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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)

(Stock Code: 1053)

CONTINUING CONNECTED TRANSACTIONS **SERVICE AND SUPPLY AGREEMENT**

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

RAINBOW.

RAINBOW CAPITAL (HK) LIMITED
泓博資本有限公司

Reference is made to the announcement of the Company dated 26 August 2020 in relation to possible continuing connected transactions.

On 20 November 2020, the Company entered into the Service and Supply Agreement with China Baowu, whereby the Group agrees to sell products to China Baowu Group, and China Baowu Group agrees to sell or provide products, services and lease of factory premises to the Group.

As at the date of this announcement, Changshou Iron & Steel is interested in approximately 23.51 % of the issued share capital of the Company and is the substantial shareholder of the Company. China Baowu will be the indirect controlling shareholder of Changshou Iron & Steel and will be accordingly the indirect substantial shareholder of the Company, i.e., a connected person under Chapter 14A of the Listing Rules. Besides, the effectiveness of the Service and Supply Agreement is subject to (inter alia) China Baowu becoming the de facto controller of the Company. Therefore, the transactions under the Service and Supply Agreement constitute continuing connected transactions for the Company under the Listing Rules. As the applicable percentage ratios for the caps of the proposed amount of the transactions contemplated under the Service and Supply Agreement is more than 5%, the transactions contemplated under the Service and Supply Agreement constitute non-exempt continuing connected transactions under Chapter 14A of the Listing Rules and are subject to the requirements of reporting and announcement, Independent Shareholders' approval and annual review under Chapter 14A of the Listing Rules.

A circular including, among other things, details of the Service and Supply Agreement (including the caps of transaction amount) and the transactions contemplated thereunder, the recommendation letter from the Independent Board Committee, the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders and, a notice convening the EGM to approve the Service and Supply Agreement (including the caps of transaction amount) and the transactions contemplated thereunder, is expected to be dispatched to the Shareholders on or before 11 December 2020 pursuant to Chapter 14A of the Listing Rules.

BACKGROUND

Reference is made to the announcement of the Company dated 26 August 2020 in relation to possible continuing connected transactions.

On 20 November 2020, the Company entered into the Service and Supply Agreement with China Baowu, whereby the Group agreed to sell products to China Baowu Group, and China Baowu Group agreed to sell or provide products, services and lease of factory premises to the Group.

MAJOR TERMS OF THE SERVICE AND SUPPLY AGREEMENT

Date

20 November 2020

Parties

- (i) China Baowu; and
- (ii) the Company

Term

From the effective date of the agreement to 31 March 2021

Subject Matter

- (i) China Baowu agreed (by itself and/or China Baowu Group) to provide the Group the products and services as follows:
 - (a) raw materials such as iron ore, coal, scrap steel, etc.;
 - (b) production materials such as chemical materials, equipment and spare parts, etc.;
 - (c) road transportation and technical services (including construction, software development, labour services and environmental sanitation and greening, etc.); and
 - (d) lease of factory premises.
- (ii) The Company (by itself and/or the Group) agreed to provide to China Baowu Group the products as follows:
 - (a) production materials such as water, electricity, natural gas, steel billets, steel products, etc.

Condition Precedent

The Service and Supply Agreement is conditional upon the passing of the resolution(s) approving the Service and Supply Agreement and the transactions contemplated thereunder (including the caps of the transaction amounts) by the Independent Shareholders at the EGM to be convened, and China Baowu becoming the de facto controller of the Company.

Price

The terms of the Services and Supply Agreement were entered into with negotiation on an arm's length basis and on normal commercial terms. The pricing or consideration of the Services and Supply Agreement will be determined with reference to the following:

The price shall be based on the state-prescribed price. In the absence of the state-prescribed price, the price shall be based on the market price, which shall be determined with negotiation on an arm's length between the parties, on normal commercial terms and with reference to the comparable transaction market price.

Meanwhile, the price regarding the products sold by the Group to China Baowu Group shall not be lower than the price of the same type of products sold by the Group to independent third parties. The price regarding the products and services to be sold or provided by China Baowu Group to the Group shall not be higher than the price of the same type of products and services purchased or received by the Group to independent third parties.

In accordance with the prevailing pricing standards, the basis of price for each of the transactions under the Services and Supply Agreement are as follows:

Type	Pricing principle	Items
Products sold by China Baowu Group to the Group	Market pricing	Raw materials such as iron ore, coal, scrap steel etc.
		Production materials such as chemical materials, equipment and spare parts etc.
Services provided by China Baowu Group to the Group	Market pricing	Road transportation and technical services (including construction, software development and labour services etc.)
Factory premises leased by China Baowu Group to the Group	Market pricing	
Products sold by the Group to China Baowu Group	State pricing	Water, electricity, natural gas etc.
	Market pricing	Steel billets, steel products etc.

Payment

The price for the provision of services or materials may be settled by one-off payment or installments. The time of payment shall be determined by the parties based on the nature of the services or materials and the usual business practice of the provision of the services or materials.

Proposed caps of transaction amount for the continuing connected transactions under the Service and Supply Agreement

The proposed caps of transaction amount (tax exclusive) in respect of the products and services sold or provided to the Group by China Baowu Group under the Service and Supply Agreement for the period from the effective date of the agreement to 31 March 2021 as shown in the table below:

	<i>RMB0'000</i>
1. Raw materials such as iron ore, coal, scrap steel, etc.	581,608
2. Production materials such as chemical materials, equipment and spare parts, etc.	31,441
3. Road transportation and technical services (including construction, software development, labour services and environmental sanitation and greening, etc.)	107,813
4. lease of factory premises	<u>300</u>
Total :	<u><u>721,162</u></u>

The proposed caps of transaction amount (tax exclusive) in respect of the products sold to China Baowu Group by the Group under the Service and Supply Agreement from the effective date of the agreement to 31 March 2021 as shown in the table below:

	<i>RMB0'000</i>
1. Production materials such as water, electricity, natural gas, steel billets and steel products, etc.	96,671

The proposed caps of transaction amount are determined by reference to:

- (i) the recent market prices or state-prescribed prices applicable to the relevant materials and/or services;
- (ii) the Group's anticipated capacity in providing products to China Baowu Group, and the Group's anticipated demand for China Baowu Group's products and services to meet its production plans; and
- (iii) China Baowu Group's anticipated demand for the products from the Group and anticipated capacity in providing products and services to the Group.

REASONS FOR ENTERING INTO THE SERVICE AND SUPPLY AGREEMENT

The Directors believe that by entering into the Service and Supply Agreement with China Baowu Group, the production stability and continuity of the Company can be maintained whereas the transactions contemplated thereunder would have a positive impact on the Company's management and production plans.

The Directors (excluding the independent non-executive Directors whose opinion will be provided after taking into account of the advice of the Independent Financial Adviser) consider that the Service and Supply Agreement and the transactions contemplated thereunder are entered into in the ordinary and usual course of business of the Company and were negotiated on an arm's length basis between the parties thereto, and the terms of the Service and Supply Agreement (including the caps of transaction amount) are fair and reasonable and on normal commercial terms and are in the interests of the Company and Shareholders as a whole.

INFORMATION OF THE COMPANY AND CHINA BAOWU GROUP

The Company is principally engaged in the manufacture and sale of steel products such as medium-gauge steel plates, steel sections and wire rods.

China Baowu is a state-owned capital investment company wholly owned by the State-owned Assets Supervision and Administration Commission of the State Council. Its business scope includes operating state-owned assets within the scope authorized by the State Council, as well as carrying out relevant state-owned capital investment and operation.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Changshou Iron & Steel is interested in approximately 23.51 % of the issued share capital of the Company and is the substantial shareholder of the Company. China Baowu will be the indirect controlling shareholder of Changshou Iron & Steel and will be accordingly the indirect substantial shareholder of the Company, i.e., a connected person under Chapter 14A of the Listing Rules. Besides, the effectiveness of the Service and Supply Agreement is subject to (inter alia) China Baowu becoming the de facto controller of the Company. Therefore, the transactions under the Service and Supply Agreement constitute continuing connected transactions for the Company under the Listing Rules. As the applicable percentage ratios for the caps of the proposed amount of the transactions contemplated under the Service and Supply Agreement is more than 5%, the transactions contemplated under the Service and Supply Agreement constitute non-exempt continuing connected transactions under Chapter 14A of the Listing Rules and are subject to the requirements of reporting and announcement, Independent Shareholders' approval and annual review under Chapter 14A of the Listing Rules.

Other than Mr. Zhang Jingang, who has position in or connected with China Baowu Group and has abstained from voting on the relevant Board's resolutions for the approval of the Service and Supply Agreement (including the caps of transaction amount) and the transactions contemplated thereunder, none of the Directors has interests in such transactions.

An EGM will be convened at which resolution(s) will be proposed to seek the approval of the Independent Shareholders by way of poll for the Service and Supply Agreement (including the caps of transaction amount) and the transactions contemplated thereunder. China Baowu and its associate(s) as defined under the Listing Rules will abstain from voting.

An Independent Board Committee has been formed by the Company to make recommendations to the Independent Shareholders as to whether the terms of the Service and Supply Agreement are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and its Shareholders as a whole and to advise the Independent Shareholders on how to vote after taking into account the recommendation of the Independent Financial Adviser. Rainbow Capital has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in this respect.

A circular including, among other things, details of the Service and Supply Agreement (including the caps of transaction amount) and the transactions contemplated thereunder, the recommendation letter from the Independent Board Committee, the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders and, a notice convening the EGM to approve the Service and Supply Agreement (including the caps of transaction amount) and the transactions contemplated thereunder, is expected to be dispatched to the Shareholders on or before 11 December 2020.

DEFINITIONS

The following defined terms are used in this announcement:

“Board”	the board of Directors
“Changshou Iron & Steel”	Chongqing Changshou Iron & Steel Company Limited (重慶長壽鋼鐵有限公司), a limited liability company established in the PRC
“China Baowu”	China Baowu Steel Group Corporation Limited, a limited liability company incorporated in the PRC and a pilot enterprise of state-owned capital investment company wholly owned by the State-owned Assets Supervision and Administration Commission of the State Council

“China Baowu Group”	China Baowu and its subsidiaries (excluding the Group)
“Company”	Chongqing Iron & Steel Company Limited, a company incorporated in PRC with limited liability and the shares of which are listed on Stock Exchange
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened for purpose of approving, among other things, the Service and Supply Agreement (including the proposed caps of transaction amount) and the transactions contemplated thereunder
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	a board committee comprising three independent non-executive Directors, Mr. Xin Qingquan, Mr. Xu Yixiang and Mr. Wong Chun Wa
“Independent Financial Adviser” or “Rainbow Capital”	Rainbow Capital (HK) Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the transactions contemplated under the Service and Supply Agreement
“Independent Shareholders”	Shareholders other than China Baowu and its associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Service and Supply Agreement”	the service and supply agreement dated 20 November 2020 entered into between the Company and China Baowu
“PRC”	the People’s Republic of China
“RMB”	renminbi, the lawful currency of the PRC

“Shareholders”	Holder(s) of shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	percent

By order of the Board
Chongqing Iron & Steel Company Limited
Meng Xiangyun
Secretary to the Board

Chongqing, the PRC, 21 November 2020

As at the date of this announcement, the Directors of the Company are: Mr. Zhang Jingang (Non-executive Director), Mr. Song De An (Non-executive Director), Mr. Zhou Ping (Non-executive Director), Mr. Liu Jianrong (Executive Director), Mr. Tu Deling (Executive Director), Mr. Zou An (Executive Director), Mr. Xin Qingquan (Independent Non-executive Director), Mr. Xu Yixiang (Independent Non-executive Director) and Mr. Wong Chunwa (Independent Non-executive Director).