THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

馬 鞍 山 鋼 鐵 股 份 有 限 公 司

Maanshan Iron & Steel Company Limited

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

(Stock Code: 00323)

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

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

SOMERLEY LIMITED

A letter from the Board is set out on pages 4 to 15 of this circular. A letter from the Independent Board Committee is set out on pages 16 to 17 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 18 to 39 of this circular.

Notice for convening the 2012 third extraordinary general meeting (the "**EGM**") of Maanshan Iron & Steel Company Limited (the "**Company**") to be held at Magang Office Building, No.8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC at 8:30 a.m. on Wednesday, 12 December 2012 was issued on 25 October 2012.

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.

15 November 2012

CONTENTS

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

"Agreements"	The New Sale and Purchase of Ore Agreement and the Energy Saving and Environmental Protection Agreement
"Anhui Xinchaung"	Anhui Xinchuang Energy Saving and Environmental Protection Technology Company Limited, a limited liability company incorporated in the PRC
"associates"	has the meaning as ascribed thereto in the Listing Rules
"Board"	the board of Directors
"Changjiang Steel"	Auhui Changjiang Steel Co. Ltd., a limited liability company incorporated in the PRC and the Company acquired 55% equity interest of Changjiang Steel in April 2011
"Company"	Maanshan Iron & Steel Company Limited, a joint stock limited company incorporated in the PRC, the H shares of which are listed on the Stock Exchange on 3 November 1993
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Directors"	director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be convened at the Magang Office Building, No.8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC at 8:30 a.m. on Wednesday, 12 December 2012 to approve, among other things, the New Sale and Purchase of Ore Agreement, the Energy Saving and Environmental Protection Agreement, the transactions contemplated thereunder and the respective proposed annual caps
"Energy Saving and Environmental Protection Agreement"	Energy Saving and Environmental Protection Agreement entered into between the Company and Anhui Xinchuang dated 12 October 2012
"Existing Sale and Purchase of Ore Agreement"	the Sale and Purchase of Ore Agreement entered into between the Company and the Parent Company dated 15 October 2009
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC

"Independent Board Committee"	a board committee comprising all the Independent Non-executive Directors, which will, among others, consider and advise the Independent Shareholders in relation to the Agreements and the transactions contemplated thereunder, including the respective proposed annual caps
"Independent Financial Adviser"	Somerley Limited, a corporation licensed to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Agreements, the transactions contemplated thereunder and the respective proposed annual caps
"Independent Non-executive Directors"	Independent non-executive Directors
"Independent Shareholders"	Shareholders other than the Parent Company and any of its associates
"Latest Practicable Date"	13 November 2012, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in the circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"New Sale and Purchase of Ore Agreement"	the Sale and Purchase of Ore Agreement entered into between the Company and the Parent Company on 12 October 2012
"Ore/ore"	iron ore, limestone and/or dolomite
"Parent Company" or "Magang Group"	Magang (Group) Holding Company Limited, a wholly state-owned enterprise, formerly known as Maanshan Magang Holding Company, and was approved by the government to restructure into Magang (Group) Holding Company Limited in September 1998
"PRC"	the People's Republic of China
"RMB"	Renminbi, the lawful currency of the PRC

"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
"Shareholder(s)"	Holder(s) of shares of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"%"	per cent

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
Liu Fangduan

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

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

15 November 2012

To the Shareholders

Dear Sir/Madam,

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

INTRODUCTION

Reference is made on an announcement of the Company dated 12 October 2012 regarding the transactions contemplated under (i) the New Sale and Purchase of Ore Agreement entered into between the Company and the Parent Company and (ii) the Energy Saving and Environmental Protection Agreement entered into between the Company and Anhui Xinchuang, which constitute 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 New Sale and Purchase of Ore Agreement and the Energy Saving and Environmental Protection Agreement, the recommendation of the Independent Board Committee, the advice of Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, and to give you notice of the EGM at which 2 ordinary resolutions will be proposed to approve these transactions.

THE NEW SALE AND PURCHASE OF ORE AGREEMENT

Background

The Existing Sale and Purchase of Ore Agreement entered into between the Company and the Parent Company on 15 October 2009 will expire on 31 December 2012. In order to ensure the continuous supply of Ore to the Group, the Company and the Parent Company conditionally agreed to enter into the New Sale and Purchase of Ore Agreement.

Date

12 October 2012

Parties

(1) The Company as the purchaser; and

(2) The Parent Company as the supplier

Subject Matter

Ore including the iron ore, limestone and/or dolomite produced by the Parent Company must first be offered to the Group for purchase.

Consideration

The procurement department of the Company will conduct research on the market prices of Ore, obtain quotation of Ore from independent third party suppliers and make reference to the latest Ore price payable to independent third party suppliers for determining the price payable to the Parent Company. The Ore price will then be approved by the operation management committee of the Company.

Price for iron ore in a tonne, limestone and/or dolomite will be determined after arm's length negotiation between the Company and the Parent Company under normal commercial terms with reference to the market price (i.e. the price as approved by operation management committee of the Company) and shall not be higher than the market price of the similar iron ore, limestone and/or dolomite provided by the independent third parties to the vicinity of the Company in Maanshan City, Anhui Province, the PRC.

Payment

The invoice value and all prices shall be denominated and paid in RMB. The price of iron ore purchased shall be paid by the Company within 30 days and the price of the limestone and dolomite shall be paid by the Company within 50 days after the respective iron ore, limestone and dolomite have been delivered to and inspected and confirmed by the Company as being in good quality.

Condition precedent

The New Sale and Purchase of Ore Agreement is conditional upon the Independent Shareholders approving the same and the respective proposed annual caps at the EGM.

Duration

Subject to the approval of the Independent Shareholders, the New Sale and Purchase of Ore Agreement shall be for a term of three years commencing 1 January 2013 and ending 31 December 2015.

Existing Annual Caps and Historical Transaction Amounts

The existing annual caps for transactions under the Existing Sale and Purchase of Ore Agreement for the three years ended 31 December 2010, 2011 and 2012 and the actual transaction amounts for the two years ended 31 December 2010 and 2011, and the first six months ended 30 June 2012 are set out below:

	Year ended/ending 31 December		
	2010	**2011**	**2012**
Annual cap for the year (tax exclusive)	RMB2,486,410,000	RMB2,573,320,000	RMB3,075,220,000
Actual transaction amounts for the year ended 31 December (tax exclusive)	RMB2,202,372,627	RMB2,397,160,506	n.a.
Actual transaction amounts for the first six months ended 30 June 2012 (tax exclusive)	n.a.	n.a.	RMB1,642,947,290

The total quantity of Ore purchased from the Parent Company amounted to 3.56 million tonnes, 3.50 million tonnes and 2.33 million tonnes for the year of ended 31 December 2010 and 2011 and the period of first six months ended 30 June 2012 representing 12.7%, 11.9% and 16.5% of the total quantity of Ore purchased by the Group of 28.13 million tonnes, 29.50 million tonnes and 14.09 million tonnes for the corresponding periods.

Proposed Annual Caps

The proposed annual caps for the transactions contemplated under the New Sale and Purchase of Ore Agreement for the three years ending 31 December 2015 are set out below:

	Year ending 31 December		
	2013	**2014**	**2015**
Proposed annual cap for the year (tax exclusive)	RMB5,658,268,620	RMB6,607,763,526	RMB8,469,690,805

The proposed annual caps in respect of the New Sale and Purchase of Ore Agreement for the three years ending 31 December 2015 are determined by reference to (i) the historical price of the Ore; (ii) the forecasted market price of the Ore; (iii) the Group's anticipated demand for Ore to meet its production requirements and capacity; and (iv) the Parent Company's anticipated production capacity.

Based on existing production plan, the Directors anticipate that the annual total quantity of iron ore to be purchased by the Group for the coming three years ending 31 December 2013, 2014 and 2015 will be close to current level. The Parent Company anticipates that certain new mines in Anhui Province will commence operation for the coming three years in accordance with its production and development plan of the mines and the Parent Company will also expand the production scale of certain existing mines.

The Directors consider that it is in the interests of the Company to source more iron ore from the Parent Company as it allows the Company to have a stable supply of good grade and quality iron ore. Moreover, this can reduce the Group's reliance on suppliers for overseas iron ore so as to mitigate the risk of delay of shipments when purchasing from these suppliers. Accordingly, the Company plans to source more iron ores from the Parent Company for the coming three years ending 31 December 2013, 2014 and 2015. It is estimated that the Company will purchase approximately 4.79 million tonnes, 5.8 million tonnes and 8.11 million tonnes of iron ores from the Parent Company for the coming three years ending 31 December 2013, 2014 and 2015 respectively.

The Directors estimate the future purchase price of iron ore with the Parent Company for 2013 by applying a 1.56% increase to the average purchase price of iron ore of the Company for the nine months ended 30 September 2012. A 3.85% and 8% drop is adopted to estimate the respective 2014 and 2015 iron ore purchase price with the Parent Company. Furthermore, a buffer of 10% has been incorporated in determining the annual caps of iron ore purchase in 2013, 2014 and 2015 to cater for possible adjustments in prices, and further growth in businesses of the Group.

As the Parent Company provides good quality of limestone and dolomite, for similar reasons as mentioned above for sourcing more iron ore from the Parent Company, the Directors also plan to source more limestone and dolomite from the Parent Company in the coming three years ending 31 December 2013, 2014 and 2015. It is expected that not exceeding 1.6 million tonnes, 2.3 million tonnes and 2.6 million tonnes of limestone and dolomite will be purchased by the Company from the Parent Company in 2013, 2014 and 2015 respectively.

The Directors anticipate that the purchase prices of limestone and dolomite will increase in 2013 due to increase in labour costs and transportation expenses and more stringent rules and regulations for environmental standards. Therefore, the Directors estimate that the purchase prices of limestone and dolomite for the year ending 31 December 2013 will increase by approximately 5.8% and 3.4% respectively comparing to their average purchase prices of the Group for the nine months ended 30 September 2012. The purchase prices for the two years ending 31 December 2014 and 2015 are expected to remain stable as compared to 2013.

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

It is beneficial for the Company to enter into the New Sale and Purchase of Ore Agreement so as to take advantage of the Parent Company's ore reserves which are in close proximity to the off-loading port adjacent to the production facilities of the Company within Anhui Province, the PRC. Furthermore, it is of strategic importance to secure a stable and reliable supply of good grade and quality ore from the Parent Company at a reasonable price to ensure the Company's continuous production.

ENERGY SAVING AND ENVIRONMENTAL PROTECTION AGREEMENT

Background

Due to the stringent governmental requirements for environmental protection on domestic enterprises in the PRC, in particular to the iron and steel production industry, the Company and Anhui Xinchuang conditionally agreed to enter into the Energy Saving and Environmental Protection Agreement on 12 October 2012 for provision of energy saving and environmental protection construction and services by Anhui Xinchuang to the Group and sale of disposal from iron and steel production by the Group to Anhui Xinchuang for a period of three years with effect from 1 January 2013 subject to the approval of the Independent Shareholders.

Date

12 October 2012

Parties

(1) The Company; and

(2) Anhui Xinchuang

Subject Matter

Anuhui Xinchuang shall provide energy saving and environmental protection construction and services to the Group including environmental facilities maintenance and sintering desulfurization custody project, saturated steam power generation, dust removal facilities, energy saving, custody of water operation and processing of spare parts etc. The terms of the energy saving and environmental protection construction and services are agreed under arm's length basis and under normal commercial terms between the parties and the terms (including but not limited to pricing and payment) shall be no less favourable to those similar environmental protection construction and services provided by the independent third parties to the Group.

The Group shall sell the disposal from iron and steel production i.e. waste materials including slag, which will be produced during the iron and steel production process and the Company and coal ash, which will be created when coal is burnt to generate energy from the Company's coal power plants to Anhui Xinchuang for utilization. The sale terms of waste materials are agreed under arm's length basis and under normal commercial terms between the parties and the terms (including but not limited to pricing and payment) shall not be more favourable than the sale terms by the Group of similar disposals produced from the iron and steel production to the independent third parties.

Consideration

The pricing shall be based on state-prescribed price. In the absence of the state-prescribed price, the pricing shall be based on market price, agreed under arm's length basis under normal commercial terms. The pricing regarding energy saving and environmental protection construction and services shall not be higher than the market price of the similar energy saving and environmental protection construction and services provided by the independent third parties to the Group. The pricing regarding the waste materials shall not be lower than the sale pricing of similar disposal from iron and steel production by the Group to the independent third parties.

The latest state-prescribed prices are set out in (i) Consolidated Fixed Unit Price List of Energy-Saving for Constructions in Anhui Province 2009 "2009年安徽省建築節能定額綜合單價表" issued by Construction Department of Anhui Province; (ii) Reference to Quotation on Construction Projects in Anhui Province 2006 "2006年安徽省建設工程量清單計價依據" issued by Construction Department of Anhui Province; and (iii) Document Wan Jia Fei (2007) No.148 Letter on Matters in Relation to Environment-Monitoring Services Charges Standard "關於環境監測服務費標準等有關事項的函" issued by Anhui Price Bureau, Finance Department of Anhui Province.

For prices of construction and services not set out in the aforesaid documents, the state-prescribed price is not available.

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

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

Payment

The payment for energy saving and environmental protection construction and services shall be paid by the Company to Anhui Xinchuang in accordance with the construction progress as verified by the Company's management department. The payment for sale of waste materials shall be paid by Anhui Xinchuang to the Company on monthly basis by the end of each month in advance.

The verification will be conducted on monthly basis. An independent supervision and management company shall verify the work done according to the design, the project department of the Company shall provide the confirmed opinion in respect of the work progress according to the opinion from the supervision and management company and the actual progress of the construction and the relevant opinion shall be submitted to the sub-division in charge of the Company for review and approval. The finance department of the Company shall pay in accordance with the verification results on monthly basis.

Condition precedent

The Energy Saving and Environmental Protection Agreement is conditional upon the Independent Shareholders approving the same and the respective proposed annual caps at the EGM.

Duration

Subject to the approval of the Independent Shareholders, the Energy Saving and Environmental Protection Agreement shall be for a term of three years commencing 1 January 2013 and ending 31 December 2015.

Proposed Annual Caps

The proposed annual caps (in terms of the aggregate value of the contracts being entered into within the same financial year) for the transactions contemplated under the Energy Saving and Environmental Protection Agreement for the three years ending 31 December 2015 are set out below:

	Year ending 31 December		
	2013	**2014**	**2015**
Proposed annual cap (in terms of the aggregate value of the contracts being entered into within the same financial year) in respect of energy saving and environmental protection construction and services provided by Auhui Xinchuang to the Group for the year (tax exclusive)	RMB450 million	RMB435 million	RMB550 million
Proposed annual cap (in terms of the aggregate value of the contracts being entered into within the same financial year) in respect of sale of waste materials by the Group to Anhui Xinchuang for the year	RMB20 million	RMB45million	RMB45million
Total	RMB470 million	RMB480 million	RMB595 million

The proposed annual caps in respect of the Energy Saving and Environmental Protection Agreement for the three years ending 31 December 2015 are determined by reference to (i) the state-prescribed price and/or market price regarding the construction and services and waste materials from the iron and steel production; (ii) the Group's anticipated demand for energy saving and environmental protection construction and services and its production scale; (iii) Anhui Xinchuang's anticipated capacity in providing the energy saving and environmental protection construction and services; and (iv) the anticipated volume of waste materials produced from the Group's iron and steel production and Anhui Xinchuang's anticipated demand for such waste materials.

The Group expects to conduct key environmental facilities maintenance and sintering desulfurization project by phases, with estimated contract value of approximately RMB150 million in 2013. The contract amount for the first phase in 2013 is expected to be higher due to significant scale of work. For 2014, the contract value is expected to be less as large amount of work has been done in previous year. In April 2011, the Company acquired 55% interests in Changjiang Steel which is mainly engaged in ferrous metal smelting, the production and sales of screw-threaded steel, round steel, section steel, angle steel, deformed steel, wire and rod, sales of iron ore and iron ore fines and scrap steel as well as import and export. The Company has been monitoring the operations of Changjiang Steel for over a year since the acquisition in April 2011 and the Company decided to introduce measures to enhance the efficiency of Changjiang Steel's energy savings aspects. As a result, it is anticipated that Anhui Xinchuang may be awarded with contract(s) for project with respect to two new power plants.

Such contract sum involves an amount of approximately RMB140 million. For the year ending 31 December 2013, it is anticipated contracts for various environmental services may be awarded to Anhui Xinchuang (including (i) dust removal of approximately RMB10 million, (ii) energy savings projects of approximately RMB20 million, (iii) water quality management of approximately RMB100 million; and (iv) spare parts processing of approximately RMB30 million) which totals approximately RMB160 million.

In light of the matters aforesaid, the contracts with respect to environmental facilities maintenance and sintering desulfurization services for 2014 are estimated to be approximately RMB115 million. As governmental requirements for environmental protection on PRC enterprises are expected to be more stringent, the Board estimated that more work will be required with respect to environmental facilities maintenance and sintering desulfurization in 2015, and accordingly contracts with an estimated amount of approximately RMB165 million may be awarded to Anhui Xinchuang in this regard. In addition, the Company may engage Anhui Xinchuang to provide denitrification services for the power plant and iron factory in 2014 and 2015 with contract value of approximately RMB140 million and RMB195 million respectively. Due to the high quality technical team specialising in water treatment in Anhui Xinchuang, the Board expects Changjiang Steel may consider to obtain water quality management service from Anhui Xinchuang commencing 2014 after expiry of a contract with another service provider by the end of 2013. Such contract is estimated to have a value of approximately RMB10 million. With this taken into account, the Directors estimate that the total service to be obtained from Anhui Xinchuang in relation to water quality management amounts to approximately RMB110 million in 2014. Due to increasingly stringent requirements for environmental protection imposed by government, and according to the Company's development plan, it is expected that water quality management service, with contract value of approximately RMB10 million, may be obtained from Anhui Xinchuang in 2015 in relation to Ma Steel (Hefei) Iron & Steel Co. Ltd., a subsidiary of the Company. Therefore, the total contract amount for such services in 2015 is estimated to be around RMB120 million. For 2014 and 2015, contracts for other services (namely dust removal and energy savings projects) that may be obtained from Anhui Xinchuang are expected to remain the same as in 2013. For the processing of spare parts, it is expected the Company's demand for spare parts will increase due to expansion of its environmental facilities. Therefore, an increase in value of approximately RMB10 million in 2014 with respect to spare part processing has been taken into account when estimating the proposed cap for 2014 and this is expected to remain at the same level in 2015.

According to the minutes of the Company's energy and environmental protection department setting out the budget for total estimated expenditure to be incurred with respect to energy saving and environmental protection construction and services for the coming three years from 2013 to 2015, Anhui Xinchuang may be awarded with contract(s) for project with respect to two new power plants of Changjiang Steel in 2013, with contract amount of approximately RMB140 million. Also, Anhui Xinchuang may be awarded with contracts in relation to water quality management services with contract value of approximately RMB100 million, RMB110 million and RMB120 million in 2013, 2014 and 2015 respectively. The above contract values are consistent with the Company's budget. In determining the contract value which may be awarded to Anhui Xinchuang in relation to environmental facilities maintenance and sintering desulfurization, as well as denitrification and iron and steel plant desulfurization services, the Directors have taken into account the anticipated capacity of Anhui Xinchuang in providing such services. Therefore, with reference to the Company's total budgeted expenditure relating to these areas, only part of the total budgeted expenditure have been included in the proposed value of contracts which may be awarded to Anhui Xingchuang for these categories.

In calculating the annual cap for each of the three years ending 31 December 2015, the prices (a) for provision of energy saving and environmental protection construction and services by Anhui Xinchuang to the Group; and (b) the sale of waste materials to Anhui Xinchuang by the Group shall be based on (1) state-prescribed price, if such price is available; or (2) if no state-prescribed price is available; by market price agreed based on normal commercial terms and with reference to comparable market transaction price of such construction and services or waste materials.

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

In light of the stringent governmental requirements on energy saving and environmental protection in PRC and in particular to the iron and steel industry, it is at the interest of the Company to engage the construction and services provided by Anhui Xinchuang to equip itself with the supporting hardware facilities for energy saving and environmental protection at lower cost and to focus on its main operation and business of iron and steel production.

INFORMATION ON THE COMPANY, THE PARENT COMPANY AND ANHUI XINCHUANG

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

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

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

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, the Parent Company is interested in approximately 50.47% of the Company's share capital and is a controlling shareholder and connected person of the Company. As at the Latest Practicable Date, Anhui Xinchuang is a company controlled by the Parent Company and the Company is also directly and indirectly interested in 35% of Anhui Xinchuang's share capital. As the Parent Company is a connected person of the Company, Anhui Xinchuang is an associate of the Parent Company and thereby a connected person of the Company. Accordingly, the transactions contemplated under the New Sale and Purchase of Ore Agreement and the Energy Saving and Environmental Protection Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios under the Listing Rules in respect of the respective proposed annual caps for the transactions contemplated under the New Sale and Purchase of Ore Agreement and the Energy Saving and Environmental Protection Agreement, on an annual basis, are more than 5%, such continuing connected transactions are subject to reporting, announcement, annual review and Independent Shareholders' approval requirements under Rule 14A.35 of the Listing Rules.

Mr. Su Jiangang, Mr. Zhao Jianming and Mr. Qian Haifan, who are also directors of the Parent Company, have abstained from voting on the relevant resolution(s) of the Board in respect of the New Sale and Purchase of Ore Agreement and the Energy Saving and Environmental Protection Agreement. Save as disclosed, none of the Directors has a material interest in the New Sale and Purchase of Ore Agreement and the Energy Saving and Environmental Protection Agreement and the transactions contemplated thereunder and therefore, no other Directors has abstained from voting on the relevant resolution(s) of the Board in respect of the Agreements.

EGM

The EGM will be held at the Magang Office Building, No.8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC at 8:30 a.m. on Wednesday, 12 December 2012 to consider and, if thought fit, to approve the New Sale and Purchase of Ore Agreement and the Energy Saving and Environmental Protection Agreement and the transactions contemplated thereunder, including the respective proposed annual caps.

A notice convening the EGM is set out on pages 43 to 44 of this circular. Whether or not you are able to attend the EGM, please complete and return the accompanying proxy form in accordance with the instructions printed thereon to the Company's Hong Kong branch share registrar, at Rooms 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 24 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting at the EGM or any adjournment thereof should you so wish.

In accordance with the Listing Rules, the vote of the Independent Shareholders taken at the EGM to approve the New Sale and Purchase of Ore Agreement and the Energy Saving and Environmental Protection Agreement and the transactions contemplated thereunder, including the respective proposed annual caps, will be taken by poll. The Parent Company and any of its associates will be required to abstain from voting on the relevant resolution(s) at the EGM. The result of the vote will be announced after the EGM.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Qin Tongzhou,Madam Yang Yada and Mr. Liu Fangduan, will, among others, consider and advise the Independent Shareholders in relation to the terms of the continuing connected transactions contemplated under the New Sale and Purchase of Ore Agreement and the Energy Saving and Environmental Protection Agreement, including the respective proposed annual caps. Your attention is drawn to the letter from Somerley set out on pages 18 to 39 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders as to voting at the EGM.

RECOMMENDATIONS

The Independent Board Committee, having considered the terms of the continuing connected transactions contemplated under the New Sale and Purchase of Ore Agreement and the Energy Saving and Environmental Protection Agreement, including the respective proposed annual caps, and taken into account the advice of the Independent Financial Adviser, considers that the terms of the New Sale and Purchase of Ore Agreement and the Energy Saving and Environmental Protection Agreement are on normal commercial terms and the terms of the New Sale and Purchase of Ore Agreement and the Energy Saving and Environmental Protection Agreement, including the respective proposed annual caps, are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to approve the New Sale and Purchase of Ore Agreement and the Energy Saving and Environmental Protection Agreement and the transactions contemplated thereunder, including the respective proposed relevant annual caps.

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
Ren Tianbao
Company Secretary

馬 鞍 山 鋼 鐵 股 份 有 限 公 司
Maanshan Iron & Steel Company Limited

(A joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 00323)

15 November 2012

To the Independent Shareholders

Dear Sir/Madam,

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

We refer to the circular dated 15 November 2012 issued by the Company (the "**Circular**") of which this letter forms part. Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

We, being all the independent non-executive Directors, have been appointed by the Board as the members of the Independent Board Committee to advise the Independent Shareholders as to whether, in our opinion, the terms of the New Sale and Purchase of Ore Agreement and the Energy Saving and Environmental Protection Agreement, including the relevant annual caps, are fair and reasonable and in the interests of the Company and the Shareholder as a whole.

Somerley has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the fairness and reasonableness of the terms of the New Sale and Purchase of Ore Agreement and the Energy Saving and Environmental Protection Agreement, including the respective proposed annual caps.

RECOMMENDATIONS

Your attention is drawn to the letter from the Board set out on pages 4 to 15 of the Circular.

Having considered the terms of the New Sale and Purchase of Ore Agreement and the Energy Saving and Environmental Protection Agreement, including the respective proposed annual caps, and taken into account the advice and recommendation of the Independent Financial Adviser set out on pages 18 to 39 of the Circular, we consider the terms of the New Sale and Purchase of Ore Agreement and the Energy Saving and Environmental Protection Agreement are on normal commercial terms and the terms of the New Sale and Purchase of Ore Agreement and the Energy Saving and Environmental Protection Agreement, including the respective proposed annual caps, are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to approve the New Sale and Purchase of Ore Agreement and the Energy Saving and Environmental Protection Agreement, including the respective proposed annual caps.

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

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

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

15 November 2012

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

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

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the continuing connected transactions contemplated under the New Sale and Purchase of Ore Agreement and the Energy Saving and Environmental Protection Agreement and the proposed annual caps, in respect of which the Independent Shareholders' approval is being sought. Details of the continuing connected transactions and the proposed annual caps are set out in the "Letter from the Board" contained in the circular of the Company to the Shareholders dated 15 November 2012 (the "Circular"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

We are informed by the Company that the Parent Company is interested in approximately 50.47% of the issued share capital of the Company as at the Latest Practicable Date and is a controlling shareholder of the Company. Also, as at the Latest Practicable Date, Anhui Xinchuang is a company controlled by the Parent Company and is therefore an associate of the Parent Company. Accordingly, both the Parent Company and Anhui Xinchuang are connected persons of the Company under the Listing Rules, and the transactions contemplated under the New Sale and Purchase of Ore Agreement and the Energy Saving and Environmental Protection Agreement (the "Transactions") constitute continuing connected transactions for the Company under the Listing Rules. As the applicable percentage ratios in respect of the respective proposed annual caps for the transactions contemplated under the New Sale and Purchase of Ore Agreement, and the Energy Saving and Environmental Protection Agreement exceed 5%, the Company must comply with the Independent Shareholders' approval requirement in respect of the Transactions, in addition to the reporting, announcement and annual review requirements as stipulated under the Listing Rules. In this connection, the Company will seek the Independent Shareholders' approval for the New Sale and Purchase of Ore Agreement, the Energy Saving and Environmental Protection Agreement, the Transactions and the respective proposed annual caps at the EGM.

The Independent Board Committee, comprising all of the three Independent Non-executive Directors, namely Mr. Qin Tongzhou, Madam Yang Yada and Mr. Liu Fangduan, has been established to consider and make a recommendation to the Independent Shareholders on whether (1) the Transactions are in the Group's ordinary and usual course of business; (2) the terms of the New Sale and Purchase of Ore Agreement and the Energy Saving and Environmental Protection Agreement in relation to the Transactions are on normal commercial terms and are fair and reasonable; (3) the entering into of the Transactions is in the interests of the Company and the Shareholders as a whole; and (4) the proposed annual caps for the three financial years ending 31 December 2013, 2014 and 2015 are fair and reasonable so far as the Independent Shareholders are concerned. We, Somerley Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the proposed annual caps, and the terms of the New Sale and Purchase of Ore Agreement, and the Energy Saving and Environmental Protection Agreement are fair and reasonable in so far as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below:

1. Background to and reasons for the Transactions

(A) The New Sale and Purchase of Ore Agreement

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

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

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

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

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

The Existing Sale and Purchase of Ore Agreement will expire on 31 December 2012. Accordingly, the executive Directors are of the view that it is in the interests of the Company and the Shareholders as a whole to continue the transactions in respect of iron ore, limestone and dolomite with the Parent Company for the coming three years ending 31 December 2013, 2014 and 2015.

(B) The Energy Saving and Environmental Protection Agreement

The Group is committed to promote comprehensive and cohesive development between its business, society and the environment by persistently adhering to the practice of "a low-carbon economy and green production". Certain pollutants and wastes will be generated during the production process of iron and steel. Measures have been adopted by the Group to tackle various pollution control issues such as (1) sulphur dioxide emissions reduction, (2) nitrogen compound emissions reduction, (3) dust removal and (4) sewage treatment.

It was stated in the 2011 annual report that the Company was among the first enterprises to receive the title of "Environmentally Friendly Enterprise in Anhui Province" and "Water-saving Enterprise in Anhui Province" in 2011. It was further stated that the Company received the title of "Energy-Saving Advanced Enterprise in Anhui Province" after passing the accountability assessment on annual energy saving targets conducted by the provincial government; and the Company retained the title of "Metallurgical Greening Advanced Enterprise in China" for six consecutive years as a result of its vigorous efforts to promote the construction of environmentally-friendly plants.

The continual economic growth of the PRC has put immense pressure on its environment. Accordingly, the PRC government puts more emphasis on the promotion of energy saving and environmental protection. In view of more stringent requirements imposed by the PRC Government, the Group has to devote further resources for compliance with regulatory requirements on environmental protection. The Company considers that it is more cost efficient to outsource certain environmental protection work and projects to professional firms which can provide the Company with comprehensive advices and solutions for compliance with regulatory requirements. Furthermore, the Company can focus its resources on its business and operations after outsourcing.

Any non-compliance with regulatory requirements on environmental protection may cause substantial damages to the Group such as fines and suspension of production until compliance with the regulatory requirements. Accordingly, the Board is of the view that it is in the interests of the Company to make certain equity investment in a professional firm which is specialised in provision of energy saving and environmental protection solutions. Through such equity investment, the Company can get access to the latest development and technology in respect of environmental protection. Moreover, after making the equity investment, the Company can participate in the strategic development of such professional firm and is in a better position to monitor the services to be provided to the Group. The Company's participation in the strategic development and monitoring of such professional firm is crucial to the Company because such professional firm may be awarded a service contract to assist the Company to operate and manage certain energy saving and environmental protection facilities after completion of construction of such facilities.

On this basis, the Board approved the equity investment in Anhui Xinchuang on 14 July 2011. Further details of the equity investment in Anhui Xinchuang are set out in the announcement of the Company dated 14 July 2011. As at the Latest Practicable Date, the Group was interested in 35% of Anhui Xinchuang. In accordance with the Company's accounting policies, Anhui Xinchuang is accounted for as an associated company of the Group in the consolidated financial statements of the Group. Therefore, the Group's share of financial results, assets and liabilities of Anhui Xinchuang are equity accounted for in the consolidated accounts of the Group.

Anhui Xinchuang is familiar with the operation, energy saving and environmental protection work of the Group because certain ex-employees responsible for energy saving and environmental protection work of the Group left the Group and joined Anhui Xinchuang after the Group's equity investment in Anhui Xinchuang. Anhui Xinchuang has been engaged by the Group to provide certain energy saving and environmental protection construction and engineering work, and services in respect of energy saving and environmental protection after the Group's equity investment in Anhui Xinchuang. The executive Directors also consider that Anhui Xinchuang has hands-on expertise and experience in respect of energy saving and environmental protection work and services and are satisfied with the work and services provided by Anhui Xinchuang.

The Company has nominated two directors to the board of directors of Anhui Xinchuang, as well as one supervisor to the supervisory committee of Anhui Xinchuang. This allows the Company to participate in the strategic management and monitoring of Anhui Xinchuang's operations, thus to a certain extent, ensure the projects and services to be provided to the Group will be of a high quality standard satisfactory to the Group.

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

On this basis, the executive Directors consider that it is in the interests of the Company and the Shareholders as a whole to continue to engage Anhui Xinchuang to provide certain energy saving and environmental protection construction and engineering work, and services in respect of energy saving and environmental protection and to sell waste materials to Anhui Xinchuang for the coming three years ending 31 December 2013, 2014 and 2015.

The New Sale and Purchase of Ore Agreement and the Energy Saving and Environmental Protection Agreement were entered into with a view to regulating the relationship among parties on the Transactions. We understand from the executive Directors that the Company is satisfied with the quality of Ore provided by the Parent Company and the Parent Company has in the past supplied Ore to the Company on an uninterrupted basis. Also, as advised by the executive Directors, the Group has been satisfied with the work and services provided by Anhui Xinchuang since the Group's equity investment in Anhui Xinchuang. Based on the above and given that the Transactions will be conducted on normal commercial terms (as more particularly discussed in the section headed "Principal terms of the Transactions" below), we consider that the entering into of the New Sale and Purchase of Ore Agreement and the Energy Saving and Environmental Protection Agreement is in the interests of the Company. In light of the principal activities of the Group, we also consider that the Transactions are entered into in the ordinary and usual course of business of the Group.

2. Principal terms of the Transactions

(A) The New Sale and Purchase of Ore Agreement

The New Sale and Purchase of Ore Agreement was entered into on 12 October 2012, whereby the Company has agreed to purchase and the Parent Company has agreed to supply Ore for a term of three financial years ending 31 December 2013, 2014 and 2015. Both parties have the right to terminate the New Sale and Purchase of Ore Agreement by giving six months notice in writing to the other.

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

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

(ii) Terms as compared to independent third party

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

(iii) Pricing

Pursuant to the New Sale and Purchase of Ore Agreement, price for iron ore in tonne, limestone and/or dolomite will be determined after arm's length negotiations between parties. The prices for Ore will be determined based on normal commercial terms and with reference to the market price and shall not be higher than the market price of the same category of iron ore, limestone and/or dolomite provided by independent third parties to the vicinity of the Company in Maanshan City, Anhui Province, the PRC. The procurement department of the Company will conduct research of the market prices of Ore, obtain quotation of Ore from top independent third party suppliers which account for approximately 50% of the total purchase quantity of each category of Ore by the Company and make reference to the latest Ore price payable to independent third party suppliers for determining the price payable to the Parent Company. The Ore price will then be approved by operation management committee. For iron ore, the Company has subscribed services provided by China Iron & Steel Association (中國鋼鐵工業協會) and other service providers for the Company to search for iron ore price. For limestone and dolomite, the Company will check for market price information with other steel producers in the region such as attending the events and gatherings organized by China Iron & Steel Association.

Pursuant to the Existing Sale and Purchase of Ore Agreement, prices for Ore will be arrived at after arm's length negotiations between the parties on half year basis. For iron ore, the price of a particular half year will first be arrived with reference to the weighted average price for each percentage point of iron content in a tonne of similar type of iron ore supplied by the three largest independent suppliers to the Group for iron ore (the "Three Largest Independent Suppliers' Weighted Average Price for Each Percentage Point of Iron Content in a Tonne") in the preceding half year. The price shall be further adjusted retrospectively at the end of that particular half year and shall not be higher than the Three Largest Independent Suppliers' Weighted Average Price for Each Percentage Point of Iron Content in a Tonne for that half year. A similar pricing basis is adopted for limestone and dolomite.

The executive Directors advised us that mineral market (including iron ore) is volatile currently and the iron ore price has been fluctuating. If the Company continues to adopt the pricing basis of the Existing Sale and Purchase of Ore Agreement (i.e. making reference to the price of the Company's three largest independent iron ore suppliers paid in the preceding six months period to determine the price payable to the Parent Company in a particular six months period first and then adjusting retrospectively at the end of that particular six months period), the fluctuation of iron ore price and production costs during a particular six months period will not be timely reflected in the consolidated financial statements of the Group. Such fluctuation will be reflected in the consolidated financial statements of the Group after the retrospective price adjustment at the end of that particular six months period.

The executive Directors anticipate that iron ore price will drop in 2014 and 2015. The pricing basis of the Existing Sale and Purchase of Ore Agreement will render the Company to pay firstly higher iron ore price to the Parent Company in a particular six months period of these two years because the price payable to the Parent Company shall be determined firstly by reference to the price of the Company's three largest independent iron ore suppliers paid in the preceding six months period. The Parent Company shall refund the extra amount paid by the Company to the Company after the retrospective price adjustment at the end of that particular six months period. This, from working capital standpoint, is not in the interests of the Company.

With the expectation to purchase more iron ore from the Parent Company for the coming three financial years, the aforesaid impact will become greater. In order to (1) accurately and timely reflect the production cost and better tie in the cost structure of the Company with iron ore price; and (2) minimise the undue impact on working capital of the Group, the executive Directors propose to revise the pricing term of iron ore by reference to the market price. The executive Directors also propose to revise the pricing term of limestone and dolomite by reference to the market price.

(iv) Payment term

It is stipulated under the New Sale and Purchase of Ore Agreement that the Company shall settle the payment for iron ore purchased within 30 days after iron ore has been delivered to, and inspected and confirmed by the Company as being in good quality. The Company has to make full or partial payment for iron ore to its major independent iron ore suppliers upon off loading of iron ore through letter of credit arrangement in accordance with the purchase agreements with the major independent iron ore suppliers. Accordingly, the credit term offered by the Parent Company is more favourable than those offered by major independent iron ore suppliers. For purchases of limestone and dolomite, the credit term is 50 days which is consistent with the credit term offered by major independent limestone and dolomite suppliers of the Company.

(B) The Energy Saving and Environmental Protection Agreement

The Energy Saving and Environmental Protection Agreement was entered into on 12 October 2012 for a term of three financial years ending 31 December 2013, 2014 and 2015. The Energy Saving and Environmental Protection Agreement governs the relationship between the Group and Anhui Xinchuang with respect to (a) the provision of energy saving and environmental protection construction and services by Anhui Xinchuang to the Group; and (b) the sale of waste materials to Anhui Xinchuang by the Group. According to the Energy Saving and Environmental Protection Agreement, prices for (a) energy saving and environmental protection construction and services to be provided by Anhui Xinchuang to the Group; and (b) waste materials to be sold by the Group to Anhui Xinchuang shall be based on (1) state-prescribed price, if such price is available; or (2) if no state-prescribed price is available; by market price agreed based on normal commercial terms and with reference to comparable market transaction price of such services or waste materials. The prices with respect to the provision of energy saving and environmental protection construction and services shall not be higher than the prices of services of the same category provided by independent third parties to the Group. The prices with respect to the sales of waste materials to Anhui Xinchuang shall not be lower than the sale price of waste materials of the same category sold to independent third parties by the Group. As set out in the Energy Saving and Environmental Protection Agreement, for energy saving and environmental protection construction and services, payment shall be made by the Company to Anhui Xinchuang in accordance with progress of construction as verified by the Company. For the sales of waste materials to Anhui Xinchuang, at the end of each month, the Company shall receive an estimated sum from Anhui Xinchuang in advance for the sales with respect to the following month and settlement will be done on a monthly basis. Further details of the prices and payment term are set out in the "Letter from the Board" contained in the Circular.

Pursuant to the Energy Saving and Environmental Protection Agreement, the terms (including but not limited to pricing and payment terms) with respect to the provision of energy saving and environmental protection construction and services, and the sales of waste materials should be based on normal commercial terms through negotiations between parties. For the provision of energy saving and environmental protection construction and services to the Group, terms (including but not limited pricing and payment terms) should be no less favourable than those offered by independent third parties to the Group for similar services. For the sales of waste materials to Anhui Xinchuang, the terms (including but not limited to pricing and payment terms) should not be more favourable than those offered to independent third parties by the Group for similar waste materials.

As advised by the executive Directors, for the energy saving and environmental protection construction and services, it is the Group's policy to request Anhui Xinchuang to provide, along with other independent service providers, quotations in respect of the requested services. Following the receipt of quotations from Anhui Xinchuang and other independent service providers, the Group will compare and negotiate the terms of quotations with service providers and determine the selection of service providers by taking into account factors such as price quotations, quality of the services, ability of the service providers in meeting technical specifications and delivery schedules, and qualification and relevant experiences of the service providers. The contract will be awarded to the service provide who offers the best commercial terms and technical terms to the Company. Also, although there is no formal policy for sourcing energy saving and environmental protection construction and services through tender, the Group will source them through a tender process for contract with value over RMB100,000 to ensure services are obtained under a fair and competitive environment. The contract will be awarded to the service provider after assessment based on the criteria as set out above. We understand from the executive Directors that the Company does not have a formal policy regarding the number of quotations and/or tenders to be obtained. However, the Company will try to obtain as many quotations and/or tenders as possible for the Company's interest and it is the Company's practice to obtain at least three quotations and tenders. We note from "中華人民共和國招標投標法" (unofficial translation being "Law of the People's Republic of China on Bid Invitation and Bidding") and "中華人民共和國招標投標法實施條例" (unofficial translation being "Regulation on the Implementation of the Law of the People's Republic of China on Bid Invitation and Bidding"), which state, among other things, that a minimum of three tenders are required to be received to render a tender to be valid. As a result, the Company's practice to obtain at least three quotations and/or tenders is consistent with the requirements under "中華人民共和國招標投標法" (unofficial translation being "Law of the People's Republic of China on Bid

Invitation and Bidding") and "中華人民共和國招標投標法實施條例" (unofficial translation being "Regulation on the Implementation of the Law of the People's Republic of China on Bid Invitation and Bidding"). Accordingly, Anhui Xinchuang may or may not be awarded the contracts. We understand from the executive Directors that, for the sales of waste materials, the sales department prepares monthly pricing report based on research on market prices for approval by operation management committee, and in any event, the prices of waste materials sold to Anhui Xinchuang shall not be lower than the prices sold to independent customers. We consider that such measures are in the interests of the Independent Shareholders as their interests are safeguarded by obtaining and comparing independent third party quotations and market prices.

(C) Review of the Transactions by the auditors

The auditors of the Company were engaged to report on the Group's continuing connected transactions as set out in the 2011 annual report (the "Past Transactions") in accordance with *Hong Kong Standard on Assurance Engagements 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to *Practice Note 740 Auditor's Letter on Continuing Connected Transaction under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. The auditors were of the conclusion that, save for the exceptions mentioned below, (a) nothing had come to their attention that caused them to believe that the Past Transactions had not been approved by the Board; (b) for the Past Transactions involving the provision of goods or services by the Group, nothing had come to their attention that caused them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company; (c) nothing had come to their attention that caused them to believe that the Past Transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and (d) nothing had come to their attention that caused them to believe that the Past Transactions had exceeded the maximum aggregate annual value disclosed in previous announcements made or the prospectus issued by the Company (as the case may be) in respect of each of the Past Transactions. The auditors of the Company were also engaged to report on the Group's continuing connected transactions as set out in the 2010 annual report and had issued an unqualified conclusion (i.e. without any exceptions noted). For the exceptions in 2011, it was stated in the 2011 annual report of the Company that qualified conclusion was issued for the continuing connected transaction of the depository services conducted pursuant to the finance service agreements. It was further stated that based on the Company's extraordinary general meeting held on 30 December 2011, the resolution in relation to the depository services and the relevant annual caps were not approved by the independent shareholders. As a result, the provisions relating to the depository services in the finance service agreements and the relevant annual caps were invalid. As such, the auditors of the Company could not confirm whether (i) the depository services was entered into, in all material respects, in accordance with the relevant agreements governing the depository services during the year ended 31 December 2011; and (ii) the depository services had not exceeded the annual cap set for the year ended 31 December 2011. The depository services did not constitute continuing connected transactions of the Company as at the Latest Practicable Date because the finance company was a 91%-owned subsidiary of the Group as at the Latest Practicable Date.

On this basis, and based on the obligations of the Directors to comply with the Listing Rules to conduct the Transactions on normal commercial terms, we consider that the Transactions are being conducted on normal commercial terms.

3. Proposed Annual Caps

The Transactions will be subject to the proposed annual caps whereby for each of the three financial years ending 31 December 2013, 2014 and 2015, the amount of the Transactions will not exceed the applicable annual amounts stated in the "Letter from the Board" contained in the Circular. In assessing the reasonableness of the proposed annual caps, we have discussed with the executive Directors and management of the Company the basis and underlying assumptions for the purpose of setting the proposed annual caps.

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

Set out below are the approximate aggregate amount (excluding tax) of purchase of iron ore, limestone and dolomite from the Parent Company for each of the two financial years ended 31 December 2010 and 2011 and the six months ended 30 June 2012:

	Financial year ended 31 December		**Six months ended 30 June**
	2010	**2011**	**2012**
	RMB ('000)	*RMB ('000)*	*RMB ('000)*
Approximate aggregate amount (excluding tax) of purchase of iron ore, limestone and dolomite from the Parent Company	2,202,373	2,397,161	1,642,947
Approximate increase as compared to the previous year (%)		*8.84%*	

The amount of purchase of iron ore contributed to a significant aggregate amount of purchase from the Parent Company for the past two years of 2010 and 2011, and for the six months ended 30 June 2012 (2010: 98.7% and 2011: 99.0%, and 2012 first half: 98.5%). The Company purchased similar volume of iron ore from the Parent Company for the two years ended 31 December 2010 and 2011 (2010: approximately 2.92 million tonnes and 2011: approximately 2.95 million tonnes). The increase in aggregate amount of purchase of iron ore from the Parent Company was mainly driven by the increase in iron ore price. For the six months ended 30 June 2012, the amount of purchase of iron ore, limestone and dolomite amounted to approximately RMB1,642.9 million, representing approximately 68.5% of the purchase amount in 2011, which was mainly due to the increase in purchase of iron ore from the Parent Company during the six months ended 30 June 2012. The Group purchased more iron ore from the Parent Company during the six months ended 30 June 2012 with a total quantity of approximately 1.86 million tonnes, which represented approximately 63.1% of the total quantity of iron ore purchased in the year of 2011. The quantities of limestone and dolomite purchased from the Parent Company were approximately 0.64 million tonnes and 0.55 million tonnes for the two years ended 31 December 2010 and 2011 respectively and 0.47 million tonnes for the first half of 2012. The total quantity of Ore purchased from the Parent Company amounted to approximately 3.56 million tonnes, 3.50 million tonnes and 2.33 million tonnes for the two years ended 31 December 2010 and 2011 and the period of first six months ended 30 June 2012, representing approximately 12.7%, 11.9% and 16.5% of the total Ore purchased by the Group of approximately 28.13 million tonnes, 29.50 million tonnes and 14.09 million tonnes for the corresponding periods.

Based on existing production plan, the executive Directors anticipate that the annual total quantity of iron ore to be purchased by the Group for the coming three years ending 31 December 2013, 2014 and 2015 will be close to current level. In addition to making reference to production plan of the Group for the coming three years, the executive Directors discuss with the Parent Company regarding the production and development plan of the mines. Certain new mines in Anhui Province will commence operation for the coming three years. The Parent Company will also expand the production scale of certain existing mines. As stated in the sub-section headed "The New Sale and Purchase of Ore Agreement" under the section headed "Background to and reasons for the Transactions" of this letter, the executive Directors consider that it is in the interests of the Company to source more iron ore from the Parent Company as it allows the Company to have a stable supply of good grade and quality iron ore. Moreover, this can reduce the Group's reliance on suppliers for overseas iron ore so as to mitigate the risk of delay of shipments when purchasing from these suppliers. Accordingly, the Company plans to source for more iron ores from the Parent Company for the coming three years ending 31 December 2013, 2014 and 2015. It is estimated that the Company will purchase approximately 4.79 million tonnes, 5.8 million tonnes and 8.11 million tonnes of iron ores from the Parent Company for the coming three years ending 31 December 2013, 2014 and 2015 respectively. Also, as stated in the sub-section headed "The New Sale and Purchase of Ore Agreement" under the section headed "Background to and reasons for the Transactions" of this letter, the Parent Company provides good quality of limestone and dolomite. With similar reasons as mentioned above, the executive Directors also plan to source more limestone and dolomite from the Parent Company in the coming three years ending 31 December 2013, 2014 and 2015. It is expected that not exceeding 1.6 million tonnes, 2.3 million tonnes and 2.6 million tonnes of limestone and dolomite will be purchased by the Company from the Parent Company in 2013, 2014 and 2015 respectively. We have obtained the budgeted production capacity of mines for the three years ending 31 December 2013, 2014 and 2015 issued by the Parent Company from the executive Directors and noted that the above expected purchase volumes of Ore by the Company agree to the budgeted production capacity of the Parent Company's mines for the three years ending 31 December 2013, 2014 and 2015 respectively. Based on the budget, the Parent Company will commence mining activities for three new iron ore mines in 2013 following completion of their initial construction work in 2012. Further construction work will be carried out by the Parent Company to expand production capacity of these three iron ore mines. The Parent Company targets to complete the construction work by 2015. Another new iron ore mine is under construction. Based on the budget, the mining activities of this new iron ore mine will commence in 2015. This explains why the quantity of iron ore to be purchased from the Parent Company is estimated to increase by approximately 39.8% in 2015 as compared to that in 2014. On this basis, we are of the view that a reasonable basis has been adopted by the Company to estimate the purchasing volume of Ore for the coming three years ending 31 December 2013, 2014 and 2015.

The executive Directors make reference to the iron ore price forecast made by Macquarie in September 2012 to estimate future iron ore purchase price with the Parent Company for the coming three years. Based on the research report of Macquarie released in September 2012, it is estimated by Macquarie that the iron ore spot fine China price will increase by approximately 1.56% in 2013 and drop by approximately 3.85% and 8% in 2014 and 2015 respectively. On this basis, the executive Directors estimate the future purchase price of iron ore with the Parent Company for 2013 by applying a 1.56% increase to the average purchase price of iron ore of the Company for the nine months ended 30 September 2012. A 3.85% and 8% drop is adopted to estimate the respective 2014 and 2015 iron ore purchase price with the Parent Company.

A buffer of 10% has also been incorporated in determining the annual caps of iron ore purchase in 2013, 2014 and 2015 to cater for possible adjustments in prices, and further growth in businesses of the Group. We concur with the executive Directors that it is appropriate to include the buffers because (1) the Federal Reserve of the United States has recently announced its third bond-buying program and would likely hold the federal funds rate near zero at least through mid-2015. The third round of quantitative easing measures may boost commodity prices including iron ore. Accordingly, it is extremely difficult to predict accurately the future price of iron ore for the coming three years; and (2) the buffers would provide flexibility for the Group to purchase more iron ore from the Parent Company should the Company consider to be in its interest. In addition, given the Parent Company's undertaking to supply Ore to the Company on terms not less favourable than terms agreed between the Company with any independent third party, we consider the buffers to be acceptable.

For purchase of limestone and dolomite from the Parent Company, the executive Directors forecast that the purchase prices of limestone and dolomite will increase in 2013 due to increase in labour costs and transportation expenses and more stringent rules and regulations for environmental standards. Therefore, the executive Directors estimate that the purchase prices of limestone and dolomite for the year ending 31 December 2013 will increase by approximately 5.8% and 3.4% respectively comparing to their average purchase prices of the Group for the nine months ended 30 September 2012. The purchase prices for the two years ending 31 December 2014 and 2015 are expected to remain stable as compared to 2013.

Taking into account the aforesaid factors, the proposed annual caps (excluding tax) for the purchase of Ore from the Parent Company are set as follows:

	Financial year ending 31 December		
	2013	**2014**	**2015**
	RMB ('000)	*RMB ('000)*	*RMB ('000)*
Proposed annual caps (excluding tax) for the purchase of Ore from the Parent Company	5,658,268.6	6,607,763.5	8,469,690.8
Approximate increase as compared to the annual cap of previous year (%)		*16.8%*	*28.2%*

(B) Energy saving and environmental protection construction and services and sales of waste materials

(a) Provision of energy saving and environmental protection construction and services by Anhui Xinchuang to the Group

As set out in the sub-section headed "The Energy Saving and Environmental Protection Agreement" under the section headed "Background to and reasons for the Transactions" of this letter, Anhui Xinchuang will provide various energy saving and environmental protection construction and services to the Group under the Energy Saving and Environmental Protection Agreement. We have obtained a list detailing contract value signed with Anhui Xinchuang and based on the list, for the nine months ended 30 September 2012, the aggregate value of contracts signed with Anhui Xinchuang with respect to the provision of energy saving and environmental protection construction and services by Anhui Xinchuang to the Group amounted to approximately RMB382.8 million, comprising energy saving and environmental protection construction work of approximately RMB292.4 million and other services of approximately RMB90.4 million.

When determining the proposed caps (in terms of aggregate value of contracts being entered into within the same financial year) with respect to the provision of energy saving and environmental protection construction and services by Anhui Xinchuang to the Group for the coming three years ending 31 December 2013, 2014 and 2015, the executive Directors make reference to (i) expected demand for certain key energy saving and environmental protection construction and services from the Group based on past experience and requirements; (ii) the state-prescribed price and/or market price regarding those services; and (iii) Anhui Xinchuang's anticipated capacity in providing the energy saving and environmental protection construction and services. As advised by the executive Directors, key energy saving and environmental protection construction work and services required by the Group include (i) environmental facilities maintenance; (ii) sintering desulfurization which aims to reduce emission of sulphur dioxide during the iron and steel production process; (iii) power plant denitrification which aims to reduce emission of nitrogen oxides; (iv) water quality management; and (v) other services include dust removal, energy saving projects and spare parts processing.

We are informed by the executive Directors that the Group expects to conduct key environmental facilities maintenance and sintering desulfurization project by phases, with estimated contract value of approximately RMB150 million in 2013. The contract amount for the first phase in 2013 is expected to be higher due to significant scale of work. For 2014, the contract value is expected to be less as large amount of work has been done in previous year. As set out in the Company's 2011 annual report, in April 2011, the Company acquired 55% interests in Changjiang Steel which is mainly engaged in ferrous metal smelting, the production and sales of screw-threaded steel, round steel, section steel, angle steel, deformed steel, wire and rod, sales of iron ore and iron ore fines and scrap steel as well as import and export. The Company has been monitoring the operations of Changjiang Steel for over a year since the acquisition in April 2011 and the Company decided to introduce measures to enhance the efficiency of Changjiang Steel's energy savings aspects. As a result, Anhui

Xinchuang may be awarded with contract(s) for project with respect to two new power plants which completion is expected within 2013. Such contract sum involves an amount of approximately RMB140 million. For the year ending 31 December 2013, contracts for various environmental services may be awarded to Anhui Xinchuang (including (i) dust removal of approximately RMB10 million; (ii) energy savings projects of approximately RMB20 million; (iii) water quality management of approximately RMB100 million; and (iv) spare parts processing of approximately RMB30 million) which totals approximately RMB160 million.

For the reasons as set out above, the contracts with respect to environmental facilities maintenance and sintering desulfurization services for 2014 are estimated to be approximately RMB115 million. As governmental requirements for environmental protection on PRC enterprises are expected to be more stringent, the Group estimated that more work will be required with respect to environmental facilities maintenance and sintering desulfurization in 2015, and accordingly contracts with an estimated amount of approximately RMB165 million may be awarded to Anhui Xinchuang in this regard. In addition, the Company may engage Anhui Xinchuang to provide it with denitrification services for its power plant and desulfurization for iron and steel plant in 2014 and 2015 with contract value of approximately RMB140 million and RMB195 million respectively. Due to the high quality technical team specialising in water treatment in Anhui Xinchuang, Changjiang Steel may consider to obtain water quality management service from Anhui Xinchuang commencing 2014 after expiry of a contract with another service provider by the end of 2013. Such contract is estimated to have a value of approximately RMB10 million. With this taken into account, the executive Directors estimated that the total service to be obtained from Anhui Xinchuang in relation to water quality management amounts to approximately RMB110 million in 2014. Due to increasingly stringent requirements for environmental protection imposed by government, and according to the Company's development plan, it is expected that water quality management service, with contract value of approximately RMB10 million, may be obtained from Anhui Xinchuang in 2015 in relation to Ma Steel (Hefei) Iron & Steel Co. Ltd., a subsidiary of the Company. Therefore, the total contract amount for such services in 2015 is estimated to be around RMB120 million. For 2014 and 2015, contracts for other services (namely dust removal and energy savings projects) that may be obtained from Anhui Xinchuang are expected to remain the same as in 2013. For the processing of spare parts, it is expected the Company's demand for spare parts will increase due to expansion of its environmental facilities. Therefore, an increase in contract value of approximately RMB10 million in 2014 with respect to spare part processing has been taken into account by the executive Directors when estimating the proposed cap for 2014 and this is expected to remain at the same level in 2015. A table is set out below which summarises the expected contract values which may be awarded to Anhui Xinchuang under each category:

	Financial year ending 31 December		
	2013	**2014**	**2015**
	RMB ('000)	*RMB ('000)*	*RMB ('000)*
Key environmental facilities maintenance and sintering desulfurization project	150,000	115,000	165,000
Contract(s) for project relating to two new power plants of Changjiang Steel	140,000	–	–
Water quality management	100,000	110,000	120,000
Denitrification and iron and steel plant desulfurization services	–	140,000	195,000
Other services (dust removal, energy saving projects and spare parts processing)	60,000	70,000	70,000
Proposed annual caps	**450,000**	**435,000**	**550,000**

We have reviewed a minute of the Company's energy and environmental protection department setting out the budget for total estimated expenditure to be incurred with respect to energy saving and environmental protection construction and services for the coming three years from 2013 to 2015. As set out above, Anhui Xinchuang may be awarded with contract(s) for project with respect to two new power plants of Changjiang Steel in 2013, with contract amount of approximately RMB140 million. Also, Anhui Xinchuang may be awarded with contracts in relation to water quality management services with contract value of approximately RMB100 million, RMB110 million and RMB120 million in 2013, 2014 and 2015 respectively. We noted that the above contract values are consistent with the Company's budget. In determining the contract value which may be awarded to Anhui Xinchuang in relation to environmental facilities maintenance and sintering desulfurization, as well as denitrification and iron and steel plant desulfurization services, the executive Directors have taken into account the anticipated capacity of Anhui Xinchuang in providing such services. Therefore, with reference to the Company's total budgeted expenditure relating to these areas, only part of the total budgeted expenditure have been included in the proposed value of contracts which may be awarded to Anhui Xingchuang for these categories.

As mentioned above, for the nine months ended 30 September 2012, the aggregate value of signed contracts with respect to the provision of energy saving and environmental protection construction and services by Anhui Xinchuang to the Group amounted to approximately RMB382.8 million. In view of this and together with the basis set out above, we are of the view that the proposed annual caps (in terms of aggregate value of contracts being entered into within the same financial year) (excluding tax) for the provision of energy saving and environmental protection construction and services by Anhui Xinchuang to the Group are fair and reasonable.

Taking into account the aforesaid factors, the proposed annual caps (in terms of aggregate value of contracts being entered into within the same financial year) (excluding tax) for the provision of energy saving and environmental protection construction and services by Anhui Xinchuang to the Group are set as follows:

	Financial year ending 31 December		
	2013	**2014**	**2015**
	RMB ('000)	*RMB ('000)*	*RMB ('000)*
Proposed annual caps (in terms of aggregate value of contracts being entered into within the same financial year) (excluding tax) for the provision of energy saving and environmental protection construction and services by Anhui Xinchuang to the Group	450,000	435,000	550,000
Approximate (decrease)/ increase as compared to the annual cap of previous year (%)		*(3.3)%*	*26.4%*

(b) Sales of waste materials by the Group to Anhui Xinchuang

As set out in the sub-section headed "The Energy Saving and Environmental Protection Agreement" under the section headed "Background to and reasons for the Transactions" of this letter, waste (e.g. slag produced during iron and steel production and coal ash created when coal is burned to generate energy) will be produced during the production process of the Company. The Company may choose to sell such waste materials to Anhui Xinchuang who will further process them for further sales to its customers for use in cement production. The Company commenced the sales of waste materials to Anhui Xinchuang since March 2012. For the period from March to September 2012, the total contract amount of sales of waste materials by the Group to Anhui Xinchuang amounted to approximately RMB7.6 million.

When determining the proposed annual caps with respect to the sales of waste materials to Anhui Xinchuang, the executive Directors taken into account the anticipated volume of waste materials produced by the Group, and the increase in processing capacity and anticipated demand of Anhui Xinchuang for the coming years. Discussions were made with the management of Anhui Xinchuang regarding their continuous expansion of processing capacity. After the discussions, the executive Directors understand that they will have an increased demand of waste materials for further processing in 2013 and such demand is expected to be doubled in 2014. For 2015, as there will not be significant change in the processing capacity of Anhui Xinchuang, the demand of waste materials from Anhui Xinchuang is expected to remain at the same level. Taking into account the aforesaid factors, the proposed annual caps (in terms of aggregate value of contracts entered into within the same financial year) (excluding tax) for the sales of waste materials by the Group to Anhui Xinchuang are set as follows:

	Financial year ending 31 December		
	2013	**2014**	**2015**
	RMB ('000)	*RMB ('000)*	*RMB ('000)*
Proposed annual caps (in terms of aggregate value of contracts entered into within the same financial year) (excluding tax) for the sales of waste materials by the Group to Anhui Xinchuang	20,000	45,000	45,000
Approximate increase as compared to the annual cap of previous year (%)		*125%*	*0%*

Having considered the basis on which the proposed annual caps were determined as described above, we are of the view that the proposed annual caps for the Transactions are fair and reasonable.

4. Conditions of the Transactions

In compliance with the Listing Rules, the conduct of the Transactions is subject to a number of conditions which include, among other things:

(i) the proposed annual caps for each of the three financial years ending 31 December 2013, 2014 and 2015 will not be exceeded;

(ii) the Independent Non-executive Directors must, in accordance with the Listing Rules, review annually the Transactions and confirm in the Company's annual report and accounts that the Transactions 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 relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;

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

(a) have received the approval of the Board;

(b) are in accordance with the pricing policies of the Group if the transactions involve provision of goods and service by the Group;

(c) have been entered into in accordance with the relevant agreements governing the Transactions; and

(d) have not exceeded the proposed annual caps;

(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 the auditors will not be able to confirm the matters set out in the points (ii) and/or (iii) above respectively;

(v) the Company will allow, and procure that the Parent Company and Anhui Xinchuang will allow, the auditors of the Company sufficient access to the relevant records of the Transactions for the purpose of the auditors' review as referred to in point (iii) above. The Board must state in the annual report whether its auditors have confirmed the matters stated in Rule 14A.38 of the Listing Rules; and

(vi) the Company will comply with the applicable provisions of the Listing Rules governing connected transactions in the event that the total amount of the Transactions exceeds the proposed annual caps, or that there is any material amendment to the terms of the New Sale and Purchase of Ore Agreement and the Energy Saving and Environmental Protection Agreement.

In light of the conditions attached to the Transactions, in particular, (1) the restriction of the amount of the Transactions by way of the proposed annual caps; (2) the ongoing review by the Independent Non-executive Directors and auditors of the Company regarding the terms of the Transactions; and (3) the continuing review by the auditors of the Company confirming the proposed annual caps not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the Transactions and safeguard the interests of the Independent Shareholders.

DISCUSSION AND ANALYSIS

The Company's shares were listed on the Stock Exchange in November 1993. Prior to the Reorganisation to facilitate the listing, the Company's businesses were substantially integrated with those of the Parent Company. Following the Reorganisation, the businesses, assets and contractual arrangements were separated as far as possible, but inevitably some connections of business remained. We consider this is the normal situation when a relatively integrated business is spun-off from its parent.

There are also transactions among members of the Company and the Parent Company, which are common where each group subsidiary has its own business specialisation. This is also the case for Angang and Chongqing Steel. The production scale of iron ore in the PRC is insufficient to meet the production requirement of the PRC iron and steel manufacturing industry. Accordingly, most of iron ore consumed by the Group is produced from distant mines in Australia and Brazil. The shipment of iron ore from overseas mines is affected by, among other things, weather conditions and availability of vessels. Delay of shipment may pose a risk for the production process of the Company because production process of steel making requires a continuous supply of iron ore. The bulky nature of iron ore limits the ability of the Company to stockpile large amount of iron ore. Moreover, the executive Directors consider that substantial amount of working capital of the Group will be tied up for purchase of iron ore if the Group stockpiles large amount of iron ore and this is not in the interests of the Shareholders. Accordingly, it is strategically beneficial for the Company to secure a domestic source of iron ore. As advised by the executive Directors, most of large domestic iron ore mines are owned and/or operated by domestic iron and steel producers or their related companies. The iron ores from these large iron ore mines are firstly supplied to their respective related domestic iron and steel producers with limited amount of iron ores sold in the domestic market. With limited resources, small iron ore mine producers are, in general, unable to guarantee a stable supply of good grade and quality iron ores to the Company.

The Ore supplied by the Parent Company are mined from its mines which are all located in Anhui Province and are close to the off loading port adjacent to the production facilities of the Company in Maanshan City, Anhui Province. The Parent Company is able to maintain a stable supply of good grade and quality of Ore to the Company.

Certain pollutants and wastes will be generated during the production process of iron and steel. Measures have been adopted by the Group to tackle various pollution control issues. The PRC government puts more emphasis on the promotion of energy saving and environmental protection. In view of more stringent requirements imposed by the PRC Government, it is more cost efficient for the Group to outsource certain environmental protection work and projects to professional firms. This can allow the Company to focus its resources on its business and operations after outsourcing.

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

In order to fulfill the Group's social responsibility through recycling of waste, the Company may sell certain waste materials including slag and coal ash to Anhui Xinchuang who will further process them for further sales to its customers for use in cement production.

These factors resulted in the Transactions. We consider a fair and reasonable basis for the pricing principles and other terms of the New Sale and Purchase of Ore Agreement and the Energy Saving and Environmental Protection Agreement has been established, as discussed above. Whilst the approval of the proposed annual caps for the Transactions gives the Company the flexibility to (a) source Ore from the Parent Company; (b) engage Anhui Xinchuang to provide certain construction and engineering work, and services in respect of energy saving and environmental protection; and (c) sell certain waste materials to Anhui Xinchuang, the Company is not committed to do so. The Company will proceed with the Transactions only if (a) the executive Directors consider that the Transactions are in the interests of the Company and the Shareholders as a whole; and (b) terms offered by the Parent Company and Anhui Xinchuang must be no less favourable than those offered by independent third party suppliers and customers of the Company.

The proposed annual caps have been established for the Transactions. We consider the transactions themselves will be conducted on normal commercial terms and for benefit of the Group. We concur with the executive Directors that the proposed annual caps, which are in our opinion based on well-supported projections, allow the Company a degree of flexibility in managing its businesses.

OPINION

Having taken into account the above principal factors and reasons, we consider that (1) the Transactions are in the Group's ordinary and usual course of business; (2) the terms of the New Sale and Purchase of Ore Agreement and the Energy Saving and Environmental Protection Agreement in relation to the Transactions are on normal commercial terms and are fair and reasonable; (3) the entering into of the Transactions is in the interests of the Company and the Shareholders as a whole; and (4) the proposed annual caps for the three financial years ending 31 December 2013, 2014 and 2015 are fair and reasonable so far as the Independent Shareholders are concerned.

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

Yours faithfully,
for and on behalf of
SOMERLEY LIMITED
Richard Leung
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 Mr. Su Jiangang, Mr. Zhao Jianming and Mr. Qian Haifan who are also directors of the Parent Company, 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 2011, 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 2011, 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:

Name	**Qualification**
Somerley	A corporation licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO

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

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

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

(iii) did not have any direct or indirect interests in any assets which since 31 December 2011 (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 address and the office address of the Company is at No.8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC.

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

(c) The company secretary of the Company is Mr. Ren Tianbao.

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 12 December 2012:

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

(b) the Energy Saving and Environmental Protection Agreement

(c) the letter from the Independent Board Committee dated 15 November 2012;

(d) the letter from the Independent Financial Adviser dated 15 November 2012; and

(e) the written consent from Independent Financial Adviser referred to in paragraph 6 headed "Expert and Consent" above.

馬鞍山鋼鐵股份有限公司
Maanshan Iron & Steel Company Limited

(A joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 00323)

NOTICE OF 2012 THIRD EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2012 Third Extraordinary General Meeting (the "EGM") of Maanshan Iron & Steel Company Limited (the "Company") will be held at the Magang Office Building, No.8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC, at 8:30 a.m. on Wednesday, 12 December 2012.

This EGM will deal with the following matter:

Ordinary resolutions:

1. To consider and approve the New Sale and Purchase of Ore Agreement, for a term of three years from 2013 to 2015, entered into between the Company and Magang (Group) Holding Company Limited on 12 October 2012, the transactions contemplated under the agreement and the annual caps.

2. To consider and approve the Energy Saving and Environmental Protection Agreement, for a term of three years from 2013 to 2015, entered into between the Company and Anhui Xinchuang Energy Saving and Environmental Protection Technology Company Limited on 12 October 2012, the transactions contemplated under the agreement and the annual caps.

By Order of the Board of Directors
Ren Tianbao
Company Secretary

25 October 2012
Maanshan City, Anhui Province, the PRC

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

Executive Directors:	*Su Jiangang, Qian Haifan, Ren Tianbao*
Non-executive Director:	*Zhao Jianming*
Independent Non-executive Directors:	*Qin Tongzhou, Yang Yada, Liu Fangduan*

Notes:

I. Persons entitled to attend the EGM

Persons who hold H shares of the Company and are registered as holders of H shares on the register of members maintained by The Hong Kong Registrars Limited after the market close in the afternoon of Monday, 12 November 2012 shall have the right to attend the EGM after completing the registration procedures for attending the meeting. (Holders of A shares will be notified separately.)

II. Registration procedures for attending the EGM

1. Holders of H shares shall deliver their written replies for attending the EGM, copies of transfers, share certificates or copies of receipts of share transfer and copies of their own identity cards to the Company by no later than Thursday, 22 November 2012. If proxies are appointed by shareholders to attend the EGM, they shall, in addition to the aforementioned documents, deliver the proxy forms and copies of their own identity cards to the Company.

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

III. Appointing Proxies

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

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

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

V. The Company's register of members for H shares will be closed from Tuesday, 13 November 2012 to Wednesday, 12 December 2012 (both days inclusive), during which period no transfer of H shares will be registered. Holders of H shares who wish to be entitled to attend the EGM must deliver their instruments of transfer together with the relevant share certificates to The Hong Kong Registrars Limited, the Registrar of H shares of the Company, by no later than 4:00 p.m. on Monday, 12 November 2012.

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

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

VI. Company's registered address: No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, The PRC, postal code: 243003

Telephone: 86-555-2888158

Fax: 86-555-2887284

Contact persons: Ms. He Hongyun, Mr. Xu Yayan