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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

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

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馬 鞍 山 鋼 鐵 股 份 有 限 公 司

**Maanshan Iron & Steel Company Limited**

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

(Stock Code: 00323)

**CONTINUING CONNECTED TRANSACTIONS  
FINANCIAL SERVICES AGREEMENT**

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



FIRST SHANGHAI CAPITAL LIMITED  
第一上海融資有限公司

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A letter from the Board is set out on pages 3 to 10 of this circular. A letter from the Independent Board Committee is set out on page 11 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 12 to 20 of this circular.

Notice for convening the 2011 second extraordinary general meeting (the “EGM”) of Maanshan Iron & Steel Company Limited (the “Company”) to be held at the Magang Guest House, No.2 Xi Yuan Road, Maanshan City, Anhui Province, the PRC at 9:00 a.m. on Friday, 30 December 2011 was issued on 15 November 2011.

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

8 December 2011

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## DEFINITIONS

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

“Agreement” or “Financial Services Agreement”	Financial Services Agreement entered into between the Company and the Finance Company on 3 November 2011
“Associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“CBRC”	China Banking Regulatory Commission
“Company”	Maanshan Iron & Steel Company Limited, a joint stock limited company incorporated in the PRC and the shares of which are listed on Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Depository Services”	the provision of depository services to be provided by the Finance Company in accepting deposits placed by the Group pursuant to the Agreement
“Directors”	director(s) of the Company
“Discounting Services”	the provision of discounting services to be provided by the Finance Company pursuant to the Agreement
“EGM”	the second extraordinary general meeting of the Company to be held on Friday, 30 December 2011 at the Magang Guest House, No.2 Xi Yuan Road, Maanshan City, Anhui Province, the PRC for the Shareholders to consider and to approve the resolution set out in the notice of EGM
“Finance Company”	Magang Group Finance Company Limited, a limited company incorporated in the PRC
“Financial Services”	the Depository Services, Loan and Entrusted Loan Services, Discounting Services, Settlement Services and Other Financial Services
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

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## DEFINITIONS

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“Independent Financial Adviser” or “First Shanghai”	First Shanghai Capital Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity as defined under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms and the relevant annual caps of the Depository Services under the Financial Services Agreement
“Independent Shareholders”	Shareholders of the Company other than Magang Group and its Associates
“Latest Practicable Date”	5 December 2011, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan and Entrusted Loan Services”	the loan and entrusted loan services to be provided by the Finance Company to the Group pursuant to the Agreement
“Magang Group”	Magang (Group) Holding Company Limited, a wholly State-owned enterprise with limited liability and a controlling shareholder of the Company as defined under the Listing Rules
“Other Financial Services”	the other financial services to be provided by the Finance Company pursuant to the Agreement
“PBOC”	People’s Bank of China
“PRC”	the People’s Republic of China, which, for the purposes of this circular, does not include Hong Kong, Macao Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Settlement Services”	the provision of payment and receipt services and other ancillary services related to settlement services to be provided by the Finance Company pursuant to the Agreement
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holders of shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

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## LETTER FROM THE BOARD

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馬 鞍 山 鋼 鐵 股 份 有 限 公 司

**Maanshan Iron & Steel Company Limited**

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

**(Stock Code: 00323)**

*Executive Directors:*

Su Jiangang (*Chairman*)  
Qian Haifan  
Ren Tianbao

*Non-Executive Director:*

Zhao Jianming

*Independent Non-Executive Directors:*

Qin Tongzhou  
Yang Yada  
Wu Tat Man Damon Albert

*Registered address:*

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

*Office address:*

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

8 December 2011

*To the Shareholders*

Dear Sir/Madam,

### CONTINUING CONNECTED TRANSACTIONS

#### INTRODUCTION

Reference is made on an announcement of the Company dated 3 November 2011 in which the Company announced that Financial Services Agreement was entered into with the Finance Company which constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The purpose of this circular is to provide you with further details of the Financial Services Agreement, the recommendation of the Independent Board Committee and the advice of Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

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## LETTER FROM THE BOARD

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### FINANCIAL SERVICES AGREEMENT

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

**Date:**

3 November 2011

**Parties:**

The Company; and  
The Finance Company

**Term:**

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

**Services:**

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

**Depository Services**

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

The Finance Company commenced trial operation on 18 October 2011 and the trial operation period took place between 18 October 2011 and 2 November 2011 for testing the Finance Company's funds management system and gathering hands-on experience and information in respect of the operation and internal control systems to ensure smooth and successful operation over the long term when the Depository Services under the Agreement are to be approved by the Shareholders at the EGM. During the aforesaid trial operation period, the average daily deposits amount was RMB2,459,333,700. The trial operation proved that the Finance Company's funds management system and its operation and internal control system are safe and reliable. According to the trial operation, the Company also formulated a stringent risk control system.

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## LETTER FROM THE BOARD

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

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

The proposed annual caps for Depository Services during the term of the Agreement shall not be more than RMB6,000 million and are determined after considering (i) the cash flow position in particular the Group's maximum monthly sales income; (ii) the Company's expected sales growth; (iii) the future business development plan and financial requirements of the Group; and (iv) estimated future cash flows of the Group.

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

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

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

### **Discounting Services**

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

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## LETTER FROM THE BOARD

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### Settlement Services

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

### Other Financial Services

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

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

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

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

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

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



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## LETTER FROM THE BOARD

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### GUARANTEE FROM MAGANG GROUP

The Finance Company has obtained undertakings from Magang Group to undertake the responsibility of compensation for the Finance Company. It will compensate the Group, for any reason whatsoever, for all financial damages which are unbearable or not borne by the Finance Company (including but not limited to the deposits and interests of the Group) arising from the non-performance or breach of any terms stipulated in the Financial Services Agreement.

### INTERNAL CONTROLS AND RISK MANAGEMENT

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

- The Finance Company uses the fund management information system provided by Beijing NineStar Technology Joint-Stock Co., Ltd to monitor the Group's total deposit amount and the Finance Company has undertaken that no further deposit shall be accepted from the Group when the Group's deposit balance in aggregate shall reach RMB6,000 million (with the interests accrued thereon). Such system complies with the security standards of merchant banks in the PRC. The system also adopts the CA security certificate authentication model to ensure safety for the Company's funds.
- The Company shall have unlimited access to the Group's deposit and other balances maintained at the Finance Company.
- The Finance Company will ensure strict compliance with the risk monitoring benchmarks for finance companies promulgated by the CBRC. The CBRC has higher benchmarks (including capital adequacy ratio) on finance companies than merchant banks. For instance, the capital adequacy ratio should not be below 10%, the non-performing asset ratio should not be over 4%, free fixed assets should not be over 20% and so forth.
- The Finance Company is required to present the financial statements of the previous month for review within six working days of each month pursuant to the requirement of the Company and the Finance Company has undertaken to provide the daily fund statements on a daily basis.
- The board of directors of Magang Group has made written undertaking that in the event of an urgent situation where the Finance Company has difficulty in repaying funds, Magang Group will increase its capital in accordance with the actual needs to solve the repayment problem.
- In order to ensure that the total deposits placed by the Group with the Finance Company at the end of each month shall not be higher than the total loans (including entrusted loans and bills discounting) provided by the Finance Company to the Group, and to ensure the absolute safety of funds, the Group's daily total deposits in the Finance Company shall not be higher than the total loans provided to the Group by the Finance Company, and the Group is able to perform its right to set-off.

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## **LETTER FROM THE BOARD**

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- The Finance Company shall ensure the Group's deposits placed with the Finance Company will be simultaneously placed with Industrial and Commercial Bank of China, China Construction Bank, Bank of China, Agricultural Bank of China, Bank of Communications, Huishang Bank or/and other merchant banks which operate under the approval by the CBRC and the PBOC.
- The Company shall monitor the alert limits set by the Finance Company for the aggregated daily deposit balances and average daily deposits of all the Group's accounts. As soon as the funds transferred reach the alert limits, the system of the Finance Company shall be altered immediately and shall suspend the receiving of funds transfer.
- The Company shall monitor the lists of all the Company's accounts after reconciliation provided by the Finance Company and the total amount of daily deposit balances and average daily deposits on a monthly basis. The Company's Planning and Finance Department will review the lists in order to confirm that the daily deposit balances and average daily deposits shall not be higher than the approved amounts.

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

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

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

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

When the Finance Company places the deposits with a merchant bank, such deposits are inter-bank deposits to which the interest rate will apply which will be much higher than the same level interest rate for a deposit placed by the Company direct with a merchant bank. For example, comparing the annualised interest rate of 0.5% fixed by the PBOC for the deposits placed by urban and rural residents and units, the interest rate for the deposits placed by the Finance Company with a merchant bank is 2.76%, which is 2.26 percentage points higher. As the Company holds 49% shareholding of the Finance Company, the Company will be able to share corresponding profits from the Finance Company.

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## LETTER FROM THE BOARD

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

### LISTING RULES IMPLICATIONS

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

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

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

### INFORMATION ON THE COMPANY

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

### INFORMATION ON THE FINANCE COMPANY

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

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## LETTER FROM THE BOARD

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### GENERAL

An Independent Board Committee has been established to advise the Independent Shareholders in respect of terms of the Depository Services under the Financial Services Agreement and the relevant annual caps. Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, no Director has a material interest in the transactions save and except Mr. Su Jiangang and Mr. Zhao Jianming, who are also the directors of Magang Group and had abstained from voting at the Board meeting approving the Financial Services Agreement.

### EGM

A notice convening the EGM to be held at the Magang Guest House, No.2 Xi Yuan Road, Maanshan City, Anhui Province, the PRC at 9:00 a.m. on Friday, 30 December 2011 was issued on 15 November 2011 and resolution will be proposed for the Independent Shareholders to consider and if thought fit, approve the Depository Services under the Financial Services Agreement, and the relevant annual caps. Magang Group and any of its Associates will be required to abstain from voting on such resolution(s) at the EGM. The votes of the Independent Shareholders at the EGM will be taken by poll.

### RECOMMENDATIONS

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 11 of this circular, which contains its recommendations to the Independent Shareholders as to voting at the EGM and (ii) the letter from the Independent Financial Adviser set out on pages 12 to 20 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Depository Services under the Financial Services Agreement, and the relevant annual caps.

The Directors (including the Independent Board Committee) considered that the Depository Services under the Agreement was entered on normal commercial terms and the Depository Services and the proposed annual caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors therefore recommend the Independent Shareholders to vote in favour of the resolution as set out in the notice of EGM.

### ADDITIONAL INFORMATION

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

Yours faithfully,  
By Order of the Board  
**Su Jiangang**  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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馬 鞍 山 鋼 鐵 股 份 有 限 公 司

**Maanshan Iron & Steel Company Limited**

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

**(Stock Code: 00323)**

8 December 2011

*To the Independent Shareholders*

Dear Sir/Madam,

### **CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular dated 8 December 2011 issued by the Company (the “**Circular**”) of which this letter forms part. Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the Depository Services under the Financial Services Agreement, and the relevant annual caps and to advise the Independent Shareholders as to the fairness and reasonableness of the same based on the advice of the Independent Financial Adviser. First Shanghai Capital Limited, has been appointed as the Independent Financial Adviser, to advise the Independent Board Committee and the Independent Shareholders in this regard.

### **RECOMMENDATIONS**

We wish to draw your attention to the “Letter from the Board”, as set out on pages 3 to 10 of the Circular, and the letter from the Independent Financial Adviser which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the Depository Services under the Financial Services Agreement, and the relevant annual caps as set out on pages 12 to 20 of the Circular.

We have discussed with the management and executive Directors of the Company the reasons for the Depository Services under the Financial Services Agreement, the mechanism for the determination of price for the transactions, the terms thereof, and the basis upon which the terms have been determined and the relevant annual caps. We have also considered the advice from the Independent Financial Adviser and based on the confirmation and representations of the management and executive Directors of the Company, consider the Depository Services under the Financial Services Agreement, and the relevant annual caps are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM in respect of the Depository Services under the Financial Services Agreement, and the relevant annual caps.

Yours faithfully,

**Independent Board Committee**

**Qin Tongzhou**

**Yang Yada**

**Wu Tat Man Damon Albert**

*Independent Non-executive Directors*

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## LETTER FROM FIRST SHANGHAI

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*The following is the text of a letter received from First Shanghai setting out its advice to the independent board committee of the Company (“Independent Board Committee”) and the Independent Shareholders in respect of the terms of the Depository Services under the Financial Services Agreement for inclusion in this circular.*



### FIRST SHANGHAI CAPITAL LIMITED

19th Floor, Wing On House  
71 Des Voeux Road Central  
Hong Kong

8 December 2011

*To the Independent Board Committee and the Independent Shareholders*

Dear Sir or Madam,

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

#### **INTRODUCTION**

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Depository Services under the Financial Services Agreement, details of which are set out in the circular of the Company to the Shareholders dated 8 December 2011 (the “**Circular**”) of which this letter forms a part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Circular.

On 3 November 2011, the Company and the Finance Company entered into the Financial Services Agreement, pursuant to which, the Finance Company agreed to provide the Financial Services to the Group at fair and reasonable prices and on normal commercial terms.

Magang Group is the controlling shareholder of both the Company and the Finance Company, therefore the Finance Company is a connected person of the Company. Hence, the transactions contemplated under the Financial Services Agreement constitute continuing connected transactions of the Company. The Depository Services under the Financial Services Agreement and the relevant annual caps are subject to, amongst others, the approvals from the Independent Shareholders at the EGM under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Qin Tongzhou, Ms. Yang Yada and Mr. Wu Tat Man Damon Albert, has been established to advise the Independent Shareholders in respect of the terms of the Depository Services under the Financial Services Agreement. We, First Shanghai Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

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## LETTER FROM FIRST SHANGHAI

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In putting forth our opinion and recommendation, we have relied on the accuracy of the information and representations included in the Circular and provided to us by the management of the Group, and have assumed that all such information and representations made or referred to in the Circular and provided to us by the management of the Group were true at the time they were made and continue to be true up to the time of the holding of the EGM. We have also assumed that all statements of belief, opinion and intention made in the Circular were reasonably made after due enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the management of the Group and have been advised that no material facts have been withheld or omitted from the information provided and referred to in the Circular. We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the management of the Group nor have we conducted any form of investigation into the business, affairs or future prospects of the Group, the Finance Company or Magang Group.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion on the terms of the Depository Services under the Financial Services Agreement, we have taken into consideration the following principal factors and reasons:

#### 1. Background of and reasons for the procurement of the Depository Services

##### (i) Background of the relevant parties

The Company is one of the largest iron and steel producers and marketers in the PRC and is principally engaged in the manufacture and sale of iron and steel products. According to the interim report of the Company for the six months ended 30 June 2011, the principal steel products of the Company include steel plates, section steel, wire rods, train wheels and wheel rims designed for a variety of applications and over 90% of these products are sold in the domestic market.

The Finance Company is a non-banking financial institution established under the PRC laws in October 2011. The Finance Company is principally engaged in the provision of financial services, which include but not limited to depository services, loan and entrusted loan services, discounting services and settlement services. We understand that the operation of the Finance Company is approved by the CBRC pursuant to 企業集團財務公司管理辦法 (Administrative Measures on Group Finance Companies) and 非銀行金融機構行政許可事項實施辦法 (Implementation of Administrative Licensing Matters Concerning Non-Bank Financial Institutions) and we are advised that the Finance Company has obtained all approvals, permits and licenses necessary for its operations. The Finance Company is owned as to 49% by the Company and 51% by Magang Group, which is the controlling shareholder of the Company and is a wholly state-owned enterprise held by 安徽省人民政府國有資產監督管理委員會 (State-owned Assets Supervision and Administration of Anhui Province). According to the annual report of the Company for the year ended 31 December 2010, the operating scopes of Magang Group include: mining and sorting of mineral products; construction, construction materials, machine manufacturing, maintenance and design; external trading; domestic trading; distribution and storage of materials; property management; consulting service; rental services; agriculture and forestry. As stated in the letter from the Board in the Circular, when the Finance Company places deposits with a merchant bank, such deposits become inter-bank deposits, to which the interest rate applies will

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## LETTER FROM FIRST SHANGHAI

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be much higher than the interest rate for a deposit placed with a merchant bank by the Company directly. For example, comparing the annualised interest rate of 0.5% fixed by the PBOC for the deposits placed by urban and rural residents and units, the interest rate for the deposits placed by the Finance Company with a merchant bank is 2.76% which is 2.26 percentage points higher. As the Finance Company is owned as to 49% by the Company, the Company will be able to share the corresponding profits from the Finance Company.

*(ii) Reasons for the procurement of the Depository Services*

We are advised that, in order to create a centralised financial services platform within the same group, the Finance Company was recently established by Magang Group and the Company to provide wide range financial services to the members of Magang Group. We understand that the Finance Company not only allows the Group to share corresponding profits from the Finance Company, the close relationship between the Group and the Finance Company also allows a better mutual understanding as compared with that between the Group and other financial services providers. For instance, the information including operating status, credit status, liquidity of assets and cash revenue collection ratio of the Group possessed by the Finance Company will be more detailed than other financial services providers and, on the other hand, the Group will be able to closely monitor the financial status of the Finance Company as the Group will be able to review the financial statements of the Finance Company on a monthly basis as well as the daily fund statement on daily basis. Therefore the Finance Company is expected to be able to deliver more customised financial services to the Group in a more efficient manner whenever such needs arise.

We understand that the Group maintains a certain level of cash to settle, amongst others, the payment of raw material and fuel procurement expenses from time to time. According to the latest published third quarterly report of the Company for the nine months ended 30 September 2011 (the “**2011 Q3 Report**”), cash and cash equivalents of the Group amounted to approximately RMB13,249 million, representing approximately 31% of total current assets and approximately 16% of total assets respectively, as at 30 September 2011. We note that the Group had a cash inflow of approximately RMB5,448 million from issue of corporate bonds during the nine months ended 30 September 2011, which had significantly driven up the cash level of the Group. We understand that the Finance Company provides an alternative for the Group to deposit its cash while not in use to earn interest income at a rate no less favourable than the interest rates provided by other independent merchant banks in the PRC.

In respect of the reliability of the Finance Company as a financial services provider, we understand that the Finance Company is subject to the supervision of the CBRC and has to comply with relevant rules and operational requirements in the PRC, including capital risk guidelines and requisite capital adequacy ratios. As stated in the letter from the Board in the Circular, the Finance Company will ensure strict compliance with the risk monitoring benchmarks for finance companies promulgated by the CBRC, which has higher benchmarks (including capital adequacy ratio) on finance companies than merchant banks. As at 31 October 2011, the Finance Company had net assets of approximately RMB1,007 million and recorded capital adequacy ratio of approximately 43%, which was significantly higher than the required ratio of 10%.



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## LETTER FROM FIRST SHANGHAI

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We also understand that the management team of the Finance Company includes members that are experienced in the banking industry. Moreover, the Finance Company uses the fund management information system provided by Beijing NineStar Technology Joint-Stock Co., Ltd to monitor the Group's total deposit amount and the Finance Company has undertaken that no further deposit shall be accepted from the Group when the Group's deposit balance in aggregate (with the interest accrued thereon) shall reach the relevant annual cap. Such system complies with the security standards of merchant banks in the PRC. The system also adopts the CA security certificate authentication model to ensure safety for the Company's funds. The Finance Company will ensure the Group's deposits placed with the Finance Company will be simultaneously placed with Industrial and Commercial Bank of China, China Construction Bank, Bank of China, Agricultural Bank of China, Bank of Communications, Huishang Bank or/and other merchant banks which operate under the approval by the CBRC and the PBOC. Also, alert limits will be set for the Group's aggregated daily deposit balances and average daily deposits with the Finance Company so that as soon as the alert limits are reached, the system of the Finance Company will suspend the acceptance of any fund transfers, and the Company's Planning and Finance Department will confirm that the Group's daily deposit balances and average daily deposits with the Finance Company will not be higher than the approved amounts by reviewing the lists of all the Company's accounts provided by the Finance Company.

Furthermore, the customers of the Finance Company are limited to members of Magang Group pursuant to relevant regulations, therefore the risk exposure of the Finance Company is reduced as its operations would not involve unrelated and unfamiliar customers with uncertain financial background. In addition, the board of directors of Magang Group has made written undertaking that in the event of an urgent situation where the Finance Company has difficulty in repaying funds, Magang Group will increase its capital in accordance with the actual needs to solve the repayment problem.

The Finance Company is a medium, which is backed by Magang Group and is licensed and regulated to provide financial services to the Group at the same time. As discussed with the management of the Group and having principally considered (i) the Finance Company will ensure strict compliance with the risk monitoring benchmarks for finance companies promulgated by the CBRC, which has higher benchmarks (including capital adequacy ratio) on finance companies than merchant banks; (ii) the Group can monitor the Finance Company more closely than other merchant banks, such as the ability to review the financial statements of the Finance Company on a monthly basis as well as the daily fund statement of the Finance Company on a daily basis; (iii) the Group has partial control over the board of the Finance Company where each of the Group and Magang Group can appoint two out of five directors of the Finance Company respectively and the remaining director will be an employee director elected by way of poll according to the articles of association of the Finance Company; (iv) the Finance Company operates independently and is responsible for its own financial performance according to the articles of association of the Finance Company; (v) the total loan amount to be provided by the Finance Company by the end of the month must be higher than the deposits amount placed to the Finance Company and the Group will have a right of set-off such deposits and the accrued interests thereon against the outstanding loans in the event that the Finance Company delays or refuses to pay as discussed in the next section; (vi) the interest rates for deposits placed by the members of the Group must not be lower than the interest rates provided by other independent merchant banks, we concur with the management of the Group that the Finance Company is a viable alternative to other merchant banks and has certain advantages over other merchant banks for the Financial Services (including the procurement of the Depository Services).

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In addition, having discussed with the management of the Group, we understand that the provision of Depository Services by the Finance Company to the Group is part and parcel of the transactions contemplated under the Financial Services Agreement, pursuant to which the Finance Company shall provide to the Group a variety of financial services including but not limited to the Loan and Entrusted Loan Services, the Discounting Services and the Settlement Services on fair and reasonable terms. For instance, the Group can obtain loans from the Finance Company under the Financial Services Agreement at interest rates not higher than the interest rates charged by other independent merchant banks in the PRC for borrowing of similar nature and under similar terms. We concur with the management of the Group that the procurement of Depository Services from the Finance Company should not be individually considered, but should be viewed as part of the comprehensive financial services to be provided by the Finance Company.

Having taken into account the above, in particular, (i) the procurement of the Depository Services is in the ordinary and usual course of business of the Group; (ii) the close relationship between the Finance Company and the Group allows the Finance Company to provide better services to the Group as compared with other financial services providers; (iii) the Finance Company provides an alternative for the Group to deposit its cash to earn interest income; (iv) the reliability of the Finance Company, which is backed by Magang Group; (v) the internal control and risk management measures to be implemented; (vi) the Finance Company is a viable alternative to other merchant banks and has certain advantages over other merchant banks for the Financial Services (including the procurement of the Depository Services); (vii) provision of Depository Services by the Finance Company to the Group is part and parcel of the transactions contemplated under the Financial Services Agreement; (viii) the Company will be able to share corresponding profits of the Finance Company; and (ix) the principal terms of the Financial Services Agreement are fair and reasonable as discussed below, we are of the view that the entering into of the Financial Services Agreement is in the interests of the Company and the Shareholders as a whole.

### **2. Principal terms and proposed annual caps of the Depository Services**

#### *(i) Principal terms of the Depository Services*

As disclosed in the letter from the Board in the Circular, the Financial Services Agreement shall be for a term commencing from 18 October 2011 to 31 December 2012. The interest rates for deposits placed by the members of the Group must not be lower than (i) the relevant benchmark interest rates set by the PBOC; and (ii) the interest rates provided by other independent merchant banks in the PRC for deposits of similar nature and under similar terms.

In addition to the above, we understand the Group has no contractual obligation under the Financial Services Agreement to procure financial services from the Finance Company. Therefore, the entering into of the Financial Services Agreement would not restrict the Group from procuring financial services from other financial services providers in the market should the terms offered by other financial services providers are more favourable to the Group.

Further, as stated in the letter from the Board in the Circular, the total loan amount (including entrusted loan and bills discounting) to be provided by the Finance Company for the Group by the end of the month must be higher than the deposits amount placed by the Group to the Finance Company. In respect of the deposits placed by the Group with the Finance Company and in the

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event that the Finance Company delays or refuses to pay the deposits and the accrued interests thereon, the Group will have a right to set-off such deposits and the accrued interests thereon against the outstanding loans extended by the Finance Company to the Group in accordance with the laws and regulations in PRC. Magang Group also undertakes the responsibility of compensation for the Finance Company. It will compensate the Group, for any reason whatsoever, for all financial damages which are unbearable or not borne by the Finance Company (including but not limited to the deposits and interests of the Group) arising from the non-performance or breach of any terms stipulated in the Financial Services Agreement.

Having taken into account, in particular, (i) the procurement of the Depository Services is in the ordinary and usual course of business of the Group; (ii) the interest rates for deposits placed by the members of the Group must not be lower than the interest rates provided by other independent merchant banks; (iii) the Group has the discretion to decide whether to procure financial services from the Finance Company or other financial services providers, whichever is considered to be more favourable to the Group; (iv) the total loan amount to be provided by the Finance Company to the Group by the end of the month must be higher than the deposits amount placed to the Finance Company by the Group and the Group will have a right of set-off such deposits and the accrued interests thereon against the outstanding loans in the event that the Finance Company delays or refuses to pay; (v) Magang Group undertakes and warrants to compensate the Group for all the financial losses caused by the Finance Company; and (vi) the reasons for the procurement of the Depository Services as discussed above, we are of the view that the terms of the Depository Services under the Financial Services Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

*(ii) Proposed annual caps of the Depository Services*

As stated in the letter from the Board in the Circular, the Finance Company commenced trial operation on 18 October 2011 and the trial operation period took place between 18 October 2011 and 2 November 2011 for testing and gathering hands-on experience and information in respect of the operation and internal control systems to ensure smooth and successful operation over the long term when the Depository Services under the Agreement are to be approved by the Shareholders at the EGM. During the aforesaid trial operation period, the average daily deposits amount was RMB2,459,333,700.

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We understand that the proposed annual caps in respect of the Depository Services to be provided by the Finance Company to the Group pursuant to the Financial Services Agreement are determined after considering (i) the cash flow position in particular the Group's maximum monthly sales income; (ii) the Company's expected sales growth; (iii) the future business development plan and financial requirements of the Group; and (iv) estimated future cash flows of the Group. Each of the proposed annual caps commencing from the effective date of the Financial Services Agreement until 31 December 2011 and 2012 are summarised as follows:-

	<b>Proposed annual caps commencing from the effective date of the Financial Services Agreement until</b>	
	<b>31 December 2011</b>	<b>31 December 2012</b>
	<i>(RMB million)</i>	<i>(RMB million)</i>
Maximum daily deposit balance (together with interests accrued thereon)	6,000 <sup>^</sup>	6,000 <sup>^</sup>

<sup>^</sup> *Note:* the average daily deposit balance (together with interests accrued thereon) on a monthly basis shall not be more than 5% of the total asset value of the Group in the latest audited accounts of the Company.

We are advised that the Directors intend to deposit not more than 50% of its cash and bank balance as at 30 September 2011 with the Finance Company and the remaining total cash and cash equivalents will be deposited to other merchant banks and the average daily deposit balance (together with the interests accrued thereon) on a monthly basis shall not be more than 5% of the total asset value of the Group in the latest audited accounts of the Company, so that not all the funds of the Group will be put into one finance company only and it will be able to diversify the risk in relation to deposits and hence the default risk will be lowered. The maximum daily deposit balance (together with interests accrued thereon) from the effective date of the Financial Services Agreement until 31 December 2012 will be RMB6,000 million, which represents approximately 45% of the total cash and cash equivalents of the Group, which primarily include the sum of cash flows from operating, investing and financing activities, as at 30 September 2011. Moreover, the average daily deposit balance (together with interests accrued thereon) on a monthly basis shall not be more than 5% of the total asset value of the Group in the latest audited accounts of the Company, where we note that 5% of the total asset value of the Group as at 31 December 2010 is approximately RMB3,505 million and represents approximately 26% of the total cash and cash equivalents of the Group as at 30 September 2011. Further, we also note that the Group has been profit making in the recent years and we are advised by the management of the Group that the proposed annual caps may provide flexibility for the Group to place deposit at the Finance Company should the Group continue to generate cash from its profit making operations or should the Group perform any fund-raising activities in future.

Having considered the above, coupled with (i) the Company's expected sales growth and estimated future cash flows; (ii) it offers a reasonable flexibility for the Group to procure alternative depository services other than the Finance Company should the terms offered by the Finance Company are more favourable than those offered by other independent merchant banks; (iii) the proposed annual caps may provide flexibility for the Group to place deposits at the Finance Company should the Group continue to generate cash from its profit-making operations or should the Group perform any fund-raising activities

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## LETTER FROM FIRST SHANGHAI

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in future; (iv) the reasons for the entering into of the Financial Services Agreement as discussed above; (v) the terms of the Financial Services Agreement are fair and reasonable as discussed above; and (vi) measures are in place to govern the internal control of the Group and to monitor the procurement of Depository Services as detailed in the section headed “Measures to ensure compliance with the Listing Rules” below, we are of the view that the proposed annual caps of the Depository Services are fair and reasonable so far as the Independent Shareholders are concerned.

### **3. Measures to ensure compliance with the Listing Rules**

In compliance with the annual review requirements under Chapter 14A of the Listing Rules, the Company will comply with the following during the term of the Financial Services Agreement:

- (i) each year the independent non-executive Directors must review the transactions contemplated under the Financial Services Agreement and confirm in the Company’s annual report and accounts that the procurement of Depository Services have been entered into (a) in the ordinary and usual course of business of the Company; (b) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and (c) in accordance with the Financial Services Agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (ii) each year the auditors of the Company must provide a letter to the Board (with a copy provided to the Stock Exchange at least 10 business days prior to the bulk printing of the annual report of the Company) confirming that the procurement of Depository Services (a) have received the approval of the Board; (b) are in accordance with the pricing policies of the Company if the transactions contemplated under the Financial Services Agreement involve provision of goods or services by the Company; (c) have been entered into in accordance with the relevant agreement governing the transactions; and (d) have not exceeded the respective annual caps;
- (iii) the Company will allow, and will procure that the Finance Company will provide, the auditors of the Company with sufficient access to the relevant records of the procurement of the Depository Services for the purpose of reporting on the transactions contemplated under the Financial Services Agreement. The Board must state in the annual report whether its auditors have confirmed the matters stated in paragraph (ii) above; and
- (iv) the Company shall promptly notify the Stock Exchange and publish an announcement in accordance with the Listing Rules if it knows or has reason to believe that the independent non-executive Directors and/or auditors of the Company will not be able to confirm the matters set out in paragraphs (i) and/or (ii) above respectively.

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Having considered, in particular, (i) the restriction of the value of the Depository Services under the Financial Services Agreement by way of the proposed annual caps; and (ii) the ongoing review by the independent non-executive Directors and the auditors of the Company of the terms of the procurement of Depository Services under the Financial Services Agreement and the relevant annual caps not being exceeded, we are of the view that appropriate measures will be in place to govern the procurement of Depository Services under the Financial Services Agreement and safeguard the interests of the Independent Shareholders.

### RECOMMENDATION

Having taken into account the above principal factors, we are of the view that (i) the procurement of the Depository Services under the Financial Services Agreement is in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the procurement of the Depository Services under the Financial Services Agreement are on normal commercial term and, together with the relevant proposed annual caps, are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves advise, the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the procurement of the Depository Services under the Financial Services Agreement and the relevant annual caps.

Yours faithfully,

For and on behalf of

**First Shanghai Capital Limited**

**Eric Lee**

*Managing Director*

**Fanny Lee**

*Managing Director*

## 1. RESPONSIBILITY STATEMENT

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

## 2. INTERESTS OF DIRECTORS

### (a) Interests in the Company

Save as disclosed below, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required pursuant to (a) Divisions 7 and 8 of Part XV of the SFO, to be notified to the Company and the Stock Exchange (including interests and short positions which he is taken or deemed to have under such provisions of SFO); or (b) section 352 of the SFO, to be entered in the register referred to therein; or (c) the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange:

Name of Director	Nature of interest and capacity	Total number of shares held as at the Latest Practicable Date	Approximate percentage of issued share capital of the Company as at the Latest Practicable Date
Su Jiangang	Beneficial owner	3,886	0.00005%

All interests disclosed above present long positions in the shares.

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

**(b) Interests in contracts and assets**

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2010, being the date to which the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

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

**3. SERVICE CONTRACTS**

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

**4. COMPETING INTERESTS**

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

**5. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2010, being the date to which the latest published audited consolidated financial statements of the Company were prepared.

**6. EXPERT AND CONSENT**

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

<b>Name</b>	<b>Qualification</b>
First Shanghai Capital Limited	A licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO



- (b) As at the Latest Practicable Date, the Independent Financial Adviser:
  - (i) did not have any shareholding in the Group nor any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Group;
  - (ii) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references, to its name in the form and context in which they appear;
  - (iii) did not have any direct or indirect interests in any assets which since 31 December 2010 (being the date of which the latest published audited consolidated financial statements of the Company were made of) had been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, any member of the Group.

## **7. MISCELLANEOUS**

- (a) The registered office and the office address of the Company is at No.8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC.
- (b) The share registrar and transfer office of the Company in Hong Kong is Hong Kong Registrars Limited at Rooms 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

## **8. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office address of the Company at No.8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC and the office of S.H. Leung & Co., Room 502, Aon China Building, No.29 Queen's Road Central, Hong Kong during normal business hours on any business day from the date of this circular until 30 December 2011:

- (a) the Financial Services Agreement;
- (b) the letter from the Independent Board Committee dated 8 December 2011;
- (c) the letter from the Independent Financial Adviser dated 8 December 2011; and
- (d) the written consent from Independent Financial Adviser referred to in paragraph 6 headed "Expert and Consent" above.