proportional percentage of Pansteel E&C Services transactions compared to our historical total revenue;
- c. the cyclical nature of the revenue amount received by us in the EPC industry;
- d. estimated growth in our revenue based on our reasonable expected production rate;
- e. decrease in the historical transaction amount during the year ended December 31, 2008 as compared to the previous year, which was primarily due to the global economic downturn that led to the decline of the domestic iron and steel industry and specifically the slowdown or suspension of certain existing Pansteel E&C Services contracts. Most of these suspended Pansteel E&C Services contracts were or are expected to be resumed in 2009 or later. We therefore expect the transaction amounts for the three years ending December 31, 2011 to resume to normal levels;
- f. the recent restructuring and consolidation of the domestic iron and steel industry, which we currently expect will lead to a significant growth of the domestic iron and steel industry and in particular Pansteel's iron and steel business. As a result, we currently expect the demand for Pansteel E&C Services from us would increase for the three years ending December 31, 2011; and

- 2) the impact of a particular new sizable project of Pansteel:

For the years ending December 31, 2009, 2010 and 2011, we estimate up to the total forecast revenue amount RMB1,000 million, RMB5,600 million and RMB6,000 million, respectively, to be paid by Pansteel to us from future Pansteel E&C Services derived from a new large-scale Pansteel E&C Services project ("New Pansteel Project") which is reported to commence its Phase I construction in November 2008. These amounts were arrived at having considered the following factors/considerations:

- a. the reported estimated total investment amount of approximately RMB17,100 million for the New Pansteel Project;
- b. that certain of our subsidiaries have already been awarded with relevant Pansteel E&C Services contracts relating to the New Pansteel Project;
- c. our current estimated construction progress and the overall development plan of the New Pansteel Project; and
- d. owing to the significance and scale of the New Pansteel Project and our strong capabilities in design and construction among metallurgical engineering and construction contractors in China,

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## RELATIONSHIP WITH THE PARENT GROUP AND CONNECTED TRANSACTIONS

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we believe that we have reasonable prospects to be awarded with more Pansteel E&C Services contracts under the New Pansteel Project by Pansteel.

### *Continuing Connected Transactions with Tangsteel*

#### *9. Supply of Services*

##### *Description of Existing and Future Transactions and Principal Terms*

In the ordinary and usual course of business, we and/or our subsidiaries have been and will be providing certain engineering and construction services to Tangsteel from time to time. The engineering and construction services include research, planning, surveying, consulting, design, procurement, construction, installation, maintenance, supervision and certain technical services (“Tangsteel E&C Services”).

The Tangsteel E&C Services for particular projects are and will be undertaken by our relevant subsidiaries under existing and pursuant to an engineering and construction contract. The contracts for the provision of the Tangsteel E&C Services are mainly awarded through public tendering process required and implemented under PRC laws, and in any event on market terms. For example, Tangsteel will, according to the relevant laws and regulations in the PRC, issue a call for tender in relation to its Tangsteel E&C Services. Potential bidders will need to go through a pre-qualification process, estimate the cost of the project and deliver bidding documents. For more details of the public tendering process, see “Business — Engineering and Construction — Business Process.”

We and/or our subsidiaries will enter into written agreements with Tangsteel and/or its associates in respect of each individual connected transaction between them in relation to the provision of the Tangsteel E&C Services on winning a project contract, or on normal commercial terms after arm’s length negotiation, where no tendering process is required to be adopted.

We believe that it is in our interests to undertake the transactions in relation to the provision of the Tangsteel E&C Services based on the above terms as they form part of our core business and will be conducted on normal commercial terms after arm’s length negotiations.

##### *Price Determination*

The fees payable in respect of the Tangsteel E&C Services are and will be determined through the bidding process if the selection of the relevant service providers has to be determined through a tender and bidding process. Where service fees are not required to be determined by a tender and bidding process, the service fees have been and will be determined with reference to the prevailing market prices of labour, materials, equipment and other things and taking into account the complexity of projects contracted for as well.

The terms of the transactions for the Tangsteel E&C Services generally involve we (or our subsidiaries) agreeing to a total price cap or a unit price cap for a project. Some contracts contain price adjustment clauses to cover increases in the costs of raw materials, changes in design or work scope, or other specific factors that would cause an interruption of construction and an increase in the cost, such as lack of water or electricity.

##### *Historical Figures*

For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our revenue from the provision of the Tangsteel E&C Services was RMB1,333 million, RMB3,317 million, RMB3,106 million and RMB1,453 million, respectively.



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## **RELATIONSHIP WITH THE PARENT GROUP AND CONNECTED TRANSACTIONS**

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### *Annual Caps*

For the years ending December 31, 2009, 2010 and 2011, the total forecast revenue amount to be paid by Tangsteel to us for the Tangsteel E&C Services is RMB3,500 million, RMB4,100 million and RMB4,600 million, respectively. The forecasts are based on our consideration of the following factors: (i) the historical transaction volume; (ii) payments to be received under the existing Tangsteel E&C Services contracts; (iii) the increasing production capacity of Tangsteel; and (iv) foreseeable new Tangsteel E&C Services projects that we may be awarded by Tangsteel.

### *Continuing Connected Transactions with the Parent Group*

#### *10. Land Use Rights Leasing Agreement*

##### *Background*

We have on December 5, 2008 entered into a land use rights leasing agreement with the Parent (“Land Use Rights Leasing Agreement”) pursuant to which the Parent Group have agreed to lease to us, subject to the Parent Group having obtained proper land use rights in respect thereof, certain land use rights in the PRC (“Leased Land”) for general business and ancillary purposes.

##### *Description of Transaction and Principal Terms*

The Land Use Rights Leasing Agreement will be for a term of 20 years commencing from December 1, 2008 and will be subject to renewal. We consider the term of the Land Use Rights Leasing Agreement to be consistent with normal commercial terms and can secure long terms property rights for us, avoiding unnecessary disruptions to our businesses and operations.

The land leased by us from the Parent Group in the PRC consisted of an aggregate site area of approximately 580,548.16 square meters as at December 31, 2008, comprising 2.92% of the total site area of land used by us. The land has been used for relevant production facilities by our operating subsidiaries in Shanghai, and is merely used to support our core production process and does not provide any significant direct income to us. We consider that the activities involved therein can be relocated if necessary and therefore the land is not significant or crucial to our independent operation.

The total annual rent payable under the Land Use Rights Leasing Agreement will be payable every 12 months in arrears and will be reviewed every three years. The new amount of rent payable will not be higher than the then prevailing market rent as confirmed by an independent valuer.

We may require the Parent Group to renew the term of the lease by giving notice to it six months before the expiry of the lease. We may, any time before the Land Use Rights Leasing Agreement expires, terminate the lease of all or some of the Leased Land by giving six months’ written notice. If the lease of some of the lands is terminated, the rent payable by us shall be reduced accordingly. According to the Land Use Rights Leasing Agreement, the Parent Group cannot terminate the lease unilaterally without our consent unless we have changed the use of the Leased Land without the consent of the Parent Group.

We have agreed to use the Leased Land within the scope of the rights granted to the Parent. Should we wish to modify the manner in which it uses some or all of the Leased Land, we may notify the Parent Group. The Parent Group shall determine within 30 days whether it agrees to such modification, and if so, seek the necessary regulatory approvals. The Parent Group has agreed to pay land taxes, fees and other statutory charges relating to the Leased Land.

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The rent payable under the Land Use Rights Leasing Agreement is determined at arms’ length and reflects market rates and the Land Use Rights Leasing Agreement is entered into on normal commercial terms. Jones Lang LaSalle Sallmanns Limited has confirmed that the rental fees payable by us under the Land Use Rights Leasing Agreement are not higher than the prevailing market rates.

### *Historical Figures*

For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, payments made by us to the Parent Group for the Leased Land was approximately RMB0, RMB0, RMB2 million and RMB0, respectively.

### *Implications under the Hong Kong Listing Rules — no waiver required*

We currently expect our annual aggregate amount of expenditure for the lease of land use rights under the Land Use Rights Leasing Agreement will not exceed the *de minimis* threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules.

If the annual rent payable by us to the Parent Group results in the relevant percentage ratios calculated pursuant to Rule 14.07 of the Hong Kong Listing Rules on an annual basis to exceed 0.1%, we will take the necessary steps to comply with applicable Hong Kong Listing Rules.

## *11. Properties Leasing Agreement*

### *Background*

We have on December 5, 2008 entered into a properties leasing agreement with the Parent (“Properties Leasing Agreement”) pursuant to which the Parent Group has agreed to lease certain buildings and properties to us for general business and ancillary purposes.

### *Description of Transaction and Principal Terms*

The Properties Leasing Agreement will be for a term of 10 years commencing from December 1, 2008 and will be subject to renewal. We consider the term of the Properties Leasing Agreement to be consistent with normal commercial terms and can secure long terms property rights for us, avoiding unnecessary disruptions to our businesses and operations.

The buildings and properties leased by us from the Parent Group in the PRC consisted of an aggregate GFA of approximately 280,174.59 square meters as at December 31, 2008, comprising 5.8% of the total gross floor area of buildings used by us. Most of the buildings are used for industrial and production purposes, which are merely used to support our core production process and do not provide any significant direct income to us. The rest are used for administration, support and other miscellaneous purposes. We consider the activities involved therein can be relocated if necessary and therefore the buildings are not significant or crucial to our independent operation.

The total annual rent payable under the Properties Leasing Agreement will be payable every 12 months in arrears and be reviewed every three years. The new amount of rent payable will not be higher than the then prevailing market rent as confirmed by an independent valuer.

We may require the Parent Group to renew the term of the lease by giving notice to it six months before the expiry of the lease. We may, at any time before the Properties Leasing Agreement expires, terminate the lease of all or some of the properties leased under the Properties Leasing Agreement by giving six months’ written notice. If the lease of some of the properties is terminated, the rent payable by us shall be reduced accordingly. According to the Properties Leasing Agreement, the Parent Group cannot terminate the lease unilaterally without our consent unless

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## RELATIONSHIP WITH THE PARENT GROUP AND CONNECTED TRANSACTIONS

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we have changed the use of the properties leased under the Properties Leasing Agreement without the consent of the Parent Group.

The Parent Group has agreed to pay properties taxes, fees and other statutory charges relating to the properties leased under the Properties Leasing Agreement.

The rent payable under the Properties Leasing Agreement is determined at arms’ length and reflects market rates and the Properties Leasing Agreement is entered into on normal commercial terms. Jones Lang LaSalle Sallmanns Limited has confirmed that the rental fees payable by us under the Properties Leasing Agreement are not higher than the prevailing market rates.

### *Historical Figures*

For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, payments made by us to the Parent Group for the properties leased under the Properties Leasing Agreement was approximately RMB0, RMB0, RMB15 million and RMB10 million, respectively.

### *Implications under the Hong Kong Listing Rules — no waiver required*

We currently expect our annual aggregate amount of expenditure for the lease of properties under the Properties Leasing Agreement will not exceed the *de minimis* threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules.

If annual rent payable by us to the Parent Group results in the relevant percentage ratios calculated pursuant to Rule 14.07 of the Hong Kong Listing Rules on an annual basis to exceed 0.1%, we will take the necessary steps to comply with applicable Hong Kong Listing Rules.

## *12. Mutual Supply of Comprehensive Raw Materials, Products and Services Agreement*

### *Background*

As part of the Reorganization, the Parent retained certain ancillary assets and businesses which will continue to provide certain comprehensive raw materials, products and services to our core businesses. We will also provide certain raw materials, products and services to the Parent Group to support the businesses retained by the Parent.

### *Description of Transaction and Principal Terms*

In this connection, we have on December 5, 2008 entered into a mutual supply of comprehensive raw materials, products and services agreement with the Parent (“Mutual Supply Agreement”), pursuant to which:

- (i) both parties agreed to provide, or procure its respective subsidiaries to provide the following raw materials and services to each other:
  - *Products and raw material supplies:* transportation, water, electricity, gas and steam, equipment leasing, raw materials, minerals, fuels and power production;
  - *Social and support services:* public security; employee training, testing and equipment repair, sharing of service, logistics and other non-business services, school medical and emergency service, telecommunication, property management and other similar services;
- (ii) the Parent agreed to provide, or procure its subsidiaries to provide various papers and other products, commercial goods and semi-finished goods to us; and

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## RELATIONSHIP WITH THE PARENT GROUP AND CONNECTED TRANSACTIONS

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- (iii) we agreed to provide, or procure our subsidiaries to provide certain products, commercial goods, semi-finished goods, zinc ingots, mechanical equipment, other assets and equipment, exploration, design, procurement and engineering services to the Parent Group.

Pursuant to the Mutual Supply Agreement, the Parent has undertaken that it will not, and will procure its subsidiaries not to, provide raw materials, products and services to us on terms which are less favourable than those offered to third parties. If any third party can offer terms more favourable than the other party to provide the relevant raw materials, products and services, the party may procure this third party to provide the raw materials, products and services. Each party is entitled to obtain the relevant raw materials, products and services from independent third parties if the other party cannot satisfy its requirements for such raw materials, products and services or the terms offered by independent third parties are more favourable. Each party will provide to the other on an annual basis an assessment of the raw materials, products and services that it requires in the coming year.

The raw materials supplied pursuant to the Mutual Supply Agreement will be provided at:

- (i) the government-prescribed price;
- (ii) if there is no government-prescribed price but there is a government-guided price, the government-guided price applies;
- (iii) if there is neither a government-prescribed price nor a government-guided price, then the market price applies; or
- (iv) if none of the above is applicable, the price is to be agreed between the relevant parties. The agreed price will be calculated based on the reasonable costs incurred in providing the raw materials, products or services plus reasonable profits.

The services provided pursuant to the Mutual Supply Agreement shall be provided at:

- (i) the tender price if the service provider is determined by tender and bidding process; or
- (ii) if the service provider is not selected through a tender and bidding process, the available market price.

If the tender price and other terms and conditions offered by an independent third party are not more favourable than those available from the other party, the parties will give priority in sourcing the service from each other.

The Mutual Supply Agreement is for a term of 3 years commencing from December 1, 2008. Either party may terminate any specific agreement entered into pursuant to the Mutual Supply Agreement (but excluding the Mutual Supply Agreement) by giving the other party three months' prior written notice, provided that if we cannot conveniently obtain such raw materials, products and services from a third party, the Parent Group will not be permitted to terminate and will continue to provide such raw materials, products and services under any circumstances.

### *Historical Figures*

For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our expenditure for the raw materials, products and services provided by the Parent Group was RMB15 million, RMB19 million, RMB33 million and RMB21 million, respectively.

For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our revenue from the raw materials, products and services provided to the Parent Group was RMB18 million, RMB36 million, RMB346 million and RMB204 million, respectively.

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### *Annual Caps*

For the years ending December 31, 2009, 2010 and 2011, the total forecast revenue amount to be paid by the Parent Group to us for the supply of raw materials, products and services is RMB550 million, RMB650 million and RMB700 million, respectively. The forecasts are based on our consideration of the following factors: (i) the historical figure for supply of raw materials, products and services for the three years ended December 31, 2008; (ii) estimated growth in the demand for raw materials, products and services by the Parent Group from us and (iii) reasonable expected price range for the raw materials, products and services provided by us for the three years ending December 31, 2011.

*Implications under the Hong Kong Listing Rules — no waiver required for the supply of raw materials, products, and services by the Parent Group to us*

We currently expect our annual aggregated amount of expenditure for the relevant transactions under the Mutual Supply Agreement will not exceed the *de minimis* threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules.

If our aggregate annual expenditure for the transactions contemplated under the Mutual Supply Agreement results in the relevant percentage ratios calculated pursuant to Rule 14.07 of the Hong Kong Listing Rules on an annual basis to exceed 0.1%, we will take the necessary steps to comply with applicable Hong Kong Listing Rules.

### *13. Trademarks Licensing Agreement*

#### *Background*

As part of the Reorganization, the Parent transferred all the trademarks it owned to us for free. As some of the trademarks are related to the daily business of the Parent Group, the parties have entered into a trademark licensing agreement on December 5, 2008 (“Trademark Licensing Agreement”).

#### *Description of Transaction and Principal Terms*

We agreed to license to the Parent Group the right to use the “MCC” trademarks (“Licensed Trademarks”) on a non-exclusive basis and for a term of 10 years commencing from December 1, 2008. Upon expiry of the term, the term may be renewed for a further period of 3 years upon the Parent Group’s request.

The Parent Group undertakes to use the Licensed Trademarks within the scope specified and not to sub-lease the Licensed Trademarks to, or allow the use of the Licensed Trademarks by, any third parties without our written consent. We are responsible for the timely payment of fees for maintaining effective registration of the Licensed Trademarks, to seek protection of the Licensed Trademarks from the relevant administrative authorities according to the notification from the Parent Group and to resolve any disputes or infringements relating to the license of such Licensed Trademarks. We are entitled to license any of the Licensed Trademarks to any independent third parties provided that the terms of such licences shall not be better than the terms of the Trademark Licensing Agreement. Moreover, we are entitled to transfer our rights under any of the Licensed Trademarks to any independent third parties provided that such transfer shall not affect the rights of the parties under the Trademark Licensing Agreement.

*Implications under the Hong Kong Listing Rules — no waiver required*

A consideration of RMB1.00 is payable under the Trademark Licensing Agreement. The transactions under the Trademark Licensing Agreement are exempt from the reporting, announcement and independent shareholders’

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## RELATIONSHIP WITH THE PARENT GROUP AND CONNECTED TRANSACTIONS

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approval requirements under Chapter 14A of the Hong Kong Listing Rules as it falls within the *de minimis* threshold as stipulated under Rule 14A.33(3) of the Hong Kong Listing Rules.

### *Continuing Connected Transactions with Nanjing Hexi*

#### *14. Economically Affordable Housing Project*

##### *Construction Commission Agreement A*

On September 2, 2007, in connection with the construction of the development of economically affordable housing in the Lianhua village (蓮花村) at Hexi New District south area in Nanjing, the PRC (“Lianhua Village Project”), Zhongye Zhengxing, our subsidiary, entered into a construction commission agreement with Nanjing Hexi, a substantial shareholder of two of our subsidiaries and therefore our connected person (“Construction Commission Agreement A”). Pursuant to the Construction Commission Agreement A, Zhongye Zhengxing has agreed to provide construction and other ancillary services to Nanjing Hexi in relation to the construction of the development of the Lianhua Village Project.

##### *Description of Transactions and Principal Terms*

Pursuant to the Construction Commission Agreement A, Zhongye Zhengxing will be commissioned to construct the Lianhua Village Project. The total investment of the Lianhua Village Project amounts to approximately RMB1,465 million with an aggregate construction area of approximately 590,000 square meters.

The Construction Commission Agreement A is for a term of three years commencing from September 1, 2007. The Lianhua Village Project will be separated into two phases. The first phase is currently expected to be completed on or around December 31, 2009 with the second phase currently expected to be completed on or around October, 2010.

The construction and ancillary services to be provided by Zhongye Zhengxing include, amongst others, obtaining project approval, conducting tender and bidding process and conducting construction. Pursuant to the Construction Commission Agreement A, Zhongye Zhengxing has agreed not to further commission any part of the services to be provided in relation to the Lianhua Village Project to any third party.

##### *Construction Commission Agreement B*

Further, due to the amendment of the development plan of the Lianhua Village Project, Zhongye Zhengxing and Nanjing Hexi will enter into a further agreement to formalise their arrangement (the “Construction Commission Agreement B”) for further construction and ancillary services to be provided in additional areas within the Lianhua Village Project (the “New Project”). Zhongye Zhengxing is expected to be commissioned to provide construction and other ancillary services to Nanjing Hexi under the New Project. The total investment of the New Project is expected to be approximately RMB1,354 million with an aggregate expected construction area of approximately 366,000 square meters.

The Construction Commission Agreement B is currently expected to be for a term not more than three years. The principal terms of the Construction Commission Agreement B are expected to be similar to those contained in the Construction Commission Agreement A disclosed above.

##### *Price Determination*

The fees payable in respect of the services contemplated under both the Construction Commission Agreement A and Construction Commission Agreement B are determined based on market price. Such market



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## **RELATIONSHIP WITH THE PARENT GROUP AND CONNECTED TRANSACTIONS**

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price is defined by reference to the price at which the same or similar type of services are provided by independent third parties in the ordinary course of business.

### *Historical Figures*

For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, payments made by Nanjing Hexi to Zhongye Zhengxing for the services contemplated under the Construction Commission Agreement A was approximately RMB0, RMB0, RMB0 and RMB457 million.

### *Annual Caps*

For the years ending December 31, 2009, 2010 and 2011, the total forecast revenue amount to be paid by Nanjing Hexi to Zhongye Zhengxing for the services contemplated under both the Construction Commission Agreement A and Construction Commission Agreement B, on an aggregate basis, is RMB888 million, RMB944 million and RMB1,016 million. The forecasts are based on our consideration of the following factors: (i) the historical transaction volume; (ii) payments to be received and expected to be received under the Construction Commission Agreement A and Construction Commission Agreement B, respectively, between Nanjing Hexi and Zhongye Zhengxing and (iii) the Construction Commission Agreement B to be granted to Zhongye Zhengxing and the scale of construction work and the investment amount of the Construction Commission Agreement B to be close to the Construction Commission Agreement A.

### **Application for Waivers**

We will continue to enter into the transactions described in “— Non-Exempt and Partially-Exempt Continuing Connected Transactions” and “— Exempt Continuing Connected Transactions” above. The Directors (including the independent non-executive Directors) are of the opinion that (i) the transactions have been entered into and will be carried out in our ordinary and usual course of business, on normal commercial terms which are fair and reasonable and in the interests of the Shareholders as a whole; and (ii) the annual caps for such transactions are fair and reasonable.

### *No Waiver Applied for Certain Categories of Continuing Connected Transactions*

For the continuing connected transactions set out in paragraphs 10 (Land Use Rights Leasing Agreement), 11 (Properties Leasing Agreement), 12 (Mutual Supply Agreement) (only for the supply of raw materials, products and services by the Parent Group to us) and 13 (Trademark Licensing Agreement) above, each of the percentage ratio (other than the profits ratio) calculated by reference to Rule 14.07 of the Hong Kong Listing Rules, where applicable, is on an annual basis less than 0.1% and accordingly will qualify as continuing connected transactions under Rule 14A.33(3) of the Hong Kong Listing Rules. These transactions are exempt from reporting, announcement and independent shareholders’ approval requirements.

### *Scope of Waivers*

Under the Hong Kong Listing Rules, the continuing connected transactions under:

- paragraph 2 (Supply of Services to Baosteel);
- paragraph 4 (Supply of Services to Wusteel) (only for the years ending December 31, 2010 and 2011, respectively); and
- paragraph 8 (Supply of Services to Pansteel) (only for the years ending December 31, 2010 and 2011, respectively)

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are considered to be non-exempt continuing connected transactions under Rule 14A.35 of the Hong Kong Listing Rules and are subject to the reporting and announcements requirements set out in Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules and the independent shareholders’ approval requirements set out in Rule 14A.48 of the Hong Kong Listing Rules.

For the continuing connected transactions under:

- paragraph 1 (Procurement of Integrated Products from Baosteel);
- paragraph 3 (Procurement of Integrated Products from Wusteel);
- paragraph 4 (Supply of Services to Wusteel) (only for the year ending December 31, 2009);
- paragraph 5 (Procurement of Integrated Products from Ansteel);
- paragraph 6 (Supply of Services to Ansteel);
- paragraph 7 (Procurement of Integrated Products from Pansteel);
- paragraph 8 (Supply of Services to Pansteel) (only for the year ending December 31, 2009);
- paragraph 9 (Supply of Services to Tangsteel);
- paragraph 12 (Mutual Supply Agreement) (only for the supply of raw materials, products and services by us to the Parent Group); and
- paragraph 14 (Economically affordable housing project)

each of the percentage ratios (other than the profits ratio) calculated by reference to Rule 14.07 of the Hong Kong Listing Rules, where applicable, is on an annual basis less than 2.5% under Rule 14A.34 of the Hong Kong Listing Rules. Such transactions are exempt from the independent shareholders’ approval requirement but are subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules.

We have applied to the Hong Kong Stock Exchange for, [and have been granted,] a waiver from compliance with the above announcement and independent shareholders’ approval requirements (where applicable) under Rule 14A.42(3) of the Hong Kong Listing Rules for the period of three years ending on December 31, 2011. Notwithstanding the above waiver, we will comply with Rules 14A.35(1), 14A.35(2), 14A.36, 14A.37, 14A.38, 14A.39 (to the extent reasonably possible) and 14A.40 of the Hong Kong Listing Rules. Apart from the announcement and/or independent shareholders’ approval requirements of which a waiver is sought, we will comply with the relevant requirements under Chapter 14A of the Hong Kong Listing Rules. We confirm that for the purposes of paragraph 3 of Rule 14A.37 and paragraph 3 of Rule 14A.38 of the Hong Kong Listing Rules, all the relevant contracts in respect of the continuing connected transactions disclosed above during the relevant year will be made available for our independent non-executive Directors’ and auditors’ review. The independent non-executive Directors and auditors will review whether the relevant continuing connected transactions have been entered into in accordance with the terms and pricing determination as disclosed in this document.