THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your securities in Chongqing Iron & Steel Company Limited (the "Company"), you should at once hand this circular and the accompanying 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 the transferee.

Chongqing Iron & Steel Company Limited
重慶鋼鐵股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(在中華人民共和國註冊成立的股份有限公司)

DISCLOSEABLE AND CONNECTED TRANSACTIONS PROPOSED ASSET REORGANISATION INVOLVING THE ASSET TRANSFER AND THE SHARE TRANSFER

Independent financial adviser to the Independent Committee

MASTERLINK SECURITIES (H.K.) CORP. LTD.

A letter of advice from MasterLink Securities (H.K.) Corp. Ltd., the independent financial adviser to the Independent Committee of Chongqing Iron & Steel Company Limited is set out on pages 7 to 13 of this circular.

4th November, 2002

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

"Asset Transfer"	means the transfer of 100% assets and liabilities of Hengda to the Company pursuant to the Asset Transfer Agreement
"Asset Transfer Agreement"	means the conditional assets transfer agreement dated 9th October, 2002 entered into between the Company and Hengda in relation to the Asset Transfer
"Associates"	has the meaning ascribed to it under the Listing Rules
"Board"	means the board of Directors
"Company"	means 重慶鋼鐵股份有限公司 (Chongqing Iron & Steel Company Limited), a joint stock limited company established in the PRC and the shares of which are listed on the Stock Exchange of Hong Kong Limited
"Director(s)"	means the Director(s) of the Company
"EGM"	means the extraordinary general meeting of the Company to be held at 10:00 a.m. on Tuesday, 3rd December, 2002 at the third conference hall of the Company to approve, among other things, the Asset Transfer and the Share Transfer
"Greater China"	means Greater China Appraisal Limited, an independent chartered valuation surveyor
"Group"	means the Company and Hengda
"Hengda"	means 重慶恒達鋼業股份有限公司 (Chongqing Hengda Steel Industrial Co. Ltd.), a joint stock limited company established in the PRC and a 69.51 percent owned subsidiary of the Company
"HK$"	means Hong Kong dollars
"Holding Company"	means 重慶鋼鐵(集團)有限責任公司 (Chongqing Iron & Steel Company (Group) Limited), a state-owned limited liability company established in the PRC
"Hong Kong"	means the Hong Kong Special Administrative Region of PRC
"Independent Committee"	means an independent committee of the Board comprising the independence non-executive Directors, namely Wang Xiang Fei and Wu Zhong Fu

"Independent Shareholders"	means the shareholders of the Company other than the Holding Company and its Associates
"Latest Practicable Date"	means 31st October, 2002, being the latest practicable date before the printing of this circular for ascertaining certain information contained herein
"Lease"	means the lease of the land that has been occupied by Hengda and will be leased by the Holding Company to the Company pursuant to the Lease Agreement
"Lease Agreement"	means the new lease agreement to be entered into by the Company and the Holding Company in relation to the Lease upon completion of the Asset Transfer and Share Transfer
"Listing Rules"	means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"MasterLink"	means MasterLink Securities (H.K.) Corp. Ltd., an investment adviser and a dealer registered under the Securities Ordinance, Chapter 333 of the Laws of Hong Kong, which has been appointed as the independent financial adviser to the Independent Committee in relation to the Asset Transfer Agreement and the Share Transfer Agreement
"PRC"	means the People's Republic of China
"Rmb"	means renminbi, the lawful currency of the PRC
"SDI Ordinance"	means Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
"Share Transfer"	means the transfer of 230,900,000 shares in Hengda by the Company to the Holding Company pursuant to the Share Transfer Agreement
"Share Transfer Agreement"	means the share transfer agreement dated 9th October, 2002 entered into between the Company and the Holding Company in relation to the Share Transfer
"Stock Exchange"	means The Stock Exchange of Hong Kong Limited

Chongqing Iron & Steel Company Limited
重慶鋼鐵股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(在中華人民共和國註冊成立的股份有限公司)

Chairman:
Tang Min Wei

Executive Directors:
Pan Xiang Yu
Chen Shan
Dong Rong Hua
Zeng Chao Bi

Independent non-executive Directors:
Wang Xiang Fei
Wu Zhong Fu

Registered office:
No. 30 Gangtie Road, Dadukou District
Chongqing
The People's Republic of China

4th November, 2002

To the shareholders of the Company

Dear Sirs or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTIONS PROPOSED ASSET REORGANISATION INVOLVING THE ASSET TRANSFER AND THE SHARE TRANSFER

INTRODUCTION

On 11th October, 2002, the Board made an announcement that the Company has, on 9th October, 2002, entered into (i) the Asset Transfer Agreement in relation to the transfer of assets and liabilities of Hengda at a total price of Rmb 428,988,300; and (ii) the Share Transfer Agreement in relation to the sale of the 230,900,000 shares in Hengda (being 69.51% of the issued share capital of Hengda) by the Company to the Holding Company for a consideration of Rmb 289,189,800.

The Independent Committee comprising the independent non-executive Directors, namely Wang Xiang Fei and Wu Zhong Fu, has been formed to advise the Independent Shareholders in relation to the Asset Transfer and the Share Transfer. MasterLink has been appointed the independent financial adviser to advise the Independent Committee on the same.

The purpose of this circular is to provide you with further information in relation to the Asset Transfer and the Share Transfer and to set out the advice of MasterLink to the Independent Committee and the recommendations of the Independent Committee in respect of the Asset Transfer and the Share Transfer.

ASSET TRANSFER AGREEMENT DATED 9TH OCTOBER , 2002

PARTIES

Vendor: Hengda

Purchaser: the Company

ASSETS TO BE TRANSFERRED

100% assets and liabilities of Hengda

ASSET TRANSFER CONSIDERATION

The consideration of Rmb 428,988,300 under the Asset Transfer Agreement was reached at after arm's length negotiations between the Company and Hengda and based on the valuation of the assets and liabilities of Hengda by Chongqing Kanghua CPAs, a Certified Public Auditors in the PRC giving a net asset value Rmb 428,988,300 as at 31st July, 2002. The consideration of the Asset Transfer will be satisfied as to Rmb 130,798,500 in cash which will be funded by the Company's internal resources and as to Rmb298,189,800 by the Company transferring to Hengda the Company's right to receive the consideration of Rmb 298,189,800 pursuant to the Share Transfer Agreement.

The Directors are of the opinion that the terms of Asset Transfer Agreement are fair and reasonable and in the interests of the Company and its shareholders as a whole.

COMPLETION OF THE ASSET TRANSFER AGREEMENT

Completion of the Asset Transfer Agreement is conditional upon the approval of the agreement by the shareholders of the Company and Hengda. Subject to the fulfillment of the aforesaid condition, completion of the Asset Transfer Agreement is expected to take place on or before 8th December, 2002 or on such later date as the parties may agree. The Asset Transfer Agreement will lapse if the approval of the shareholders of the Company or Hengda is not obtained on or before 8th December, 2002. According to the Listing Rules, the Holding Company and its Associates will abstain from voting at the EGM and Independent Shareholders' approval will be sought for the Company.

SHARE TRANSFER AGREEMENT DATED 9TH OCTOBER, 2002

PARTIES

Vendor: the Company

Purchaser: the Holding Company

SHARES TO BE TRANSFERRED

230,900,000 shares of Hengda of Rmb 1.0 each representing 69.51% of the issued capital of Hengda as at the Latest Practicable Date owned by the Company. Upon completion of the Share Transfer, the Company will not hold any shares in Hengda and Hengda will cease to be a subsidiary of the Company.

SHARE TRANSFER CONSIDERATION

Based on the unaudited net asset value of Hengda of Rmb 428,988,300 as at 31st July, 2002, the consideration of Rmb 298,189,800 under the Share Transfer Agreement, which is equal to 69.51% of the unaudited net asset value of Hengda as at 31st July, 2002, was arrived at after arm's length negotiations between the Company and the Holding Company. Completion of the Asset Transfer Agreement will take place simultaneously with the completion of the Share Transfer Agreement. As mentioned above, the Company will transfer its right to receive the consideration under the Share Transfer Agreement to Hengda upon completion of the Asset Transfer Agreement.

The Directors believe that the terms of the Share Transfer Agreement are fair and reasonable and in the interests of the Company and its shareholders as a whole.

COMPLETION OF THE SHARE TRANSFER AGREEMENT

Completion of the Share Transfer Agreement is conditional upon the approval by the shareholders of the Company. Completion of the Share Transfer Agreement is expected to take place on or before 8th December, 2002 or on such later date as the parties may agree. The Share Transfer Agreement will lapse if the approval of Shareholders of the Company to the agreement is not obtained on or before 8th December, 2002. According to the Listing Rules, the Holding Company and its Associates will abstain from voting at the EGM and approval from the Independent Shareholders will be sought.

LEASE AGREEMENT

Hengda currently occupies land which it has leased from the Holding Company. The steel smelting plant and related production facilities on the land are owned by Hengda. As part of the asset reorganisation, the Company will upon completion enter into the Lease Agreement. The Company will comply with the requirements under the Listing Rules in respect of the Lease Agreement. Further announcement will be made in respect of the Lease Agreement as and when appropriate.

INFORMATION ON THE GROUP

The Group is a large scale iron and steel producer in the PRC, principally engaged in the manufacture and sale of medium-gauge steel plates, steel sections, wire rods, steel billets and coking and smelting by-products. Over 60 % of its products are sold in Chongqing and the Mid-western areas/provinces of the PRC. As at the Latest Practicable Date, the Holding Company holds 61.09% of the issued share capital of the Company.

INFORMATION ON HENGDA

Hengda is a joint stock limited company incorporated under the Companies Law of the PRC. The Company holds 69.51% of Hengda's issued share capital with the remaining 30.49% held as to 12.14% held by independent corporate shareholders and 18.35% by employees including 2,400 shares held by two Directors namely Mr. Pan Xiang Yu and Mr. Chen Shan and 800 shares held by Ms. Yuan Xue Bing, a supervisor of the Company, personally. As at the Latest Practicable Date, the employees, two Directors and the supervisor mentioned above, have no shareholding interest in the Company. Hengda operates the only steel smelting plant of the Group and carries out a substantial part of the Group's integrated iron and steel production operations. Hengda' major asset is a steel smelting plant equipped with three converter furnaces and four continuous casting machines and its principal product is steel billets. The Company is the major customer of Hengda. The audited net asset value of Hengda is Rmb452,754,078 as at 31st December, 2001.

Set out below are the net profit before and after taxation and extraordinary items attributable to the assets being acquired or realised in respect of the two years 31st December, 2001 respectively based on the PRC audited accounts of Hengda:

	Year ended 31st December, 2001 *Rmb*	**Year ended 31st December 2000** *Rmb*
Net profit before taxation and extraordinary items	12,372,949	25,217,015
Net profit after taxation and extraordinary items	10,834,606	25,217,015

REASONS FOR THE ASSET REORGANISATION

The Company proposes to effect an asset reorganisation to consolidate its control over the assets and liabilities of Hengda. The existing employees of Hengda will also be transferred to the Company. The Company proposes to dispose of its shareholding in Hengda to the Holding Company at the same time as it has no requirement for a shell company and would enjoy savings on administration costs associated with maintaining Hengda after the asset reorganisation. The Directors do not expect any material adverse effect on the operation of the Group as a result of the proposed asset reorganisation. In addition, the Company will enjoy 100% share of the results of its steel production operation of Hengda. Save for the expenses in relation to the asset reorganisation, the net assets of the Group will remain unchanged.

Following completion of the asset reorganisation, the Group will continue to engage in its existing business in the manufacture and sale of medium-gauge steel plates, steel sections, wire rods, steel billets and coking and smelting by-products.

EGM

Under the Listing Rules, the Asset Transfer is a discloseable transaction of the Company. Furthermore, as the Holding Company holds more than 10% of the equity interest in the Company, the Holding Company is a connected person and hence the Asset Transfer is also a connected transaction under the Listing Rules. As the consideration exceeds the higher of 3% of the Company's consolidated net tangible assets or HK$10 million, Independent Shareholders' approval will be required.

According to the Listing Rules, the Share Transfer is a discloseable transaction of the Company. Furthermore, as the Holding Company holds more than 10% of the equity interest of the Company, the Holding Company is a connected person and hence the Share Transfer constitutes a connected transaction under the Listing Rules. As the consideration exceeds the higher of 3% of the Company's consolidated net tangible assets or HK$10 million, Independent Shareholders' approval will be required.

A notice convening the EGM to be held at 10:00 a.m. on Tuesday, 3rd December, 2002 at the third conference hall of the Company was despatched to the shareholders of the Company on 15th October, 2002 has been reproduced and set out on pages 23 and 24 in Appendix III to this circular. A proxy form for use at the EGM is enclosed. The holders of the Shares may also obtain the proxy form at the share registrars of the Company in Hong Kong at HKSCC Registrars Limited at Rooms 1901-5, 19/F, Hopewell Centre, 183 Queen's Road East, Hong Kong. The EGM will be held for the purpose of considering and, if thought fit, approving the Asset Transfer Agreement and the Share Transfer Agreement. As the proposed transactions constitute discloseable and connected transactions for the Company and are subject to Independent Shareholders' approval in the EGM, the Holding Company and its Associates will abstain from voting in the EGM in respect of the resolution on the Asset Transfer Agreement and the Share Transfer Agreement.

RECOMMENDATION

The Independent Committee, having taken into account the advice of MasterLink and as stated in its letter of advice as set out on pages 7 to 13 of this circular, considers that the terms and conditions of the Asset Transfer Agreement and the Share Transfer Agreement are fair and reasonable so far as the Independent Shareholders generally are concerned and are in the interests of the Company and the shareholders as a whole. Accordingly, the Independent Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Asset Transfer Agreement and the Share Transfer Agreement.

Yours faithfully,
For and on behalf of
Chongqing Iron & Steel Company Limited
TANG MIN WEI
Chairman

Chongqing Iron & Steel Company Limited
重慶鋼鐵股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(在中華人民共和國註冊成立的股份有限公司)

4th November, 2002

To the Independent Shareholders

Dear Sirs or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTIONS PROPOSED ASSET REORGANISATION INVOLVING THE ASSET TRANSFER AND THE SHARE TRANSFER

We refer to the circular dated 4th November, 2002 (the "Circular") issued to the shareholders of Chongqing Iron & Steel Company Limited (the "Company") of which this letter forms part. Terms defined in the Circular shall bear the same meanings herein unless the context requires otherwise.

We have been appointed to constitute the Independent Committee and to advise the Independent Shareholders in connection with the terms of the Asset Transfer Agreement and the Share Transfer Agreement. MasterLink has been appointed as the independent financial adviser to advise us in this respect.

Your attention is drawn to the letter from the Board set out on pages 1 to 5 of the Circular, which sets out information relating to, inter alia, the Asset Transfer Agreement and the Share Transfer Agreement. We also draw your attention to the letter from MasterLink as set out on pages 7 to 13 of the Circular, which contains its advice to us regarding the Asset Transfer Agreement and the Share Transfer Agreement.

Having taken into account the principal factors and reasons considered by and the recommendation of MasterLink, the Independent Committee considers that the terms of the Asset Transfer Agreement and the Share Transfer Agreement are fair and reasonable so far as the Independent Shareholders generally are concerned and recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Asset Transfer Agreement and the Share Transfer Agreement as set out in the notice of EGM dated 15th October, 2002.

Yours faithfully,
For and on behalf of
Independent Committee

Wang Xiang Fei
Independent Non-Executive Director

Wu Zhong Fu
Independent Non-Executive Director

The following is the text of a letter of advice to the Independent Committee from MasterLink setting out its opinion regarding the Asset Transfer Agreement and the Share Transfer Agreement prepared for the purpose of incorporation in this circular:

MasterLink Securities (H.K.) Corp. Ltd.
Suite 2501, 25th Floor
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

4th November, 2002

To the Independent Committee of
Chongqing Iron & Steel Company Limited

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTIONS PROPOSED ASSET REORGANISATION INVOLVING THE ASSET TRANSFER AND THE SHARE TRANSFER

INTRODUCTION

We refer to our engagement to advise the Independent Committee in respect of the Asset Transfer Agreement and the Share Transfer Agreement for the purposes of the Listing Rules. Details of the Asset Transfer Agreement and the Share Transfer Agreement are set out in the letter from the Board (the "Letter") contained in the circular of the Company dated 4th November, 2002 to the Shareholders (the "Circular"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

The Holding Company holds about 61.09% of the total issued share capital of the Company and is the controlling shareholder of the Company, and the Company holds about 69.51% of the total issued share capital of Hengda. The Holding Company is, therefore, a connected person of the Company under the Listing Rules. Accordingly, pursuant to the Listing Rules, the Asset Transfer and the Share Transfer constitute connected transactions of the Company and are subject to the approval of the Independent Shareholders. In our capacity as the independent financial adviser to the Independent Committee for the purposes of the Listing Rules, our role is to give you an independent opinion as to whether the terms of the Asset Transfer Agreement and the Share Transfer Agreement, from a financial perspective, are fair and reasonable so far as the Independent Shareholders generally are concerned. We have not been requested to opine as to, and our opinion does not in any manner address, the Company's decision to proceed with the Asset Transfer and the Share Transfer.

In formulating our opinion, we have relied on the accuracy of the information and facts supplied, and the opinions and representations expressed, to us by the Directors, the Company and its management. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due and careful enquiry and are based on honestly-held opinions. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company and the Directors and have been advised by the Directors that no material facts have been omitted from the information provided and referred to in the Circular. We have also assumed that all statements of intention of the Company or its Directors as set out in the Circular will be implemented. We have also relied on an assets valuation report (資產評估報告書) (the "Assets Valuation Report") prepared by Chongqing Kanghua CPAs（重慶康華會計師事務所）, an independent firm of certified public accountants in the PRC in connection with the valuation of the assets and liabilities of Hengda as at 31st July, 2002 and the property valuation report prepared by Greater China, an independent firm of property valuers in Hong Kong. We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have assumed that all information and representations made or referred to in the Circular were true, complete and accurate at the time they were made and continue to be true, complete and accurate at the date of the EGM. We have not, however, carried out any independent verification of the information and representations provided to us nor have we conducted any form of independent investigation into the businesses and affairs, financial position or the future prospects of the Group and the assets and liabilities of Hengda. We have not investigated nor verified the validity of the legal aspects of the Asset Transfer and the Share Transfer. We have not investigated nor verified the title of the assets and liabilities acquired and disposed of, and the rights to transfer such assets and liabilities nor have we scrutinized the original documents to verify ownership or to verify any amendments which may not appear on the copies of the documents provided to us. We have further assumed that all material governmental, regulatory or other consents and approvals necessary for the effectiveness and implementation of the Asset Transfer and the Share Transfer will be obtained without any adverse effect on the Group, the assets and liabilities of Hengda or the contemplated benefits to the Group as derived from the Asset Transfer and the Share Transfer.

Our opinion is necessarily based upon the financial, economic, market, regulatory and other conditions as they exist on, and the facts, information, representations and opinions made available to us as of the Latest Practicable Date. We disclaim any undertaking or obligation to advise any person of any change in any fact or matter affecting the opinion expressed herein which may come or be brought to our attention after the Latest Practicable Date.

PRINCIPAL FACTORS AND REASONS CONSIDERED

The principal factors and reasons we have taken into account in assessing the Asset Transfer and the Share Transfer and in giving our advice to the Independent Committee are set out below:

I. Information on Hengda

As stated in the Letter, Hengda is a joint stock limited company incorporated under the Companies Law of the PRC. The Company holds about 69.51% of the issued share capital of Hengda with the remaining interests of about 30.49% held as to 12.14% held by independent corporate shareholders and 18.35% by employees, including 2,400 shares held by two Directors and 800 shares held by a supervisor of the Company personally. As at the Latest Practicable Date, the employees, two Directors and the supervisor mentioned above, have no shareholding interest in the Company. Hengda operates the only steel smelting plant of the Group and carries out a substantial part of the Group's integrated iron and steel production operations. Hengda's major asset is a steel smelting plant equipped with three converter furnaces and four continuous casting machines and its principal product is steel billets. The Company is the major customer of Hengda.

According to the audited accounts of Hengda prepared in accordance with the PRC Accounting Standards for the two financial years ended 31st December, 2000 and 31st December, 2001, the audited net profits before taxation of Hengda amounted to about Rmb25.22 million and about Rmb12.37 million respectively. For the two financial years ended 31st December, 2000 and 31st December, 2001, Hengda recorded audited net profits after taxation of about Rmb25.22 million and about Rmb10.83 million respectively. The audited net asset value of Hengda as at 31st December, 2001 was about Rmb452.75 million. Based on the unaudited management accounts of Hengda for the seven months ended 31st July, 2002, the unaudited net loss of Hengda amounted to about Rmb7.16 million and the unaudited net asset value of Hengda as at 31st July, 2002 was about Rmb428.99 million.

II. Reasons for the Asset Transfer and the Share Transfer

(1) Consolidation of the Company's control over the entire assets and liabilities of Hengda

As stated in the Letter, the Company proposes to effect the asset reorganisation to consolidate its control over the entire assets and liabilities of Hengda. As a result, the Company will enjoy 100% share of the results of the steel production operations of Hengda. In addition, the existing employees of Hengda will also be transferred to the Company, and the Directors do not expect any material adverse effect on the operations of the Group as a result of the proposed asset reorganisation. In view of the Company's full control over the entire assets and liabilities of Hengda upon completion of the asset reorangisation, the Directors considered that the Asset Transfer will increase the flexibility of the Company in formulating its future business strategies in the business of steel smelting and production. We concur with the Directors' view in this regard.

(2) Anticipated increase in demand for iron and steel products

As stated in the interim report of the Company for the six months ended 30th June, 2002, the PRC Government will continue the policy of stimulating domestic demand and implement proactive fiscal policies to maintain the growth of national economy in the second half of the year 2002, and this will help to boost the demand for iron and steel products. The State Economic and Trade Commission of the PRC announced in May 2002 some temporary protective measures on restricting the export of nine major categories of iron and steel products to the PRC domestic market by foreign iron and steel manufacturers, and this will help to reduce the adverse impact of international iron and steel products on the PRC domestic market. The Group will actively leverage on its niche, both domestically and internationally, to reinforce the domestic-oriented market and to strive for new markets in the second half of the year 2002. The Directors considered that the Asset Transfer would strengthen the Group's foundation to capture the opportunities arising from such anticipated increase in demand for steel products. We concur with the Directors' view in this regard.

(3) Asset Transfer is consistent with the Group's strategies

As stated in the interim report of the Company for the six months ended 30th June, 2002, it was one of the Group's strategies to increase its market share in neighbouring areas of Chongqing and to develop markets into different industries in order to expand the sales volume. As a result, the Group has strengthened its sales in Chongqing and its surrounding areas. The Group's sales in Sichuan, Chongqing, Yunnan and Guizhou had accounted for about 57% of the total sales volume of the Group for the six months ended 30th June, 2002, representing an increase of about 2% over the same period of the preceding year. In addition, the Group actively produced steel products for fast growing industries in the PRC, such as automobile manufacturing, shipbuilding, mining and infrastructure industries. For the six months ended 30th June, 2002, the sales volume of the Group's steel plates for vehicle tyres, vehicle Ren-shape plates, ship wreck, mining and bridge frame have increased by about 23.64%, 39.38%, 6.01%, 55.75% and 516.96% respectively over the same period of the preceding year. The Group's sales volume of steel products by tonnes for the six months ended 30th June, 2002 has increased by about 4.08% as compared with the corresponding period of the preceding year. In view of the Company's full control over the entire assets and liabilities of Hengda upon completion of the asset reorangisation, the Directors considered that the Asset Transfer would facilitate the Group to further increase its market share of steel products in the PRC and strengthen its production capacity. In light of the above, we consider that the Asset Transfer is consistent with the strategies of the Group.

(4) Savings on administration costs

As stated in the Letter, the Company proposes at the same time to dispose of its shareholding in Hengda to the Holding Company as it has no requirement for a shell company and the Company would enjoy savings on administration costs for not maintaining Hengda after the asset reorganisation. We concur with the Directors' view in this regard.

(5) Asset Transfer is in line with the business activities of the Group

As stated in the Letter, the Group is principally engaged in the manufacture and sale of medium-gauge steel plates, steel sections, wire rods, steel billets and coking and smelting by-products. Over 60% of its products are sold in Chongqing and the Mid-western areas/provinces of the PRC. Based on the business scope of the Group as mentioned, we are of the view that the Asset Transfer is in line with the business activities of the Group.

III. Basis of the considerations

As mentioned in the Letter, the consideration for the Asset Transfer was arrived at after arm's length negotiations between the Company and Hengda and by reference to the valuation of the entire assets and liabilities of Hengda carried out by Chongqing Kanghua CPAs (an independent firm of certified public accountants in the PRC). We have reviewed the Assets Valuation Report and the valuation methodologies adopted in the Assets Valuation Report, and we agree with the valuation methodologies adopted in the Assets Valuation Report. In addition, we have reviewed the assumptions made in the Assets Valuation Report and we consider that such assumptions made by Chongqing Kanghua CPAs are reasonable in the circumstances. Based on the Assets Valuation Report prepared by Chongqing Kanghua CPAs, the total appraised value of the entire assets and liabilities of Hengda as at 31st July, 2002 was about Rmb438.31 million. The consideration for the acquisition of the entire assets and liabilities of Hengda under the Asset Transfer of about Rmb428.99 million represents a discount of about 2.13% to the total appraised value of such assets and liabilities of Hengda. In addition, the consideration for the Asset Transfer is equal to the unaudited net asset value of Hengda of about Rmb428,988,300 as at 31st July, 2002.

According to the Assets Valuation Report prepared by Chongqing Kanghua CPAs, we note that the appraised value of the buildings, structures and ancillary facilities in Chongqing, the PRC (the "Buildings") included in the assets of Hengda to be acquired by the Company under the Asset Transfer Agreement as at 31st July, 2002 was about Rmb172.57 million, which represents a premium of about 1.15% over the valuation of Rmb170.60 million as determined by Greater China (an independent firm of property valuers in Hong Kong) as at 10th August, 2002. The valuation report of the Buildings prepared by Greater China is set out in Appendix I to the Circular. For comparison purpose, if using the appraised value of the Buildings based on the valuation report prepared by Greater China rather than the Assets Valuation Report prepared by Chongqing Kanghua CPAs, the consideration of about Rmb428.99 million for the Asset Transfer will represent a discount of about 1.68% to the total appraised value of the entire assets and liabilities of Hengda of about Rmb436.34 million (which is equal to the total appraised value of the assets (not including the Buildings) and liabilities of about Rmb265.74 million based on the Assets Valuation Report prepared by Chongqing Kanghua CPAs plus the valuation of the Buildings of Rmb170.60 million based on the valuation report prepared by Greater China).

Accordingly, based on the above, we are of the view that the consideration payable by the Company pursuant to the Asset Transfer is fair and reasonable so far as the Independent Shareholders generally are concerned.

As set out in the Letter, the consideration for the Share Transfer Agreement was arrived at after arm's length negotiations between the Company and the Holding Company and was based on the unaudited net asset value of Hengda of about Rmb428,988,300 as at 31st July, 2002. The consideration for the acquisition of 69.51% of the issued share capital of Hengda of Rmb298,189,800 under the Share Transfer Agreement is equal to 69.51% of the unaudited net asset value of Hengda as at 31st July, 2002. We note that the consideration of about Rmb298.19 million for the Share Transfer represents a discount of about 2.13% to its appraised value of about Rmb304.67 million (which is equal to 69.51% of the total appraised value of the entire assets and liabilities of Hengda as at 31st July, 2002 of about Rmb438.31 million according to the Assets Valuation Report prepared by Chongqing Kanghua CPAs). In addition, for comparison purpose, if using the appraised value of the Buildings based on the valuation report prepared by Greater China rather than the Assets Valuation Report prepared by Chongqing Kanghua CPAs, the consideration of about Rmb298.19 million for the Share Transfer will represent a discount of about 1.68% to its appraised value of about Rmb303.30 million (which is equal to 69.51% of the total appraised value of about Rmb436.34 million based on the valuation of the assets (not including the Buildings) and liabilities of Hengda prepared by Chongqing Kanghua CPAs and the valuation of the Buildings by Greater China as referred to above). However, in view of (i) the simultaneously entering into the Asset Transfer Agreement by the Company for the acquisition of 100% assets and liabilities of Hengda at a consideration equal to the unaudited net asset value of Hengda of about Rmb428,988,300 as at 31st July, 2002; (ii) the equivalence of the amount of consideration for the Share Transfer with the unaudited net asset value attributable to the 69.51% equity interests in Hengda as at 31st July, 2002; and (iii) the savings on administration costs for not maintaining Hengda after the asset reorganisation as mentioned above, we consider that the consideration under the Share Transfer Agreement is fair and reasonable so far as the Independent Shareholders generally are concerned.

We consider that the basis of valuation for the acquisition/disposal of assets and liabilities of PRC companies, whose businesses are of capital intensive nature, is primarily referred to the net asset value of such PRC companies, which is in line with market practice. Accordingly, we are of the view that the basis for arriving at the considerations for the Asset Transfer and the Share Transfer is consistent with such market practice.

IV. Financial effects of the Asset Transfer and the Share Transfer on the Group

(1) Net asset value

As stated in the Letter, since the considerations for the Asset Transfer and the Share Transfer are equal to 100% and 69.51% of the unaudited net asset value of Hengda as at 31st July, 2002 based on the unaudited management accounts of Hengda respectively, the Directors have confirmed that the Asset Transfer and the Share Transfer will not have any material impact on the consolidated net asset value of the Group upon completion of the Asset Transfer Agreement and the Share Transfer Agreement. We concur with the Directors' view in this respect.

(2) Earnings

Before the Asset Transfer and the Share Transfer, Hengda is a 69.51% owned subsidiary of the Company. Upon completion of the Asset Transfer and the Share Transfer, the Company will own the entire assets and liabilities of Hengda. Therefore, the Group's share of the results of the steel production operations of Hengda will be increased by about 30.49%. According to the audited accounts of Hengda prepared in accordance with the PRC Accounting Standards for the two consecutive financial years ended 31st December, 2000 and 31st December, 2001 as mentioned above, Hengda was a profitable company. Based on the unaudited management accounts of Hengda, we note that Hengda recorded unaudited losses from January 2002 to May 2002, and as advised by the Directors that such losses were mainly attributable to the increase in cost of sales and the falling prices of steel products during the first half of 2002. However, based on the unaudited management accounts of Hengda, Hengda has turned around in June and July 2002 and Hengda has recorded unaudited profits in these two months. Given that the anticipated increase in demand for steel products as mentioned above, the rebound of the prices of steel products and the anticipated increase in the production volume of steel products under the steel production operations of Hengda in the second half of 2002 as advised by the Directors, the Directors are confident about the future prospects of the steel production business of Hengda and expect that the steel production operations of Hengda will make a positive contribution to the performance of the Group in the long run. We concur with the Directors' view that the steel production operations of Hengda will make a positive contribution to the performance of the Group in the long run in view of, barring unforseeable circumstances, the anticipated increase in demand for steel products as mentioned above, the rebound of the prices of steel products and the anticipated increase in the production volume of steel products under the steel production operations of Hengda in the second half of 2002 as advised by the Directors.

(3) Cashflow

As set out in the Letter, out of the consideration of Rmb428,988,300 for the Asset Transfer, (i) Rmb130,798,500 will be satisfied in cash and wholly funded by the internal resources of the Company; and (ii) Rmb298,189,800 will be satisfied by the transfer of the Company's right to receive the consideration of Rmb298,189,800 under the Share Transfer Agreement to Hengda. The Directors have confirmed that the Group has sufficient working capital to finance the cash element of the consideration for the Asset Transfer. The Directors have also confirmed that they are not aware that the Asset Transfer and the Share Transfer would have any material adverse impact on the working capital of the Group.

According to the interim report of the Company for the six months ended 30th June, 2002, the Group had a consolidated bank balances and cash of about Rmb245.57 million as at 30th June, 2002. As such, we concur with the Directors' view that the Group will have sufficient working capital to finance the cash element of the consideration for the Asset Transfer. In addition, in view of the fact that the Group will have surplus cash immediately after the Asset Transfer and the Share Transfer, we concur with the Directors' view that the Asset Transfer and the Share Transfer would not have any material adverse impact on the working capital of the Group.

V. Lease Agreement

As set out in the Letter, the Company will enter into the Lease Agreement in respect of the land currently occupied by Hengda for its operations upon completion of the Asset Transfer and the Share Transfer. The Company will comply with the requirements under the Listing Rules in respect of the Lease Agreement and will make separate announcement as and when appropriate. As such, our opinion expressed herein does not in any manner address the terms of the Lease Agreement.

RECOMMENDATION

Having considered the abovementioned principal factors and reasons, we consider that, from a financial point of view, the terms of the Asset Transfer Agreement and the Share Transfer Agreement are fair and reasonable so far as the Independent Shareholders generally are concerned. Accordingly, we recommend the Independent Committee to advise the Independent Shareholders to vote in favour of the resolution regarding the Asset Transfer Agreement and the Share Transfer Agreement to be proposed at the EGM.

Yours faithfully,
For and on behalf of
MasterLink Securities (H.K.) Corp. Ltd.
Jimmy Chan
Director

The following is the text of a letter and valuation certificate received from Greater China Appraisal Limited, an independent valuer, in connection with its valuation as at 10th August, 2002 of the property interest to be acquired by the Company in the PRC.

GREATER CHINA APPRAISAL LIMITED
漢 華 評 值 有 限 公 司

Room 2407
Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

4th November, 2002

The Director
Chongqing Iron & Steel Company Limited
Chongqing
The People's Republic of China

Dear Sirs,

In accordance with the instructions from Chongqing Iron & Steel Company Limited (referred to as "the Company") to value certain buildings, structures and ancillary facilities (referred to as "the Buildings") located within the plant area of Chongqing Hengda Steel Industrial Co., Ltd. (referred to as "Hengda") in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purposes of providing you with our opinion of the values of such interests as at 10th August, 2002.

This letter which forms part of our valuation report explains the basis and methodology of valuation, and sets out our assumptions, title investigation and limiting conditions.

BASIS OF VALUATION

The valuation is based on the depreciated replacement cost of the Buildings which is defined as the gross replacement cost of the Buildings, from which appropriate deductions may then be made to allow for the age, condition, economic and functional obsolescence and environmental factors etc. All of these might result in the existing Buildings being worth less to the undertaking in occupation than would a new replacement.

Gross replacement cost is defined as the estimated amount required to replace an asset at one time with a modern new one using the most current technology and materials that will duplicate the production capacity and utility of the existing asset at current market prices for materials, labour, and manufactured equipment, contractors, overhead and profit, and fees, but without provision for overtime, bonuses for labour, or premiums for material or equipment.

Physical deterioration is the loss in value resulting from wear and tear in operation and exposure to the elements.

Functional obsolescence is the loss in value caused by conditions within the assets such as changes in design, materials, or process that result in inadequacy, overcapacity, lack of utility, or excess operating costs.

Economic/external obsolescence is an incurable loss in value caused by unfavourable conditions external to the asset such as the local economy, economics of the industry, availability of financing, encroachment of objectionable enterprises, loss of material and labour sources, lack of efficient transportation, shifting of business centers, passage of new legislation, and changes in ordinances.

In this report, we have valued the Building in their existing uses with the understanding that they are going to be used as such (hereinafter referred to as "continued use").

ASSUMPTIONS

For the Buildings which have been assessed by reference to the "Depreciated Replacement Cost Approach", our opinion of values is subject to the fact that prospective earnings would provide a reasonable return on the appraised property, plus the value of any assets not included in the appraisal, and adequate net working capital.

As the land on which the Buildings are erected (referred to as the "Land", with a total land area of 216,430 square metres) is held by Hengda under a long term lease entered into between Chongqing Iron & Steel Company (Group) Limited (referred to as "the Group") and Hengda, more particularly described in the valuation certificate, we have assumed that Hengda has free and uninterrupted rights to use the Buildings for the whole of the unexpired term of the respective land lease.

No environmental impact study has been ordered or made. Full compliance with applicable national, provincial and local environmental regulations and laws is assumed unless otherwise stated, defined, and considered in the report. It is also assumed that all required licenses, consents, or other legislative or administrative authority from any local, provincial, or national government or private entity or organization either have been or can be obtained or renewed for any use which the report covers.

We believe that the assumptions so made by us in the course of our valuation are reasonable in the circumstances. We have also assumed that all consents, approvals and licenses from relevant government authorities for the Buildings have been granted without an onerous conditions or undue time delay which might affect their values.

Other special assumptions for valuing the Buildings, if any, have been stated in the footnotes of the valuation certificate.

TITLE INVESTIGATION

We have been provided with certain legal documents relating to title regarding the Land and the Buildings. However, due to the current registration system of the PRC, no investigations have been made for the legal title or any liabilities attached to the Land and Buildings.

As far as the Land and Buildings in the PRC are concerned, we have relied upon the legal opinion dated 30th October, 2002 given by 重慶百君律師事務所 (Chongqing Bai Jun Law Firm) (referred to as the "PRC Lawyer") in relation to the Hengda's legal title to and the nature of the interest in the Land and Buildings concerned. Summary of the legal opinion is listed in the footnote of the valuation certificate.

All legal documents disclosed in this report are for reference only and no responsibility is assumed for any legal matters concerning the legal title to the Buildings as set out in this report.

LIMITING CONDITIONS

We have relied to a considerable extent on the information provided by the Company. We have also accepted advice given to us by the Company on matters such as statutory notices, easements, tenure and the identification of the Land and Buildings. We have no reason to doubt the truth and accuracy of the information as provided to us by the Company. We have relied on your confirmation that no material fact has been omitted from the information so supplied. All dimensions, measurements and areas stated in this report are approximate.

No allowance has been made in our valuation for any charge, mortgage or amount owing on the Buildings nor for any expenses or taxation which may be incurred in effecting a sale. It is assumed that the Buildings are free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

We have carried out inspection of the Buildings. However, we must point out that we have not carried out site investigation to determine the suitability of the ground conditions or the services for any property development thereon. Our valuation is on the basis that these aspects are satisfactory and that no extraordinary expense or delay will be incurred during the construction period.

We have also inspected the interior of the Buildings but no structural survey has been made. In the course of our inspection, we did not note any serious defects. We are not, however, able to report that the Buildings are free from infestation or any other structural defects. No test was carried out on any of the services.

The valuation contained within this report specifically excludes the impact of structural damage or environmental contamination resulting from earthquakes or other causes. It is recommended that the readers of this report should consult a qualified structural engineer and/or environmental auditor for the evaluation of possible structural/environmental defects, the existence of which could have a material impact on the value.

No soil analysis or geological study was ordered or made in conjunction with this report, nor were any water, oil, gas, or other subsurface mineral use rights or conditions investigated.

Substances such as asbestos, urea-formaldehyde foam insulation, other chemicals, toxic wastes, or other potentially hazardous materials could, if present, adversely affect the value of the Buildings. Unless otherwise stated in this report, its existence on or in the Buildings was not considered by the appraiser in concluding the valuation. The stated value estimate is predicated on the assumption that there is no material on or in the Buildings that would cause such a loss in value. No responsibility is assumed for any such condition, and the client has been advised that the appraiser is not qualified to detect such substances, quantify the impact on values, or develop the remedial cost.

We have not investigated in any industrial safety environmental and health-related regulation in association with any particular manufacturing process of the Company. It is assumed that all necessary licenses, procedures, and measures were implemented in accordance with Government legislation and guidance.

REMARKS

We enclose herewith the valuation certificate.

This valuation report is issued subject to our General Service Conditions.

Yours faithfully,
For and on behalf of
GREATER CHINA APPRAISAL LIMITED

K. K. Ip
BLE, MRICS, AHKIS, RPS(GP)
Managing Director

Note: Mr. K. K. Ip, who is a Chartered Valuation Surveyor and a Registered Professional Surveyor, has substantial experience in valuation of properties in the PRC (including Chongqing) since 1992.

VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of Occupancy	Capital Value in Existing State as at 10th August, 2002
Various buildings and structures located at Chongqing Hengda Steel Industrial Co. Ltd. Dadukou District Chongqing The PRC	The property comprises 85 buildings, with a total gross floor area of about 117,233 square meters, and certain structures and ancillary facilities erected on the Land located within the plant area of the Group. The main buildings include steel smelting workshops, raw materials warehouses, control rooms, conveyance stations, laboratories, plant rooms, staff welfare buildings, office buildings, canteens, and various service buildings. The buildings were completed in various stages between 1953 and 2000.	As at the date of inspection, the property was occupied by Hengda as a specialized manufacturing plant for square billets and steel sheet blanks.	RMB170,600,000 (69.51% interest attributable to the Company: RMB118,584,060)

Notes:

1. It is stated in the PRC Lawyer's legal opinion, inter alia, that:

   (i) The Land currently occupied by Hengda, with a total land area of 216,430 square metres, which falls within the 2 parcels of land described hereafter in (ii) of note (1), is leased to Hengda from the Group.

   (ii) The Group holds the land use rights of 2 parcels of land under the State-Owned Land Use Rights Grant Contracts entered into between the Group and Chongqing Land Administration Bureau in August 1997 and 2 sets of State-Owned Land Use Rights Certificate (Yu Guo Yong [1997] Zi No. 52 and Yu Guo Yong [1997] Zi No. 53) issued by Chongqing Land Administration Bureau on 8th August, 1997.

   (iii) The land use rights of the land parcels described in (ii) of note (1) was granted to the Group for industrial purpose for a term commencing from 8th August, 1997 and expiring on 7th August, 2047. The Group can freely transfer, mortgage or lease the said land use rights and has the right to lease such part of the Land as mentioned hereinafter to Hengda.

   (iv) By a land use rights lease agreement dated 13th August, 1997, a supplementary agreement dated 29th September, 1997 and another supplementary agreement dated 12th January, 2001 made between the Group and Hengda (collectively "the Lease Agreements"), a parcel of land with land area of 216,430 square meters which falls within the 2 land parcels as described in note (ii) was leased to Hengda from the Group, for a term of 50 years from 13th August, 1997 to 7th August, 2047 for industrial purpose, with a right of renewal, at a current rent of RMB1,028,475 per annum for three years from 1st January, 2001 and thereafter the yearly rent may be adjusted by mutual agreement between the Group and Hengda in accordance with the relevant regulations of the Chongqing Municipality at intervals of not less than 3 years provided that each increment shall not exceed 10 percent of the then prevailing rent.

(vi) The above-mentioned State-Owned Land Use Rights Grant Contract and Lease Agreements have been duly executed by the parties thereto and are legally effective and binding under relevant PRC Law.

(vii) By a document (Guo Tu Pi [1997] No. 24) issued by the State Land Administration Bureau on 27th March, 1997, the State Land Administration Bureau has approved the lease of such land use rights from the Group to Hengda.

(viii) By virtue of the following Building Ownership Certificates granted by the relevant PRC authority in favour of Hengda, the ownership of 85 buildings is now vested in Hengda and Hengda is entitled to transfer, mortgage or lease the same.

Building Ownership Certificate Nos.
25695, 25696, 25697, 25698, 25701, 25702, 25703, 25704, 25705, 25706, 25707, 25708, 25709, 25711, 25712, 25713, 25714, 25715, 25716, 25717, 25718, 25719, 25720, 25721, 25722, 25723, 25724, 25725, 25730, 25735, 25738, 25739, 25740, 25741, 25742, 25743, 25744, 25746, 25747, 25748, 25749, 25750, 25752, 25753, 25754, 25755, 25756, 25757, 25758, 25759, 25760, 25761, 25762, 25763, 25764, 25765, 25766, 25767, 25768, 25769, 25770, 25771, 25773, 25774, 26175, 26176, 26177, 26212, 26215, 26220, 26221, 26222, 26223, 26224, 26225, 26226, 26227, 26228, 26229, 26230, 26231, 26232, 26406, 26409, and 26410.

(ix) 7 buildings among those described in (viii) of note (1), with a total gross floor area of approximately 55,416 square metres, are subject to a mortgage in favour of the Industrial and Commercial Bank of China, Chongqing Dadukou Branch. Their respective Building Ownership Certificate Nos. are: 25742, 25707, 25759, 25741, 25730, 25767 and 25701.

(x) Hengda is the owner of 39 structures and ancilliary facilities and 8 temporary structures which form part of the Buildings. Hengda is entitled to transfer, mortgage or lease the same.

(xi) By an Undertaking dated 9th October, 2002 issued by the Group, the Group agrees to lease the Land to the Company and enter into a new lease agreement with the Company for a term from 8th December, 2002 to 7th August, 2047 for industrial purpose with a right of renewal at a rent of RMB1,028,475 per annum until 1st January, 2004 and thereafter the yearly rent may be adjusted by mutual agreement between the Group and the Company in accordance with the relevant regulations of the Chongqing Municipality at intervals of not less than 3 years provided that each increment shall not exceed 10 percent of the then prevailing rent. The Group also agrees to enter into a Termination Agreement with Hengda to terminate the Lease Agreements. The contents of the Undertaking, new lease agreement and Termination Agreement are legal and the new lease agreement and Termination Agreement shall be binding on the parties after the same have been executed by the authorized signatures. After execution of the new lease agreement, the Group and the Company shall attend to registration of the same with the relevant PRC authority and there is no legal impediment to complete the registration.

(xii) When Hengda sells or leases the Buildings, the Group guarantees to lease the respective Land to the purchaser or the lessee of the Buildings with the same terms and conditions as in the Lease Agreements.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts concerning the Group the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests of the Directors or supervisor or the chief executive of the Company in the securities of the Company or its associated corporations (within the meaning of the SDI Ordinance) which are required to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which any such Directors is deemed or taken to have under Section 31 of, or Part I of the Schedule to the SDI Ordinance) or which are required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code of Securities Transactions by Directors of Listed Companies in the Listing Rules were as follows as at the Latest Practicable Date:

Interest in Hengda **Name**	**Personal Interests**	**Percentage to total issued share capital (%)**
Pan Xiang Yu	1,600	0.00048
Chen Shan	800	0.00024
Yuan Xue Bing	800	0.00024

Mr. Pan Xiang Yu and Mr. Chen Shan are executive Directors of the Company and Ms. Yuan Xue Bing is a supervisor of the Company.

Save as aforesaid, none of the Director, supervisor or chief executive of the Company had, or was taken or deemed to have held interest in the securities of any member of the Group or any of its associated corporations as defined in the SDI Ordinance as at the Latest Practicable Date.

None of the Directors has entered or is proposing to enter into a service contract (excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation)).

None of the Director, MasterLink or Greater China has any direct or indirect interest in any assets which have since 31st December, 2001 been 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.

None of the Directors is materially interested in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

Each of MasterLink and Greater China has no shareholding in any member of the Group and does not have the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the register of substantial shareholders maintained by the Company under Section 16(1) of the SDI Ordinance showed that the Company has been notified of the following interests representing 10 per cent. or more of the issued share capital of the Group:

(a) Interest in shares of the Company

Name of Shareholder	Class of Shares held	Number of Shares held	Percentage to total issued share capital
		(in thousand shares)	*(%)*
Chongqing Iron & Steel Company (Group) Limited	State-owned share	650,000	61.09
HKSCC Nominees Limited	H share	403,236	37.90

(b) Interest in shares of Hengda

Name of Shareholder	Class of Shares held	Number of Shares held	Percentage to total issued share capital
			(%)
Chongqing Iron & Steel Company Limited	legal person shares	230,900,000	69.51
Independent corporate shareholders	legal person shares	40,330,000	12.14
Empolyees	personal shares	60,950,200	18.35

As at the Latest Practicable Date and save as disclosed above according to the information available to the Company and so far as is known to the Directors, no other person is directly or indirectly interests in 10 per cent. or more of the issued share capital of any member of the Group and there are no interests in share options in the Company or Hengda.

4. LITIGATION

Neither the Company nor Hengda is engaged in any litigation or arbitration of material importance and, so far as the Directors are aware, no litigation or arbitration of material importance is pending or threatened against the Group.

5. MATERIAL ADVERSE CHANGE

The Directors are of the opinion that there has not been any material adverse change in the operating results of the Group since 31st December, 2001, being the date to which the latest published audited consolidated financial statements of the Group were made up.

6. CONSENTS OF EXPERT

MasterLink and Greater China have given and have not withdrawn their consents to the issue of this circular and reference to their names included herein in the form and context in which it appears.

7. QUALIFICATIONS

The following are the qualifications of the experts who have given opinions or advices in this circular:

Name	Qualification
MasterLink	an investment adviser and a dealer registered under the Securities Ordinance, Chapter 333 of the Laws of Hong Kong
Greater China	chartered valuation surveyors

8. MISCELLANEOUS

The company secretary of the Company is Mr. Yao Xiao An whose qualification is engineer.

The registered office of the company is located at No.30, Gangtie Road, Daduou District, Chongqing, the PRC.

The registrars and transfer office for the H-shares of the Company is HKSCC Registrars Limited at Rooms 1901-05, 19/F., Hopewell Centre, 183 Queen's Road East, Hong Kong.

The English texts of this circular shall prevail over the Chinese texts.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at Richards Butler at 20/F., Alexandra House, 16-20 Chater Road, Hong Kong from Monday, 18th November, 2002 up to and including the date of the EGM:

(a) the letter from MasterLink, the text of which as set out on pages 7 to 13 of this circular;

(b) the letters of consent from MasterLink and Greater China referred to under the paragraph headed "Consents of expert" of this appendix;

(c) the letter and valuation certificate prepared by Greater China, the text of which is set out in appendix I to this circular;

(d) the legal opinion prepared by Chongqing Bai Jun Law Firm referred to in the valuation report prepared by Greater China

(e) the Assets Valuation Report prepared by Chongqing Kanghua CPAs referred to in the letter from MasterLink;

(f) the Asset Transfer Agreement; and

(g) the Share Transfer Agreement.

Chongqing Iron & Steel Company Limited
重慶鋼鐵股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(在中華人民共和國註冊成立的股份有限公司)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Chongqing Iron & Steel Company Limited ("the Company") will be held at 10 a.m. on Tuesday, 3rd December, 2002 at the 3rd conference hall of the Company for the purpose of considering and, if thought fit, passing, with or without amendments, the following resolutions which will be proposed as ordinary resolution of the Company:

"1. THAT:

(a) the agreement (the "Asset Transfer Agreement") dated 9th October, 2002, (a copy of which has been produced to the meeting marked "A" and signed by the chairman of the meeting for the purpose of identification) and made between (i) Chongqing Hengda Steel Industrial Co. Ltd. ("Hengda") as vendor; and (ii) the Company as purchaser in relation to the Company's acquisition of all the assets and liabilities of Hengda and all transactions contemplated thereby be and the same are hereby approved;

(b) the agreement (the "Share Transfer Agreement") dated 9th October, 2002, (a copy of which has been produced to the meeting marked "B" and signed by the chairman of the meeting for the purpose of identification) and made between (i) the Company as vendor; and (ii) Chongqing Iron & Steel Company (Group) Limited (the "Holding Company") as purchaser in relation to the Company's disposal of 230,900,000 shares of Rmb 1.0 each in Hengda to the Holding Company and all transactions contemplated thereby be and the same are hereby approved; and

(c) the Directors of the Company be and they are hereby authorised to do all such acts and things (including the execution of any document) which in their opinion are necessary, desirable or expedient to give effect to and implement the Asset Transfer Agreement and Share Transfer Agreement, and to waive compliance from or agree to any amendment to any of the terms of any of the foregoing agreements which are not in the opinion of the Directors of the Company of a material nature."

By order of the board,
You Xiao An
Secretary to the Board

Hong Kong, 15th October, 2002

Notes:

I. Eligibility for attending the Extraordinary General Meeting

Shareholders whose names appear on the register of members of the Company at the close of business on 1st November, 2002 are entitled to attend the Extraordinary General Meeting upon completion of the necessary registration procedures.

II. Registration procedures for attending the Extraordinary General Meeting.

1. Shareholders intending to attend the Extraordinary General Meeting are required to deposit a written notice of the same with the Company at the Company's registered office at No. 30 Gangtie Road, Dadukou District, Chongqing, the PRC (Postal code 400084) by 4:00p.m. on 12th November, 2002.

2. Register of members of the Company will be closed from 1st November, 2002 to 3rd December, 2002 (both days inclusive) during which no transfer of shares will be effected. Holders of H Shares of the Company intending to attend the Extraordinary General Meeting are required to lodge their respective instrument of transfer and the relevant share certificates to HKSCC Registrars Limited ("HKSCC") the Registrars of the Company, by 4:00 p.m. on 31st October, 2002.

III. Proxies

1. Any shareholders entitled to attend the Extraordinary General Meeting are entitled to appoint one or more proxies (whether he is a shareholder or not) to attend and vote at the meeting on his behalf. Each shareholder (or his proxy) shall have one vote for each share held.

2. To be valid, shareholders appointing a proxy must be made in writing under the hand of the appointee or his attorney duly authorised in writing. If the form of proxy is signed by the attorney on behalf of the appointee, the power of attorney or other authority must be notarised. The notarised power of attorney or other authority must be lodged with the HKSCC no less than 24 hours before the time appointed for the holding of the Extraordinary General Meting (or appointed for voting).

3. For the shareholders appointing more than one proxy, the voting right can only be exercised when a poll is taken.

III. Miscellaneous

1. Shareholders attending the Extraordinary General Meeting shall be responsible for their own travel and accommodation expenses.

2. Information may be despatched by hand, post or facsimile.

3. Address of the HKSCC Registrars Limited is as follows:
2/F, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong
Office of the Board Secretary of Chongqing Iron & Steel Company Limited
Address: No.30, Gangtie Road, Dadukou District, Chongqing
Postal Code: 400084
Tel: 8623-68842582/68845030
Fax: 8623-68849520/68846070