
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, 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 Chongqing Iron & Steel Company Limited, you should at once hand this circular and the accompanying proxy forms and reply slips to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)

- (1) DISCLOSEABLE AND CONNECTED TRANSACTIONS – ESTABLISHMENT OF THE PARTNERSHIP FOR ACQUISITION OF CHONGGANG GROUP THROUGH CAPITAL CONTRIBUTION;**
(2) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION;
(3) PROPOSED AMENDMENTS TO RULES OF PROCEDURES FOR GENERAL MEETINGS;
(4) NOTICE OF 2019 ANNUAL GENERAL MEETING;
AND
(5) SUPPLEMENTAL NOTICE OF 2019 ANNUAL GENERAL MEETING

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

RAINBOW.

RAINBOW CAPITAL (HK) LIMITED
流博資本有限公司

A letter from the Board is set out from pages 1 to 21 of this circular.

A notice and a supplemental notice convening the AGM to be held at 2:00 p.m. on Tuesday, 16 June 2020 at Chongqing Iron & Steel Conference Center, No. 1 of Gangcheng Avenue, Economic & Technological Development Zone, Changshou District, Chongqing, the PRC, or any adjournment thereof, are set out on pages 68 to 72 of this circular. The proxy form for use at the AGM are enclosed with this circular. If you intend to attend the AGM, please complete and return the enclosed reply slip in accordance with the instructions printed thereon as soon as possible and in any event by no later than 4:00 p.m. on 27 May 2020.

Shareholders are advised to read the notice. Whether or not you are able to attend the AGM in person, you are requested to complete and return the enclosed form of proxy and supplemental form of proxy in accordance with the instructions printed thereon and return them to the Company's registered office (in the case of proxy form by holders of domestic shares) at Management Building, No. 1 of Gangcheng Avenue, Economic & Technological Development Zone, Changshou District, Chongqing, the PRC (Postal Code: 401258) or at the Company's H share registrar and transfer office, Hong Kong Registrars Limited at 17M Floor, 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 and supplemental form of proxy shall not preclude you from attending and voting in person at the AGM, or any adjournment thereof, if you so wish.

27 May 2020

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DEFINITIONS

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

“A Share(s)”	the domestic share(s) in the ordinary share capital of the Company with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange
“AGM”	the 2019 annual general meeting (or any adjournment thereof) of the Company to be held at 2:00 p.m. on Tuesday, 16 June 2020 at Chongqing Iron & Steel Conference Center, No. 1 of Gangcheng Avenue, Economic & Technological Development Zone, Changshou District, Chongqing, the PRC to consider and, if thought fit, to approve the resolutions, among others, relating to proposed establishment of the Partnership for acquisition of Chonggang Group through capital contribution proposed amendments to the Articles of Association and the proposed amendments to the rules of procedures for general meetings
“Articles of Association”	the articles of association of the Company
“Board”	the board of Directors
“Chonggang Group”	Chongqing Iron & Steel Company (Group) Limited, a company incorporated in the PRC with limited liability
“Chongqing SASAC”	Chongqing Stated-owned Assets Supervision and Administration Commission
“Company”	Chongqing Iron & Steel Company Limited, a company incorporated in the PRC with limited liability and the shares of which are listed on the Stock Exchange
“Desheng Group ”	Sichuan Desheng Group Vanadium & Titanium Co., Ltd. , a company incorporated in the PRC with limited liability
“Director(s)”	the director(s) of the Company
“Electronics Company”	Chongqing Iron and Steel Group Electronics Co., Ltd, a company incorporated in the PRC with limited liability

DEFINITIONS

“Group”	the Company and its subsidiaries
“H Share(s)”	the foreign share(s) in the share capital of the Company, with a nominal value of RMB1.00 per share, which are listed on the Stock Exchange, and subscribed for and traded in Hong Kong dollars
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	a board committee comprising three independent non-executive Directors, namely Mr. Xu Yixiang, Mr. Xin Qingquan 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 establishment of the Partnership for acquisition of Chonggang Group through capital contribution
“Independent Shareholders”	Shareholders other than Siyuanhe, Desheng Group and their associates
“Industry Company”	Chongqing Iron and Steel Group Industry Co., Ltd, a company incorporated in the PRC with limited liability
“Land Assets”	The 178 mu of land for the use of Industry Company, the 3.3 mu of land for the gas station of Transportation Company and the 122 mu of land for Zhaoyang Company
“Latest Practicable Date”	22 May 2020
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Partnership Agreement”	the partnership agreement to be signed by the Company, Siyuanhe and Desheng Group in relation to the establishment and management of the Partnership

DEFINITIONS

“Partnership”	the limited partnership to be established by the Company, Siyuanhe and Desheng Group in the PRC under the Partnership Agreement
“PRC”	the People’s Republic of China
“RMB”	renminbi, the lawful currency of the PRC
“Siyuanhe”	Siyuanhe Equity Investment Management Co., Ltd., a company incorporated in the PRC with limited liability
“Shareholder(s)”	holder(s) of shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Steel Production Equipment”	Assets including the 4100 rolling mill, 2700 rolling mill, the No. 2 steelmaking plant, bar, wire, section steel and other production line assets held by the parent company of Chonggang Group
“Target Companies”	Electronics Company, Transportation Company, Industry Company and Zhaoyang Company
“Target Assets”	100% equity of Electronics Company, 100% equity of Transportation Company, 100% equity of Industry Company, 100% equity of Zhaoyang Company, Steel Production Equipment and Land Assets
“Transportation Company”	Chongqing Iron & Steel Group Transportation Co., Ltd, a company incorporated in the PRC with limited liability
“Zhaoyang Company”	Chongqing Zhaoyang Gas Co., Ltd., a company incorporated in PRC with limited liability
“%”	Percent

LETTER FROM THE BOARD



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)

Executive Directors:

Mr. Li Yongxiang
Mr. Tu De Ling
Mr. Wang Li

Non-executive Directors:

Mr. Zhou Zhuping
Mr. Song De An
Mr. Zhang Shuogong

Independent Non-executive Directors:

Mr. Xu Yixiang
Mr. Xin Qingquan
Mr. Wong Chunwa

Registered office:

Management Building
No. 1 of Gangcheng Avenue
Economic & Technological Development Zone
Changshou District
Chongqing
the PRC
(Postal Code: 401258)

27 May 2020

To the Shareholders

Dear Sir or Madam,

- (1) DISCLOSEABLE AND CONNECTED TRANSACTIONS – ESTABLISHMENT
OF THE PARTNERSHIP FOR ACQUISITION OF CHONGGANG GROUP
THROUGH CAPITAL CONTRIBUTION;
(2) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION;
(3) PROPOSED AMENDMENTS TO RULES OF PROCEDURES FOR
GENERAL MEETINGS;
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(5) SUPPLEMENTAL NOTICE OF 2019 ANNUAL GENERAL MEETING**

LETTER FROM THE BOARD

I. INTRODUCTION

Reference is made to (1) the announcement dated 30 March 2020 regarding the related investment in relation to the joint establishment of special fund for the acquisition of Chonggang Group through capital contribution and the further announcement dated 30 April 2020 of the Company; (2) the announcement of the Company dated 30 March 2020 regarding the proposed amendments to the Articles of Association; and (3) the announcement of the Company dated 30 March 2020 regarding the proposed amendments to the rules of procedures for general meetings.

The purpose of this circular is to provide you with relevant information on the resolutions to be submitted at the annual general meeting and to send you a notice and a supplemental notice of the AGM. The resolutions to be submitted at the AGM is related to, among others, the related investment of the establishment of the Partnership for acquisition of Chonggang Group through capital contribution, the proposed amendments to the Articles of Association and the proposed amendments to the rules of procedures for general meetings.

II. ESTABLISHMENT OF THE PARTNERSHIP FOR ACQUISITION OF CHONGGANG GROUP THROUGH CAPITAL CONTRIBUTION

On 23 March 2020, the “100% equity interest in Chongqing Iron & Steel (Group) Co., Ltd.” was listed for sale by public tender on the Chongqing Assets and Equity Exchange of Chongqing United Assets and Equity Exchange Group at a transfer base price of RMB2,563,119,200, which is determined with reference to the valuation report prepared by a domestic qualified valuer in respect of Chonggang Group as at 31 March 2019.

Since the subject of the listed sale is the the entire equity interest of Chonggang Group for public sale, and the Company only intends to purchase the Target Assets which are in relation to the Group’s production and operation, the Company intends to jointly establish a Partnership with Siyuanhe and Desheng Group to obtain the total equity interest of Chonggang Group in accordance with the bidding process. If the Partnership succeeds in the bidding, the Company will acquire the Target Assets at the agreed price, and will no longer take any responsibility and obligation for the remaining assets, liabilities and personnel of Chonggang Group.

The Company’s consideration of the Target Assets will not be higher than the cap of RMB2.5 billion and the appraised value of the corresponding Target Assets as per the valuation report provided by Chongqing SASAC. The price is comprehensively determined mainly based on the factors such as the appraised value as per the valuation report for the Target Assets prepared by the qualified appraiser based on the tender provided by Chongqing SASAC, the approximate valuation of Target Assets based on the Company’s past investigation and calculation, the economic benefits after the completion of the acquisition of the Target Assets and the integration effect with the Company’s existing business/asset planning operations.

LETTER FROM THE BOARD

(i) **Proposed terms of the Partnership Agreement**

Proposed date of the transaction:

The Partnership Agreement will be signed within 3 working days after it is approved at the AGM.

Proposed contracting parties:

- Siyuanhe (as a general partner);
- The Company (as a limited partner);
- Desheng Group (as a limited partner).

Purpose of the Partnership establishment:

The Partnership is to be established in accordance with the terms and conditions of the Partnership Agreement. The purpose is to obtain the entire equity interest in Chonggang Group by the Partnership through the tender process. According to the information on the website of the Chongqing Assets and Equity Exchange of Chongqing United Assets and Equity Exchange Group provided by Chongqing SASAC, the audited net asset value and appraised value of Chonggang Group as at 31 March 2019 are RMB632,838,400 and RMB2,563,119,200, respectively.

Partnership capital scale:

The specific capital scale of the Partnership and the Company's and Desheng's percentage of contribution as limited partners will be determined according to the parties' intentions. The Company's contribution as a limited partner to the Partnership represents the Company's consideration for acquiring the Target Assets. It will be not higher than the corresponding appraised value of the Target Assets as per the valuation report provided by Chongqing SASAC and within the cap of RMB2.5 billion.

LETTER FROM THE BOARD

Partnership duration:

The duration of the Partnership will be calculated from the date of the establishment of the Partnership and will last for 2 years. Once the bidding is successful and the Partnership acquires 100% equity interest of Chongqing Group, distribution of the Target Assets to the Company will be conducted as soon as practicable. It is expected that the transfer process would take approximately 3–6 months subject to industrial and commercial registration in the PRC. Afterwards, the Company will exit the Partnership and Siyuanhe will continue to dispose the remaining assets and liabilities via the Partnership.

Partnership management:

According to the Partnership Agreement, Siyuanhe as the general partner will act as an executive partner. The executive partner (i) shall be responsible for the daily operation and management of the Partnership, and shall represent the Partnership externally; (ii) formulates the basic management system and specific rules and regulations of the Partnership; (iii) convenes, presides over and participates in partners' meetings, and exercise corresponding voting rights; (iv) in accordance with the terms of the Partnership Agreement, makes decisions on the investment of the Partnership within the scope of authority; (v) has the right to enter into contracts and agreements and reach other agreements on behalf of the Partnership.

The role of Siyuanhe in the Partnership is mainly to lead and coordinate the bidding for the total equity interest of Chonggang Group, distribute the intended assets of each partner, and be responsible for the disposal of the remaining assets, liabilities and personnel of Chonggang Group. During the process, it will separately negotiate with each limited partner on terms such as their capital contribution and asset distribution, but has no right to influence or represent each limited partner to make a decision in this aspect.

The partners' meeting will be composed of all partners and will be responsible for deciding on major matters of the Partnership, including matters such as amendment of the Partnership Agreement, decision of the partner's entry/withdrawal, extension of the Partnership's term and liquidation of the Partnership.

LETTER FROM THE BOARD

Remuneration of manager:

Given that the limited partners will require Siyuanhe to complete the disposal of the remaining assets and liabilities and the placement of personnel within 2 years, and the responsibility, cost and expenses of the relevant work shall be borne by Siyuanhe, the limited partners agree to compensate Siyuanhe for the provision of the above services. Specifically, each party agrees to pay the remuneration of manager calculated at 2% of the consideration of each limited partner's purchase of assets per annum, meaning 4% in total based on the aforementioned 2-year duration of the Partnership. However, the total consideration paid by the Company for the acquisition of the Target Assets, including the remuneration of manager, shall not be higher than the upper limit of RMB2.5 billion and the appraised value of the Target Assets as per the valuation report provided by Chongqing SASAC.

Asset distribution:

If the Partnership succeeds in the bidding of the total equity interest of Chonggang Group, Siyuanhe will distribute the assets that each limited partner intends to purchase to the relevant limited partners as soon as possible, and the Company expects that it will take approximately 3–6 months for the Partnership to transfer the Target Assets to the Company (subject to the industrial and commercial registration). Save as obtaining the Target Assets at the agreed prices, the Company will not assume any other responsibilities and obligations, and the Company will exit the Partnership after obtaining the Target Assets.

Contribution return:

If the Partnership has received the capital contribution from the limited partners but fails in the bidding for the total equity interest in Chonggang Group, Siyuanhe will return the capital contribution of all limited partners to the account designated by the limited partners in cash within 30 days.

LETTER FROM THE BOARD

(ii) Assets to be acquired by the Company through the Partnership

The Company intends to acquire the Target Assets held by Chonggang Group through the Partnership, details of which are as follows:

Assets Type	Name of assets	Description of assets	Main financial indicators of assets	
Equity assets	100% equity of Electronics Company	Providing system services for the Company, and the business income related to the Company accounts for approximately 85% of its total revenue in 2019	Book value of net assets: approximately RMB80 million	The total assets of the four companies as at 31 December 2019 were approximately RMB1.4 billion. In 2019, the total revenue was approximately RMB1.5 billion and the total net profit (attributable to owners of parent company) was approximately RMB100 million. <i>(Notes 1 and 2)</i>
			Appraised value of net assets: approximately RMB100 million <i>(Note 1)</i>	
	100% equity of Transportation Company	Providing transportation services for the Company, and the business income related to the Company accounts for approximately 60% of its total revenue in 2019	Book value of net assets: approximately RMB80 million	
			Appraised value of net assets: approximately RMB100 million <i>(Note 1)</i>	
	100% equity of Industry Company	Providing processing services for the Company, and the business income related to the Company accounts for approximately 80% of its total revenue in 2019	Book value of net assets: approximately RMB100 million	
			Appraised value of net assets: approximately RMB200 million <i>(Note 1)</i>	
	100% equity of Zhaoyang Company	Providing gas products for the Company, and the business income related to the Company accounts for approximately 80% of its total revenue in 2019	Book value of net assets: approximately RMB0 million	
			Appraised value of net assets: approximately RMB500 million <i>(Note 1)</i>	
Leased assets	Steel Production Equipment	Being the equipment necessary for the production of the Company, which is currently leased by Chonggang Group to the Company for use, with an annual rent of RMB165 million. The appraised value of this asset accounts for more than half of the assets intended to be acquired by the Company through the Partnership	The original costs of fixed asset (before deducting accumulated depreciation) of the asset is approximately RMB2.45 billion and its expected remaining economic service life is approximately more than 10 years. As disclosed in the 2019 annual report of the Company, the estimated useful life and annual depreciation rate of machinery and other equipment are 8–22 years and 4.32%–12.13%, respectively. <i>(Note 3)</i>	

LETTER FROM THE BOARD

Assets Type	Name of assets	Description of assets	Main financial indicators of assets
Land assets	178 mu of land for the use of Industry Company	Being the land held by Chonggang Group for industrial purpose and located in the factory area of the Company in Changshou District	The unaudited total book value of the three pieces of land as at 31 March 2019 is approximately RMB50 million. According to the data of the third quarter of 2019 of the Ministry of Land and Resources, the average land price for industrial use in Chongqing was RMB477/ square meter (approximately RMB318,800/ mu), and the average land price for commercial use was RMB5,275/square meter (approximately RMB3,516,670/ mu). Based on the above market data, the value of land assets is approximately RMB100 million. (Note 4)
	122 mu of land for the use of Zhaoyang Company	Being the land held by Chonggang Group for industrial purpose and located in the factory area of the Company in Changshou District	
	3.3 mu of land for the use of gas station of Transportation Company	Being the land held by Chonggang Group for commercial purpose and located in Chonggang Gas Station at Yangxi River, Mawang village, Jiulongpo District	

Notes:

1. The above financial information of the Target Companies has not been audited, and was obtained from the Company's past investigations and calculations. The reference date of the book value of net assets and the appraised value is 31 March 2019. Although such data has not been audited by a third party intermediary, it helps Independent Shareholders to understand the general financial position of the Target Companies and understand the Target Companies' approximate value range, which is not misleading. Subject to the confidentiality requirements put forward by the Chongqing SASAC during the listing process, the Company is unable to publicly disclose the audited and evaluated financial information, but believes that the aforesaid information will help Independent Shareholders make an independent judgment on the reasonable value of the Target Companies. Please note that according to the online information on Chonggang Group on the Chongqing Assets and Equity Exchange, since the asset stripping of Chonggang Group has not been completed, there was no corresponding annual audit report of Chongqang Group available for the year ended 31 December 2019. For the avoidance of doubt, such assets stripping is not related to the Target Assets.
2. According to the letter from the Independent Financial Advisor, the price-to-earnings ("P/E(s)") of the Electronics Comparable Companies are more than 9 times, and the P/E of Electronics Company as implied by the valuation is near the low end of those of the Electronics Comparable Companies; the P/Es of the Transportation Comparable Companies are more than 10 times, and the P/E of Transportation Company as implied by the valuation is lower than all the P/Es of the Transportation Comparable Companies; the P/Es of the Industrial Comparable Companies are more than 15 times, and the P/E of Industry Company as implied by the valuation is lower than all the P/Es of the Industrial Comparable Companies; the P/Es of the Zhaoyang Comparable Companies are more than 30 times, and the P/E of Zhaoyang Company as implied by the valuation is lower than all the P/Es of the Zhaoyang Comparable Companies. The P/Es of the Target Companies as implied by their respective valuation are either near the low end of those, or lower than all the P/Es, of the Comparable Companies, the consideration is fair and reasonable. Please refer to the letter from the Independent Financial Adviser annexed to this circular for the details of the Comparable Companies.

LETTER FROM THE BOARD

3. The original value of the assets is the initial carrying amount of fixed assets, also known as the “original cost of fixed assets”. As the value does not deduct accumulated depreciation, it is different from the concept of the net book value and appraised value of the assets. The information was also obtained from the Company’s past investigations and calculations. Subject to the confidentiality requirements put forward by the Chongqing SASAC during the listing process, the Company is unable to publicly disclose the audited and evaluated financial information, including the current asset book value and appraised value of the Steel Production Equipment. The aforesaid original value of the assets allows Independent Shareholders to understand the initial cost of acquiring assets, and with the remaining useful life of the asset, it will help Independent Shareholders to comprehensively make independent judgments on the reasonable asset value of the assets intended to be acquired.
4. The total book value of Land Assets was also obtained from the Company’s past investigations and calculations. Since the fair value of the corresponding land has relatively high premium over the book value, the Company made an estimation on the value of the Land Assets comprising industrial transferred land and commercial land with reference to the public information available such as average land price, original land premium (土地位元值) and land area, which could better reflect the fair value of the Land Assets and is not misleading.

Electronics Company

The Electronics Company was formerly known as the Chonggang Automation Department, and was then transformed into a wholly-owned subsidiary of Chonggang Group. The registered capital of the company was RMB52.172 million. In 2019, the total unaudited revenue amounted to approximately RMB120 million, among which the business income involving the Company was approximately RMB100 million, accounting for approximately 85% of its total unaudited revenue. The total unaudited revenue in 2018 and 2017 amounted to approximately RMB130 million and approximately RMB180 million respectively, among which the business income involving the Company was approximately RMB110 million and approximately RMB90 million respectively, accounting for approximately 85% and approximately 50% of its total unaudited revenue respectively. The main business of Electronics Company includes: automatic operation and maintenance business, including L1-L2 automation system hardware and software maintenance and process control model upgrade and transformation of the Company; measurement control business, including material measurement operation, maintenance, energy measurement and weighing instrument calibration of the Company; information software business, including industrial enterprise MES, ERP system development, operation and maintenance; business, including industrial enterprise MES, ERP system development, operation and maintenance; intelligent department business, including smart city business, namely park monitoring system for the construction of network facilities; engineering department business, including instrument installation engineering.

LETTER FROM THE BOARD

Transportation Company

The Transportation Company was formerly known as the Chonggang Group Automobile Brigade, and was later transformed into a wholly-owned subsidiary of Chonggang Group. The registered capital was RMB51 million. In 2019, the total unaudited revenue amounted to approximately RMB320 million, among which business income involving the Company was approximately RMB200 million, accounting for approximately 60% of its total unaudited revenue. The total unaudited revenue in 2018 and 2017 amounted to approximately RMB310 million and approximately RMB210 million respectively, among which the business income involving the Company was approximately RMB190 million and approximately RMB70 million respectively, accounting for approximately 60% and approximately 30% of its total unaudited revenue respectively. The main business of Transportation Company includes road freight services, “water-road-rail” multimodal transport and agency services, hazardous chemicals transportation, warehousing services, passenger transportation services, CNG (compressed natural gas) sales, fuel supply, and automobile and construction machinery repair general contract services.

Industry Company

Founded in July 1998, Industry Company is a wholly-owned subsidiary of Chonggang Group, with a registered capital of RMB80.5181 million. In 2019, the total unaudited revenue amounted to approximately RMB310 million, among which the revenue involving the Company was approximately RMB250 million, accounting for approximately 80% of its unaudited revenue. The total unaudited revenue in 2018 and 2017 amounted to approximately RMB330 million and approximately RMB160 million respectively, among which the business income involving the Company was approximately RMB130 million and approximately RMB80 million respectively, accounting for approximately 40% and approximately 50% of its total unaudited revenue respectively. Industry Company mainly provides production and supply services such as scrap steel processing, metallurgical slag processing, and briquette processing for the Company, which is a necessary link in the Company’s production process. It is positioned as an enterprise for comprehensive utilization of resources in the iron and steel industry. In addition, it also provides printing, steel trade, gas sales, and waste and secondary materials processing services.

LETTER FROM THE BOARD

Zhaoyang Company

Zhaoyang Company was established in September 1993 with a registered capital of RMB125.5349 million. In 2019, the total unaudited revenue amounted to approximately RMB730 million, among which the revenue involving the Company was approximately RMB590 million, accounting for approximately 80% of its unaudited revenue. The total unaudited revenue in 2018 and 2017 amounted to approximately RMB660 million and approximately RMB500 million respectively, among which the business income involving the Company was approximately RMB530 million and approximately RMB380 million respectively, accounting for approximately 80% and approximately 75% of its total unaudited revenue respectively. It has 4 sets of oxygen generating units in the plant of the Company, which is an indispensable and important production line for the production of the Company. The main business of Zhaoyang Company includes the production of industrial gases such as oxygen, nitrogen, and argon. The products are supplied to the Company's production and use in the metallurgy, machinery, automobile and motorcycle, chemical, electronics, medical, scientific research and other enterprise and institutions in Chongqing and Southwest China.

Steel Production Equipment

The relevant assets include 4100 rolling mill, 2700 rolling mill, the No.2 steelmaking plant, bar, wire, section steel and other production line assets. As disclosed in the Company's announcement dated 23 November 2017, the Steel Production Equipment originally belonged to the Company and was sold to Chonggang Group by auction on 21 November 2017 at a consideration of RMB3.0 billion. It is currently leased to the Company by Chonggang Group for use at an annual rental of RMB165 million, and its expected remaining economic service life is approximately more than 10 years.

Land assets

The Land Assets represent the 178 mu of land within the factory area of the Company for the use of Industry Company, 3.3 mu of land for the gas station of Transportation Company and 122 mu of land within the factory area of the Company for gas production of Zhaoyang Company. These lands are currently held by Chonggang Group. The Company and Chonggang Group were one entity long time ago and were later restructured. There remain land parcels belonging to Chonggang Group which are situated in the factory area of the Company.

LETTER FROM THE BOARD

3. Proposed Consideration

As the total consideration of the transaction is affected by the result of the bidding and the disclosure of which will have an adverse impact on the Partnership's participation in the bidding, no exact information of the consideration could be provided currently.

The Board has resolved to contribute not more than RMB2.5 billion by cash to the Partnership for obtaining the Target Assets. The Company's contribution to the Partnership, that is, the final consideration for the acquisition of the Target Assets, together with the remuneration of manager, will not exceed RMB2.5 billion, and not be higher than the corresponding appraised value of the Target Assets as per the valuation report provided by Chongqing SASAC. The price is comprehensively determined mainly based on the factors such as the appraised value as per the valuation report for the Target Assets prepared by the qualified appraiser based on the tender provided by Chongqing SASAC, the approximate valuation of Target Assets based on the Company's past investigation and calculation, the economic benefits after the completion of the acquisition of the Target Assets and the integration effect with the Company's existing business/asset planning operations.

The Company intends to use its internal funds and obtain borrowings to pay the consideration.

4. Bidding process of Chongqing United Assets and Equity Exchange

The bidding process of Chongqing United Assets and Equity Exchange for the total equity interest of Chonggang Group is summarized as follows:

- (a) Chongqing SASAC designates the proposed selling price and terms of sale.
- (b) Chongqing United Assets and Equity Exchange designates a date for the public bidding of the total equity interest of Chonggang Group, and the relevant notice has been issued.
- (c) after obtaining the approval from the Independent Shareholders for the establishment of the Partnership for acquisition of Chonggang Group through capital contribution at the AGM, the Company will establish the Partnership with Siyuanhe and Desheng Group, and the Partnership will submit a bidding application to Chongqing United Assets and Equity Exchange to bid for the acquisition of the total equity interest of Chonggang Group held by Chongqing SASAC.

LETTER FROM THE BOARD

- (d) after the expiration of the relevant public bidding period issued by the Chongqing SASAC at the Chongqing United Assets and Equity Exchange, Chongqing United Assets and Equity Exchange will notify the Partnership whether the bid is successful.
- (e) Within 20 working days after confirming the successful bidding of the Partnership, the Partnership will enter into a binding equity transaction contract with Chongqing SASAC. Within 5 working days after the signature of the equity transaction contract, the Partnership shall remit the balance of the purchase amount to the account designated by Chongqing United Assets and Equity Exchange.

Chonggang Group has been listed for sale on the Chongqing Assets and Equity Exchange of Chongqing United Assets and Equity Exchange Group since 23 March 2020. The first round of listing period ended on 19 May 2020. Since no one succeeds in the bid during the first round of listing, the bidding period will be extended automatically at an interval of 5 working days with no change to transfer base price. Chongqing SASAC and Chongqing United Assets and Equity Exchange will announce the commencement of a new round of listing and the new transfer base price shortly, but details have not been announced yet as at the Latest Practicable Date. After the resolution of the proposed participation in the establishment of the Partnership for acquisition of Chonggang Group through capital contribution by the Company has been approved at the AGM, the Partnership will choose the proper opportunity to participate in bidding based on auction conditions.

Information of the Company

The Company is mainly engaged in the production and sale of medium and thick steel plates, profiles and wires.

Information of Siyuanhe

The main business of Siyuanhe is to initiate the establishment of equity investment enterprises; to be entrusted to manage the investment business of equity investment enterprises and provide related services; and equity investment consulting.

Siyuanhe is held 26% by WL ROSS & Co. LLC (ultimately controlled by Invesco (IVZ)), 25% by Huabao Investment Co., Ltd. (ultimately controlled by the State-owned Assets Supervision and Administration Commission of the State Council), 25% by U.S.-China Green East Investment Management Co. Ltd (with U.S. – China Green Fund Management (Beijing) Co., Ltd. as the general partner), and 24% by China Merchants Ping'an AMC (ultimately controlled by the State-owned Assets Supervision and Administration Commission of the State Council).

LETTER FROM THE BOARD

As at the Latest Practicable Date, Siyuanhe is an indirect substantial shareholder of the Company. It is the general partner of Siyuanhe (Chongqing) Iron & Steel Industrial Development and Equity Investment Fund Partnership, which holds 75% equity interests in Chongqing Changshou Iron & Steel Company Limited, and Chongqing Changshou Iron & Steel Company Limited holds approximately 23.51% of the issued share capital of the Company. Therefore, Siyuanhe is a connected person of the Company.

Information of Desheng Group

The main business of Desheng Group is the production and sales of industrial oxygen (compression, liquefaction), high-purity argon (compression, liquefaction), and high-purity nitrogen (compression, liquefaction) (valid until 9 April 2021). It also includes vanadium-titanium furnace charge processing, vanadium-titanium smelting, comprehensive processing and utilization of vanadium-titanium resources and rolling processing, processing of vanadium-titanium products; mechanical processing; foreign investment; freight information service; sale of metal materials (excluding rare and precious metals), machinery and equipment, hardware, mineral products (excluding tungsten, tin, antimony), building materials, chemical materials (excluding hazardous articles), rubber products, self-operated and agent import and export of various commodities and technologies (except for products and technologies that state limited operation and import and export); branches that operate and utilize the company's waste heat for power generation and steam and hot water supply.

Desheng Group is held 47.37% by Yunnan Desheng Steel Company Limited, 26.84% by Mr. Song De An and 25.79% by Leshan Zhonglianyabao Industrial Co., Ltd. (which is an independent third party). Mr. Song De An and his wife jointly control Yunnan Desheng Steel Company Limited. Therefore, Mr. Song De An is the de facto controller of Desheng Group.

Mr. Song De An, a non-executive Director, is the de facto controller of Desheng Group. Therefore, Desheng Group is a connected person of the Company.

Board approval

To the best of the Directors' information, knowledge and belief, and after making all reasonable enquiries, none of the directors, except for connected directors Mr. Zhou Zhuping and Mr. Song De An, has a material interest in the transaction under the Partnership Agreement. Mr. Zhou Zhuping is a director and the chief executive officer of Siyuanhe, and Mr. Song De An is the de facto controller of Desheng Group. They have abstained from voting at the Board meeting approving the transaction under the Partnership Agreement.

LETTER FROM THE BOARD

Reasons and benefits of the transaction

The investment of the Company to participate in the establishment of the Partnership for acquisition of Chonggang Group through capital contribution is for the future acquisition of assets or equity in subsidiaries of Chonggang Group that have a strong correlation with the Company's iron and steel production. The Target Assets directly serve the Company's production and operation activities and have an important impact on the Company's production and operation. All Target Assets of this transaction are the necessary facilities that being continuously used by the Company in its current production and operation. If a third party obtains the ownership of the Target Assets and charges the Company a higher fee, this will significantly increase the Company's production and operation costs, and in the worst scenario the Company may even be refused to use these necessary facilities and the production and operation of the Company will be stopped immediately.

Since the assets of Chonggang Group are not sold separately while the Company intends to acquire the Target Assets only, the Company intends to jointly establish the Partnership with Siyuanhe and Desheng Group to obtain the total equity interest of Chonggang Group. The establishment of the Partnership through capital contribution to obtain the Target Assets are conducive to the integration of the Company's production and operation processes, which is in line with the Company's development strategy.

The Directors believe that the establishment the Partnership for acquisition of Chonggang Group through capital contribution is in the interest of the Company and its shareholders as a whole.

Implications of the Listing Rules

As stated above, both Siyuanhe and Desheng Group are connected persons of the Company, the transaction contemplated under the Partnership Agreement will constitute a connected transaction for the Company under Chapter 14A of the Listing Rules. Since certain applicable percentages of the Partnership Agreement exceed 5% but all are below 25%, the transaction contemplated under the Partnership Agreement also constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules, and is subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

Waiver from strict compliance with Listing Rules

(i) ***Information required to be disclosed by the Listing Rules***

Pursuant to Rules 14.58(6), 14.58(7), 14A.68(1), 14A.70(7) and 14A.70(8) of the Listing Rules, announcement and circular on the transactions under the Partnership Agreement shall include, among others, the following information (the “**Relevant Information**”):

- (a) the value (book value and valuation) of the Target Assets;
- (b) the net profits (including the net profits before and after taxation) attributable to the Target Companies for the two financial years immediately preceding the transaction;
- (c) a valuation and information on the Land Assets in compliance with Rule 5.03, and
- (d) an independent valuation of the Steel Production Equipment.

(ii) ***Reasons for the Company’s inability to disclose the Relevant Information and grounds for waiver***

The Company applied to the Stock Exchange for a waiver of disclosing the Relevant Information based on the following grounds:

- (a) Chongqing SASAC clearly requires all bidders to keep confidential the information of Chonggang Group obtained in the process of the due diligence. Siyuanhe has also paid a deposit of RMB1 million and signed a confidentiality agreement with Chongqing SASAC, Chonggang Group and Chongqing Assets and Equity Exchange prior to inspecting the information of Chonggang Group. As the Company obtains the information of Chonggang Group through Siyuanhe, it is also subject to the confidentiality obligations prescribed by Chongqing SASAC. If the Company discloses non-public information of Chonggang Group in the circular, it would mean violating the requirements of government authorities and the confidentiality obligations stipulated in the agreement, which will expose the Company to significant legal risks and materially prejudice the interests of the Company and its shareholders.
- (b) The Company has no authority to conduct a valuation of the Steel Production Equipment and the Land Assets. Under the “Supervision and Management Method for Transactions of State-owned Assets of Corporation (《企業國有資產交易監督管理辦法》)” after a State-owned assets is listed for auction, no audit or valuation can be done to change the price. It is required under the same document that when a State-owned asset is listed for sale through public tender, the valuation should be conducted by the transferor.

LETTER FROM THE BOARD

- (c) In addition, if the specific financial information and valuation of the Target Assets are disclosed, it will enable potential competitors to readily obtain relevant information of Chonggang Group and easily calculate the actual bid of the Company, which will also have an adverse and negative impact on the completion of this transaction, thereby greatly increasing the Partnership's risk of failing to win the bid at an appropriate price, and the Company will therefore lose the opportunity to acquire the Target Assets. This will have a serious negative impact on the Company's operations and interests, and will also not be conducive to the ultimate interests of the Company's shareholders.

Hence, the Company is not able to disclose the Relevant Information in the announcement and circular of the transactions under the Partnership Agreement. Notwithstanding the above, the Company has performed the necessary steps to ensure that the transaction terms are fair and reasonable.

The Board and management of the Company have made sufficient calculations and analysis based on the tender information, and have fully reviewed the assumptions, evaluation methods, evaluation process and evaluation results of the asset valuation report to ensure that the evaluation results match the actual value of the assets. The Board has made careful analysis and calculation from aspects including the Company's strategic considerations, the replacement cost of the Target Assets, the forecast of future economic benefits and the approximate valuation based on the Company's past investigation and calculation to determine the consideration amount proposed for the Target Assets, and such consideration amount shall be not higher than the appraised value of the corresponding Target Assets in the public bidding initiated by Chongqing SASAC;

- (a) In terms of the strategic significance of the acquisition, the assets intended to be acquired by the Company is closely related to the Company's business and is a necessary part for carrying out the Company's business. The income of the Target Assets is basically derived from the Company, and this acquisition is conducive to the Company's business integration and will enhance its independence. If the Company does not participate in the acquisition, its production and operation supporting facilities may be adversely affected to a large extent in the future. For example, there is uncertainty about whether it can continue to maintain stable transactions with the Target Companies in the future, there is uncertainty about the cost and consideration of transactions, and the absence of its own supporting facilities or services which are key to its business operation is also not conducive to the overall upgrade and transformation of the Company's business and equipment which will seriously affect the implementation of the 10-million-ton production line planned by the Company, etc.

LETTER FROM THE BOARD

- (b) In terms of the consideration of the acquisition, the Board of the Company analyzed the replacement cost of the Target Assets and the forecast of future economic benefits. On one hand, the analysis for asset replacement cost is mainly for the Steel Production Equipment, which is an indispensable asset in the Company's steel production and operation. The Company calculates the replacement cost of the corresponding assets through assuming the cost of repurchasing the corresponding steel production equipment assets times the estimated residue ratio of the Steel Production Equipment intended to be acquired. Since the replacement cost of the corresponding equipment involves commercial secrecy, the disclosure will lead to the disclosure of the Company's bidding bottom line, and hence the corresponding information and calculations are not disclosed in the circular.
- (c) In the second aspect, the Board has contemplated the cost analysis of leased assets. For the leased assets (the Steel Production Equipment), the Company calculates the cost necessary for continuing to lease in the future based on the rental fee paid each year and estimated the future useful life. The Board of the Company comprehensively takes into account the aforesaid factors and analysis the possible economic benefits, and opines that the economic benefits which may be generated are higher than the evaluation results as per the valuation report provided by Chongqing SASAC. In view of commercial secrecy, the specific calculation information is not disclosed, but the annual rental and estimated economic useful life of the corresponding assets have been disclosed, so that the Independent Shareholders can obtain a general understanding of the range of asset value.
- (d) Further, the Company has gathered information regarding the Target Assets from its past investigation and calculation. For example, it has assessed the value of the Target Companies with reference to the past transactions with them, assessed the value of the Steel Production Equipment with reference to the annual rental currently paid by the Company, the remaining economic service life and depreciation rate applicable, and also assessed the estimated value of the Land Assets based on the average land price of the same land use in the vicinity.

All of these could fully indicate that the Company's pricing basis, pricing strategy and pricing process are in line with the basic principles and scope of shareholders' authorization of decision-making to the Board. For the key information elements and risk factors that shareholders are concerned about, the Board of the Company has given full attention and analysis, and took sufficient measures to ensure the careful and prudent implementation of shareholders' concerns and authorizations. It is believed that the Company's decision-making process could ensure the protection of shareholders' interests and could indeed protect the Company's operating rights and interests, notwithstanding that it could not be disclosed publicly at this stage in view of statutory confidentiality issues.

LETTER FROM THE BOARD

In addition, if any shareholder has a desire to have a further understanding of the status of Target Assets prior to the AGM, the Company also undertakes to accompany the shareholder to Chongqing Assets and Equity Exchange to review the valuation information of the Target Assets.

Alternative disclosure

As alternative, the Company already disclosed in this circular the following information derived from the Company's past investigation and calculation:

- (i) the unaudited and approximate book value and appraised value of the Target Companies as at 31 March 2019;
- (ii) the unaudited total assets, total revenue and total net profit (after tax) of the Target Companies in aggregate as at 31 December 2019;
- (iii) the unaudited revenue of each of the Target Companies for the year of 2017, 2018 and 2019;
- (iv) the current annual rental the remaining economic service life and the original costs of fixed assets (before deducting accumulated depreciation of the Steel Production Equipment); and
- (v) the unaudited book value as at 31 March 2019 and the estimated value of the Land Assets based on the average land price for industrial and commercial use published by the Ministry of Land and Resources for the third quarter of 2019.

For details, please refer to the section headed "Assets to be acquired by the Company through the Partnership" in this circular.

The Company expects that after the Partnership has successfully bid for the total equity of Chonggang Group and transfers the Target Assets to the Company, the Company will obtain the control of the Target Assets, at which time the Company will no longer be restricted by any confidentiality obligations. Accordingly, the Company intends to include all the currently available and discloseable information in this circular, and to postpone the announcement of the Relevant Information in a supplementary announcement after the acquisition of the Target Assets is successful. The Company will disclose the following information as soon as practicable after the completion of the transaction in the said supplementary announcement:

- (a) the audited book value and appraised value of the Target Assets as per the valuation report provided by Chongqing SASAC as at 31 March 2019 and the unaudited book value of the Target Assets as at 31 December 2019;

LETTER FROM THE BOARD

- (b) audited net profits (before and after taxation) of the Target Companies as at 31 March 2019, 31 December 2018 and 31 December 2017 and the unaudited net profits (before and after taxation of the Target Companies as at 31 December 2019);
- (c) the valuation of the Land Assets and the Steel Production Equipment in compliance with Rule 14A.70(7) and 14A.70(8) to be conducted after successful bidding of the 100% equity interest of Chonggang Group.

The Company has already obtained the waiver of disclosing the Relevant Information from the Stock Exchange.

III. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Reference is made to the announcement of the Company dated 30 March 2020.

In order to protect the interests of investors and improve the efficiency of decision making at general meetings, according to the Guidelines on Articles of Association of Listed Companies (revised in 2019), the Securities Law of the People's Republic of China (revised in 2019), the Reply of the State Council on Adjustment to the Notice Period of General Meeting and other Matters Applicable to Overseas Listed Companies (Guo Han [2019] No. 97) and other relevant requirements, and in consideration of the actual situation of the Company, amendments are made to certain articles in the Articles of Association. The amendments will not cause any adverse impact on the existing business and operation of the Company. The amended Articles of Association have complied with the relevant laws and administrative regulations applicable to A share and H share listed companies.

Details of proposed amendments to the articles of association are set out in appendix II of this circular.

IV. PROPOSED AMENDMENTS TO RULES OF PROCEDURES FOR THE GENERAL MEETINGS

Reference is made to the announcement of the Company dated 30 March 2020.

In accordance with the Reply of the State Council on Adjustment of the Notice Period for General Meeting and Other Matters Applicable to Overseas Listed Company (Guo Han [2019] No. 97) (《國務院關於調整適用在境外上市公司召開股東大會通知期限等事項規定的批覆》(國函[2019]97號)), in order to enhance the efficiency of decision making at general meetings of the Company and to simplify the procedures of convening the general meetings, amendments are made to the notice period of convening a general meeting, the receipt and other contents in the Rules of Procedures for the General Meetings of Chongqing Iron & Steel Company Limited.

LETTER FROM THE BOARD

Details of proposed amendments to the rules of procedures for the general meetings are set out in appendix III of this circular.

V. AGM

A notice and a supplemental of the AGM to be held at 2:00 p.m. on Tuesday, 16 June 2020 at the Chongqing Iron & Steel Conference Centre, No. 1 of Gangcheng Avenue, Economic & Technological Development Zone, Changshou District, Chongqing, the PRC, at which relevant resolutions will be proposed to approve, among other things, establishment of the Partnership for acquisition of Chonggang Group through capital contribution, is set out on pages 68 to 72 of this circular, the proposed amendments to the Articles of Association and the proposed amendment to the rules of procedures for general meetings.

As at the Latest Practicable Date, Siyuanhe and its associates hold 2,096,981,600 shares, accounting for approximately 23.51% of the total issued share capital of the Company, and shall not vote for the resolution of establishment of the Partnership for acquisition of Chonggang Group through capital contribution at the AGM. Save as aforesaid, to the best of the director's knowledge, information and belief and having made all reasonable enquiries, no Shareholder is required to abstain from voting on any of the resolutions at the AGM.

The form of proxy and the supplemental form of proxy for use at the AGM is enclosed with this circular. Whether or not you are able to attend the AGM, you are requested to complete the accompanying form of proxy and the supplemental form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited 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 AGM or any adjourned meeting thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the AGM or any adjourned meeting and the supplemental form of proxy should you so desire.

VI. RECOMMENDATION

The Directors consider that the participation in the establishment of the Partnership for acquisition of Chonggang Group through capital contribution, the proposed amendments to the Articles of Association and the proposed amendments to the rules of procedures for general meetings mentioned above is in the best interests of the Company and its Shareholders as a whole, and recommend that all Shareholders should vote in favour of the relevant resolutions to be proposed at the AGM.

LETTER FROM THE BOARD

VII. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

To the Independent Shareholders

Dear Sir/Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION – ESTABLISHMENT OF THE PARTNERSHIP FOR ACQUISITION OF CHONGGANG GROUP THROUGH CAPITAL CONTRIBUTION

We refer to the circular dated 27 May 2020 issued by the Company of which this letter forms part. Capitalised terms used herein shall have the same meaning as those defined in the circular unless the context otherwise requires.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders on whether (i) the Partnership Agreement is entered into in the ordinary and usual course of business of the Group; and (ii) the terms of the Partnership Agreement and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole, and advise the Independent Shareholders as to voting. Rainbow Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

RECOMMENDATION

Having taken into account the advice of Rainbow Capital, we are of the opinion that (i) the terms of the Partnership Agreement are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the entering into of the Partnership Agreement, while not in the ordinary and usual course of business of the Group, is nevertheless in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to approve the establishment of the Partnership for acquisition of Chonggang Group through capital contribution as set out in the notice of AGM.

Yours faithfully,

Independent Board Committee

Independent Non-executive Directors

Xu Yixiang, Xin Qingquan, Wong Chun Wa

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of a letter of advice from Rainbow Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the proposed establishment of the Partnership for acquisition of Chonggang Group through capital contribution, which has been prepared for the purpose of inclusion in this circular.



RAINBOW CAPITAL (HK) LIMITED
溢博資本有限公司

Rainbow Capital (HK) Limited

27 May 2020

To the Independent Board Committee and the Independent Shareholders

Chongqing Iron & Steel Company Limited
No. 1 Gangcheng Avenue
Changshou Economic Development Zone
Chongqing, the PRC

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ESTABLISHMENT OF THE PARTNERSHIP FOR ACQUISITION OF CHONGGANG GROUP THROUGH CAPITAL CONTRIBUTION

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the proposed establishment of the Partnership for acquisition of Chonggang Group through capital contribution, details of which are set out in the “Letter from the Board” (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 27 May 2020 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

On 23 March 2020, the 100% equity interest in Chonggang Group was listed for sale by public tender (the “**Tender**”) on the Chongqing Assets and Equity Exchange of Chongqing United Assets and Equity Exchange Group (the “**Chongqing Exchange**”) at a transfer base price of RMB2,563,119,200. As the assets of Chonggang Group are not sold separately while the Company intends to acquire the Target Assets that are closely related to the Group’s production and operation (the “**Proposed Acquisition**”), the Company proposes to jointly establish the Partnership with Siyuanhe and Desheng Group by entering into the Partnership Agreement with them for the purpose of participating in the aforesaid Tender. Siyuanhe shall be the general partner whereas the Company and Desheng Group shall be the limited partners of the Partnership. Should the Partnership succeed in the Tender, the Company shall be allocated the assets it intends to acquire at the agreed prices and shall no longer be responsible and liable for the remaining assets, liabilities and personnel of Chonggang Group. The consideration for the Proposed Acquisition shall not be higher than RMB2.5 billion and the appraised value of the Target Assets as per the valuation report prepared by a qualified valuer provided by Chongqing SASAC.

As at the Latest Practicable Date, Siyuanhe was interested in approximately 23.51% of the issued share capital of the Company and Mr. Song De An, a non-executive Director, was the de facto controller of Desheng Group. Siyuanhe and Desheng Group are therefore connected persons of the Company. As such, the transactions contemplated under the Partnership Agreement constitute a connected transaction for the Company under Chapter 14A of the Listing Rules. As certain applicable percentage ratios exceed 5% but all are less than 25%, the transactions contemplated under the Partnership Agreement also constitute a discloseable transaction for the Company under Chapter 14 of the Listing Rules and are therefore subject to the reporting, announcement, circular and independent shareholders’ approval requirements.

The Company will seek approval from the Independent Shareholders in respect of the Partnership Agreement and the transactions contemplated thereunder by way of a poll at the AGM. Siyuanhe and its associates are required to abstain from voting in respect of the ordinary resolution approving the Partnership Agreement and the transactions contemplated thereunder at the AGM.

The Independent Board Committee, comprising all the three independent non-executive Directors, namely Mr. Xin Qing Quan, Mr. Xu Yi Xiang and Mr. Wong Chun Wa, has been formed to advise the Independent Shareholders on whether (i) the Partnership Agreement is entered into in the ordinary and usual course of business of the Group; and (ii) the terms of the Partnership Agreement and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole, and advise the Independent Shareholders as to voting. We, Rainbow Capital, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

As at the Latest Practicable Date, we did not have any relationships or interests with the Group and any other party to the Partnership Agreement that could reasonably be regarded as relevant to our independence. In the last two years, there was no engagement between the Group and us. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received any fees or benefits from the Group or any other party to the Partnership Agreement. Accordingly, we are qualified to give independent advice in respect of the Partnership Agreement and the transactions contemplated thereunder.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the Circular.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Group, Siyuanhe, Desheng Group, Chonggang Group or any of its respective substantial shareholders, subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering the Partnership Agreement and the transactions contemplated thereunder, we have taken into account the principal factors and reasons set out below:

1. Business of the Group and background to the Partnership Agreement

The Company was established in 1997 and its Shares have been listed on the Main Board of the Stock Exchange since 1997 and on the Shanghai Stock Exchange since 2007. The Group is principally engaged in the production, processing and sale of steel products including steel plates, steel sections, wire rods, bar materials, billets and thin plates as well as production and sale of coking and coal chemical products, pig iron and grain slag, steel slag and steel scrap. The Company has a production capacity of approximately 8.4 million tonnes of steel per year. The Group's products are applied in various industries such as machinery, architecture, engineering, automobile, motorbike, shipbuilding, offshore oil, gas cylinder, boiler and oil and gas pipelines.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

On 23 March 2020, the 100% equity interest in Chonggang Group was listed for sale by the Tender on the Chongqing Exchange at a transfer base price of RMB2,563,119,200. Chonggang Group was the controlling Shareholder prior to the judicial reorganisation of the Company in November 2017 and was wholly-owned by Chongqing SASAC as at the Latest Practicable Date. The predecessor of Chonggang Group can be traced back to April 1890 (the Qing Dynasty) when Hangyang Steel Factory was built, which was subsequently moved to Chongqing in 1938. Currently, Chonggang Group and its subsidiaries are renting certain iron and steel production facilities to, as well as supplying or purchasing certain goods and/or services to or from, the Group.

Now that the Group intends to acquire the Target Assets of Chonggang Group which are closely related to the Group's production and operation. However, as only 100% equity interest in Chonggang Group is available for sale in the Tender, the Company proposes to jointly establish the Partnership with Siyuanhe and Desheng Group by entering into the Partnership Agreement with them for the purpose of participation in the Tender. Siyuanhe shall be the general partner whereas the Company and Desheng Group shall be the limited partners of the Partnership. Should the Partnership succeed in the Tender, Siyuanhe shall distribute the assets that each limited partner intends to acquire to the relevant limited partner as soon as possible. Save as obtaining the assets that the Company agrees to purchase at the agreed prices, the Company shall not assume any other responsibilities and obligations. The consideration for the Proposed Acquisition shall not be higher than RMB2.5 billion and the appraised value of the Target Assets.

The Target Assets comprise (i) 100% equity interests in (a) Electronics Company; (b) Transportation Company; (c) Industry Company; and (d) Zhaoyang Company (i.e. the Target Companies); (ii) the Steel Production Equipment, comprising primarily 4100 rolling mill, 2700 rolling mill, the No. 2 steelmaking plant, bar, wire, section steel and other production line assets, which are currently leased by the Group for its production at an annual rental of RMB165 million; and (iii) the Land Assets, comprising the lands currently used by Industry Company, Transportation Company and Zhaoyang Company for their respective operations (together with the Steel Production Equipment, the "**Target PPE**"). The Land Assets used by Industry Company and Zhaoyang Company are located in the factory area of the Company in Changshou District whereas that used by Transportation Company is located in Chonggang Gas Station at Yangxi River, Mawang Village, Jiulongpo District.

For details of the Target Assets, please refer to the section headed "II. Establishment of the Partnership for acquisition of Chonggang Group through capital contribution – (ii) Assets to be acquired by the Company through the Partnership" in the Letter from the Board.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Financial information of the Group

(i) *Financial results*

Set out below are the summarised consolidated income statements of the Group for the two years ended 31 December 2019, as extracted from the annual report of the Company for the year ended 31 December 2019 (the “**2019 Annual Report**”):

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
	(audited)	(audited)
Operating income	23,477,597	22,638,957
– sales volume of steel products (<i>in tonnes</i>)	6,507,400	6,046,400
– average selling price of steel products (<i>in RMB/tonne</i>)	3,457	3,611
Operating cost	21,718,957	19,681,846
Gross profit	1,758,640	2,957,111
Operating profit	860,519	1,746,440
Net profit attributable to Shareholders	<u>925,723</u>	<u>1,787,906</u>

The Group’s operating income increased from approximately RMB22.6 billion for the year ended 31 December 2018 (“**FY2018**”) to approximately RMB23.5 billion for the year ended 31 December 2019 (“**FY2019**”), representing an increase of approximately 3.7%. This was primarily attributable to the increase in the sales volume of steel products by approximately 7.6% from approximately 6.0 million tonnes in FY2018 to approximately 6.5 million tonnes in FY2019, which was partially offset by the decrease in the average selling price of steel products by approximately 4.3% from RMB3,611 per tonne in FY2018 to RMB3,457 in FY2019. As mentioned in the 2019 Annual Report, the Company plans to achieve a sales volume of approximately 6.4 million tonnes of steel products and an operating income of approximately RMB22.0 billion (tax exclusive) in 2020, remaining relatively stable as compared to those in 2018 and 2019.

The Group’s operating cost increased by approximately 10.4% from approximately RMB19.7 billion in FY2018 to approximately RMB21.7 billion in FY2019, mainly due to the increase in production and sales as well as the prices of raw materials, such as ore, coal, alloy and scrap steel.

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Net profit attributable to Shareholders amounted to approximately RMB925.7 million, representing a decrease of approximately 48.2%, as compared to approximately RMB1,787.9 million in FY2018. Such significant decrease was primarily due to the decrease in gross profit by approximately 40.5% from approximately RMB3.0 billion in FY2018 to approximately RMB1.8 billion in FY2019 caused by the decrease in the average selling price of steel products and the increase in the prices of raw materials, which was partially offset by the increase in the sales volume of steel products, the increase in other income and the decrease in the overall expenses as a result of the cost reduction plan of the Group.

(ii) Financial position

Set out below is the summarised consolidated statement of financial position of the Group as at 31 December 2018 and 2019, as extract from the 2019 Annual Report:

	As at 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)
Total assets, including:	26,975,726	26,933,351
– cash and bank balances	1,783,747	2,764,631
– inventories	3,931,513	3,192,201
– property, plant and equipment	16,442,264	16,914,109
– intangible assets	2,392,114	2,454,327
Net current assets	2,765,568	2,267,179
Total liabilities, including:	7,579,723	8,401,686
– trade payables	1,726,883	1,747,169
– contract liabilities	1,145,615	1,004,280
– other non-current liabilities	2,250,000	2,575,500
Net assets	<u>19,396,003</u>	<u>18,531,665</u>
Gearing ratio (<i>Note</i>)	28.1%	31.2%

Note: being total liabilities divided by total assets

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As at 31 December 2019, total assets of the Group amounted to approximately RMB27.0 billion, representing an increase of approximately 0.2% as compared to that as at 31 December 2018, mainly consisting of (a) cash at bank and bank balances of approximately RMB1.8 billion; (b) inventories of approximately RMB3.9 billion; (c) property, plant and equipment of approximately RMB16.4 billion; and (d) intangible assets of approximately RMB2.4 billion.

As at 31 December 2019, total liabilities of the Group amounted to approximately RMB7.6 billion, representing a decrease of approximately 9.8% as compared to that as at 31 December 2018, mainly consisting of (a) trade payables of approximately RMB1.7 billion; (b) contract liabilities of approximately RMB1.1 billion; and (c) other non-current liabilities of approximately 2.3 billion.

As at 31 December 2019, the Group had cash and bank balances of approximately RMB1.8 billion with a net current asset position of approximately RMB2.8 billion and a gearing ratio of approximately 28.1%, representing an improvement from those as at 31 December 2018. Net assets of the Group increased by approximately 4.7% to approximately RMB19.4 billion as at 31 December 2019.

(iii) Overall comment

The iron and steel industry, in which the Group operates, is a strong cyclical industry significantly affected by the macro-economic environment as well as industrial policies. The financial performance of the Group in FY2019 was affected by the significant fluctuation in the steel price caused by the rise in domestic steel production capacity and the increasing cost pressure as a result of the fluctuations of iron ore price at high level and rising freight of bulk raw materials. To cope with these fluctuations, the Group has been implementing a cost reduction strategy to maintain its profitability and competitiveness. As disclosed in the 2019 Annual Report, there was an increase of RMB752 million in profit resulting from the cost reduction in the aspect of process and an increase of RMB177 million in profit caused by the decrease in total expenses in FY2019. While the domestic iron and steel industry continues to advance the supply-side structural reform with a view to cutting overcapacity and reducing excess backlog of steel products in the market, the Group will continue to implement its cost reduction strategy by streamlining its production and operation to maintain its profitability and improve efficiency.

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3. Reasons for and benefits of the Proposed Acquisition through the Partnership

As at the Latest Practicable Date, the Company intends to acquire the Target Assets through the Partnership. The Target Assets comprise the Target Companies and the Target PPE.

As mentioned in the 2019 Annual Report, the Group strives to become the most competitive steel enterprise in Southwest China by implementing strategies to reduce costs and increase efficiency. As set out in the Letter from the Board, the Target Assets are closely related to the steel production of the Group. As disclosed in the annual report of the Company for the year ended 31 December 2018, the Target Companies and the Group have been providing goods and/or services to each other. In particular, as disclosed in the Letter from Board, the Target Companies have been providing system services, transportation services, processing services and gas products to the Group, and have over 60% of their revenue generated from the Group in 2019. As for the Steel Production Equipment, it has been leased to the Group for its iron and steel production since the acquisition by Chonggang Group in November 2017 at a consideration of RMB3 billion during the judicial reorganisation of the Company. The Land Assets are currently used by Industry Company, Transportation Company and Zhaoyang Company for their respective operations. Given that the Target Assets directly serve the production and operating activities of the Group, they have significant bearing on the operations of the Group.

In the event that a third party obtains the ownership of the Target Assets and charges the Group higher prices and fees for the goods and services provided, this would significantly increase the Group's operating costs, resulting in financial losses. In the worst scenario, the Group might be disallowed to continue to obtain the goods and services provided by the Target Companies and use the Steel Production Equipment for its operations, resulting in immediate suspension of production. The new owner of the Target Assets has no obligation to continue to provide the Group with relevant goods and services and the Steel Production Equipment for its production.

As a result, we concur with the Directors that the participation in the establishment of the Partnership through capital contribution for the Proposed Acquisition is conducive to the Company in achieving an integrated production and operation flow, resulting in an overall cost reduction and an increase in efficiency, which is in line with the Group's development strategy. The Proposed Acquisition is expected to consolidate the Company's position in the domestic iron and steel industry through enhancement of asset base and reduce the risk of the Group's production and operation being critically affected in the event that the Target Assets are sold to other independent third parties.

4. Industry overview

As stated in the 2019 Annual Report, the iron and steel industry in the PRC continued to focus on supply-side structural reform, consolidate the results of the capacity cutting, evaluate green and intelligent standards and improve quality and efficiency, so as to promote high quality development of the industry. Although the economic benefits of iron and steel companies decreased in 2019 as a result of the growth in production volume, the decrease in steel price and the increase in raw material prices as mentioned in the 2019 Annual Report, the growth in production volume is expected to decelerate as a result of the continued consolidation in the industry through eliminating inefficient steelmakers. According to the Office of the Chief Economist of the Department of Industry, Science, Energy and Resources of the Australian Government, the annual crude steel production in the PRC grew at a compound annual growth rate (“CAGR”) of approximately 5.4% during the period from 2015 to 2019, and is expected to grow at a CAGR of approximately 2.0% during the period from 2019 to 2025 (source: <https://www.industry.gov.au/data-and-publications/resources-and-energy-quarterly-all>).

According to the China Iron & Steel Association, in 2020, the demand for steel products from the infrastructure construction industry is expected to accelerate, mitigating the downward pressure on the steel demand from the weakening sectors such as property construction, automobile, ship-building, container-manufacturing and machinery sectors (source: <http://www.chinaisa.org.cn/gxportal/xfgl/portal/index.html>). Based on an industry research report issued by an independent securities house, the PRC iron and steel industry is in the progress of restructuring with a focus on quality and efficiency instead of expanding through scale of operation and price competition and the elimination of substandard steel production has led to enhancement in the overall performance of the industry.

In summary, in face of the slowdown of the global economy and the backlog of steel stocks in the market caused by the novel coronavirus outbreak as mentioned in the 2019 Annual Report, the growth in the PRC iron and steel industry may be restricted in the short run. However, with the Chinese government’s continued effort to restructure the domestic iron and steel industry, the balance of evidence suggests that the outlook for the PRC iron and steel industry as a fundamental part of the PRC economic growth story will be positive in the long run. This is especially the case when the novel coronavirus infection is kept under control and the steel production volume in the industry is maintained at a level commensurate with the domestic consumption.

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5. Principal terms of the Partnership Agreement

For details of the principal terms of the Partnership Agreement, please refer to the section headed “II. Establishment of the Partnership for acquisition of Chonggang Group through capital contribution – (i) Proposed terms of the Partnership Agreement” in the Letter from the Board. Set out below are the proposed principal terms of the Partnership Agreement:

Date : The Partnership Agreement will be signed within three working days after it is approved at the AGM

Parties : (i) Siyuanhe (as a general partner);
(ii) The Company (as a limited partner); and
(iii) Desheng Group (as a limited partner)

Pursuant to the Partnership Agreement, Siyuanhe as the general partner shall be responsible for, among other things, leading and coordinating the entire process of the Tender for 100% equity interest in Chonggang Group, distributing the respective assets that each limited partner intends to purchase and disposing of the remaining assets, liabilities and personnel of Chonggang Group (collectively, the “**Disposal**”).

Purpose : To participate in the Tender for acquisition of 100% equity interest in Chonggang Group

Capital contribution : The Company shall contribute capital to the Partnership of not more than RMB2.5 billion by cash and the appraised value of the Target Assets as per the valuation report provided by Chongqing SASAC. Such contribution represents the Company’s consideration for acquiring the Target Assets.

Duration : Two years from the date of establishment of the Partnership

Remuneration of manager : The limited partners agree to pay Siyuanhe a remuneration calculated at 2% of the consideration for the acquisition of assets by each limited partner on an annual basis, meaning 4% in total during the two-year term of the Partnership, taking into account that the responsibility, costs and expenses associated with the Disposal during the term of the Partnership Agreement shall be borne by Siyuanhe. However, the total consideration paid by the Company for the Proposed Acquisition, together with the remuneration of manager, shall not be higher than RMB2.5 billion and the appraised value of the Target Assets as per the valuation report provided by Chongqing SASAC.

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- Asset distribution : If the Partnership succeeds in the Tender and acquires 100% equity interest in Chonggang Group, Siyuanhe shall distribute the assets that each limited partner intends to acquire to the relevant limited partner as soon as practicable. The Company expects that it will take approximately three to six months for the Partnership to transfer the Target Assets to the Company, subject to the industrial and commercial registration in the PRC. Save as obtaining the Target Assets that the Company agrees to purchase at the agreed prices, the Company shall not assume any other responsibilities and obligations and shall exit the Partnership after obtaining the Target Assets.
- Return of capital : If the Partnership has received the capital contributed by the limited partners but the Tender is unsuccessful, Siyuanhe shall return the capital to the relevant limited partners in cash within 30 days.

Assessment of the remuneration of manager

In assessing the fairness and reasonableness of the remuneration to be charged by Siyuanhe under the Partnership Agreement, we have, on a best effort basis, searched on the website of the Stock Exchange and identified an exhaustive list of arrangement involving formation of partnership and/or funds by listed issuers (the “**Partnership Comparables**”) with disclosed remuneration of manager or management fee during the period from 1 January 2020 to the Latest Practicable Date, details of which are set out below:

Company	Date of announcement	Management fee arrangement
Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (2196.HK)	18 May 2020	Payable to manager in the following manner: (i) During the investment period, 2% of the paid-in contribution made by each limited partner per year; and (ii) During the exit period, 1.5% of the investment cost paid by each limited partner per year

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Company	Date of announcement	Management fee arrangement
China Everbright Limited (165.HK)	21 April 2020	Payable to manager in the following manner:
China Everbright International Limited (257.HK)		<ul style="list-style-type: none"> (i) During the investment period, 1.2% of the aggregate capital commitments of the limited partners per year; and (ii) Following the expiry of the investment period, 1.2% of the aggregate actual capital contributions made by the limited partners to the fund which have not yet been exited
A8 New Media Group Limited (800.HK)	21 January 2020	Payable to general partner in the following manner:
		<ul style="list-style-type: none"> (i) During the investment period, 2% of the capital contribution per year; (ii) During the payback period, 2% on the difference between the actual capital contribution and the investment cost of the withdrawn investment projects per year; (iii) 1.5% on the investment cost of the investment projects that have not been withdrawn for the one year following the payback period; and (iv) no management fee will be charged thereafter

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Company	Date of announcement	Management fee arrangement
Pharmaron Beijing Co., Ltd. (3759.HK)	20 January 2020	2% of the total capital commitment per year payable to general partner

As shown in the table above, the management fees or remunerations charged by the general partners or managers under the Partnership Comparables generally ranged from approximately 1.2% to 2% of the respective capital contribution on an annual basis. The remuneration to be charged by Siyuanhe under the Partnership Agreement is within the aforesaid range, which we consider fair and reasonable.

Overall comment

Taking into account that (i) the capital to be contributed by the Company shall be used to, among other things, acquire the assets that the Company intends to purchase after the Partnership is successful in the Tender; (ii) the proposed consideration for the Target Assets and therefore the capital to be contributed by the Company shall not be higher than the appraised value of the Target Assets; (iii) the remuneration to be charged by Siyuanhe under the Partnership Agreement is within the range of those charged under the Partnership Comparables; and (iv) the Company shall get back the capital it has contributed to the Partnership in the event that the Tender is unsuccessful, we consider the proposed terms of the Partnership Agreement to be fair and reasonable.

6. Evaluation of the consideration for the Proposed Acquisition

On 23 March 2020, the 100% equity interest in Chonggang Group was listed for sale by the Tender on the Chongqing Exchange at a transfer base price of RMB2,563,119,200, which was determined with reference to the valuation (the “**Appraised Value**”) of 100% equity interest in Chonggang Group as at 31 March 2019 as appraised by Chongqing Huakang Asset & Land & Real Estate Valuation Co., Ltd. (“**Huakang**”), an independent firm of qualified PRC valuers designated by Chongqing SASAC to conduct valuation of state-owned assets.

As at the Latest Practicable Date, the Company intends to acquire the Target Assets through the Partnership. The Target Assets comprise the Target Companies and the Target PPE. As disclosed in the Letter from the Board, the consideration (the “**Consideration**”) for the Proposed Acquisition shall not be higher than RMB2.5 billion and the independent valuation of the Target Assets conducted by Huakang, which constituted part of the Appraised Value.

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In assessing the fairness and reasonableness of the Consideration, we have reviewed, on a confidential basis, (i) the key unaudited financial information, comprising total assets, net assets attributable to shareholders of the parent, and profit attributable to shareholders of the parent, of each of the Target Companies for the year ended 31 December 2019; (ii) the valuation report (the “**Valuation Report**”) dated 15 January 2020 for 100% equity interest in Chonggang Group as at 31 March 2019 prepared by Huakang in compliance with the relevant PRC regulatory requirements; and (iii) the valuation (the “**Valuation**”) of each of the Target Assets as at 31 March 2019, as per the valuation report provided by Chongqing SASAC. Based on the above, we have (i) computed the price-to-earnings (“**P/E(s)**”) and price-to-book (“**P/B(s)**”) multiples of each of the Target Companies as implied by the Valuation, by dividing the Valuation by the unaudited profit attributable to shareholders of the parent of the respective Target Companies for the year ended 31 December 2019 and the unaudited net assets attributable to shareholders of the parent as at 31 December 2019, respectively; and (ii) evaluated the fairness and reasonableness of the Valuation for the Target PPE.

P/E and P/B are the two most commonly used yardsticks in valuing the equity interest in a company. Given that (i) the Target Companies are profit making and their profits are relatively stable in the past years; and (ii) the valuation methodology using P/B is unable to factor in the future earnings of the Target Companies, we consider the valuation methodology using P/E more appropriate in valuing the equity interests in the Target Companies as compared to that using P/B. In assessing the fairness and reasonableness of the Valuation for the Target Companies, we have performed independent valuation work by considering the P/Es of companies listed on the Main Board of the Stock Exchange or in the PRC (collectively, the “**Comparable Companies**”) with businesses comparable to those of the Target Companies, details of which are set out below. The presentation of the P/Bs of the Comparable Companies in this section is for general reference only. Given that the Comparable Companies are engaged in the same business sectors as the Target Companies do, we consider that they represent a fair and representative sample for comparison purpose. Although the Comparable Companies have different size, business mix, profitability and financial position as compared to those of the Target Companies, we consider that the Comparable Companies represent a sufficient sample size based on our selection criteria and can provide a general reference to the valuation multiples of the companies in the same business sectors for comparison with the those of the Target Companies implied by the Valuation. As for the Target PPE, given the complexity, size and specialised nature and uses of the assets, we have considered the relevant Valuation as at 31 March 2019, details of which are set out below.

*(i) **Electronics Company***

Electronics Company is principally engaged in development, manufacture, sale and maintenance of automation systems including computer software and equipment.

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In evaluating the fairness and reasonableness of the Valuation for Electronics Company, we have, on a best effort basis, searched on Bloomberg and the website of the Stock Exchange and identified an exhaustive list of companies (the “**Electronics Comparable Companies**”) which (a) are principally engaged in factory automation equipment manufacturing; (b) have their shares listed on the Main Board of Stock Exchange or in the PRC; (c) are profit making for their latest twelve months; and (d) have a market capitalisation within RMB3 billion as at the Latest Practicable Date. Based on these criteria, we have identified five Electronics Comparable Companies. We consider that the aforesaid criteria allow us to identify a sufficient number of samples with businesses comparable to that of Electronics Company for comparison purpose.

The following table sets out the details of the Electronics Comparable Companies:

Company name (stock code)	Principal activities (Percentage of revenue generated from factory automation equipment manufacturing business in the latest financial year)	P/E (Note) (times)	P/B (Note) (times)	Market capitalisation as at the Latest Practicable Date (RMB million)
Miracle Automation Engineering Co., Ltd. (“ Miracle ”) (002009.SZ)	Miracle develops logistics systems, including automation conveyer systems and automation storage systems. (48.3%)	96.02	1.32	2,649.43
Ningbo Techmation Co., Ltd. (“ Ningbo ”) (603015.SH)	Ningbo specialises in the research and development, manufacturing, and sales of plastic machinery automation products. (87.7%)	70.93	2.04	2,483.24
Beijing AriTime Intelligent Control Co., Ltd. (“ AriTime ”) (600560.SH)	AriTime manufactures and markets electric transmission equipment, industrial computer control systems, industrial special detecting and control instruments, and electric power semi-conductor components. (93.9%)	78.33	2.90	2,281.18

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Company name (stock code)	Principal activities (Percentage of revenue generated from factory automation equipment manufacturing business in the latest financial year)	Market capitalisation as at the Latest Practicable Date		
		P/E (Note) (times)	P/B (Note) (times)	Practicable Date (RMB million)
Pentamaster International Ltd. (“ Pentamaster ”) (1665.HK)	Pentamaster designs, manufactures and installs automated equipment. (100%)	9.79	2.93	2,105.18
Beijing Chieftain Control Engineering Technology Co., Ltd. (“ Chieftain ”) (300430.SZ)	Chieftain manufactures and produces integrated solutions of manufacturing process automation systems. (73.8%)	39.97	1.10	1,849.66
		Maximum	96.02	2.93
		Minimum	9.79	1.10
		Average	59.01	2.06
		Median	70.93	2.04

Source: Bloomberg, the website of the Stock Exchange and annual reports of the respective companies

Note: Being the P/Es and P/Bs of the respective Electronics Comparable Companies as at the Latest Practicable Date as extracted from Bloomberg.

As shown above, the P/Es of the Electronics Comparable Companies ranged from approximately 9.79 times to approximately 96.02 times with an average and median of approximately 59.01 times and 70.93 times, respectively, as at the Latest Practicable Date. The P/E of Electronics Company as implied by the Valuation is near the low end of those of the Electronics Comparable Companies.

As a general reference only, the P/Bs of the Electronics Comparable Companies ranged from approximately 1.10 times to approximately 2.93 times with an average and median of approximately 2.06 times and 2.04 times, respectively, as at the Latest Practicable Date. The P/B of Electronics Company as implied by the Valuation is near the low end of those of the Electronics Comparable Companies.

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(ii) Transportation Company

Transportation Company is principally engaged in cargo transportation mainly on roads.

In evaluating the fairness and reasonableness of the Valuation for Transportation Company, we have, on a best effort basis, searched on Bloomberg and the website of the Stock Exchange and identified an exhaustive list of companies (the “**Transportation Comparable Companies**”) which (a) are principally engaged in provision of logistic services; (b) have their shares listed on the Main Board of the Stock Exchange or in the PRC; (c) are profit making for their latest twelve months; and (d) have a market capitalisation within RMB3 billion as at the Latest Practicable Date. Based on these criteria, we have identified six Transportation Comparable Companies. We consider that the aforesaid criteria allow us to identify a sufficient number of samples with businesses comparable to that of Transportation Company for comparison purpose.

The following table sets out the details of the Transportation Comparable Companies:

Company name (stock code)	Principal activities (Percentage of revenue generated from logistic services related business in the latest financial year)	P/E (Note) (times)	P/B (Note) (times)	Market capitalisation as at the Latest Practicable Date (RMB million)
Guangzhou Jiacheng International Logistics Co., Ltd. (“ Jiacheng ”) (603535.SH)	Jiacheng provides services such as distribution, production, processing, transportation, material handling, warehousing, packaging, supply chain management, and after-sales services. (51.6%)	18.38	1.49	2,427.46
Jiangsu Feiliks International Logistics Inc. (“ Feiliks ”) (300240.SZ)	Feiliks designs and provides services of supply chain management solutions (80.4%)	84.31	1.62	1,882.63
Y.U.D. Yangtze River Investment Industry Co., Ltd. (“ Y.U.D. ”) (600119.SH)	Y.U.D. provides cargo transportation, supply chain, cross border electronic commerce, and other logistics services. (89.1%)	42.70	8.56	1,616.92

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Company name (stock code)	Principal activities (Percentage of revenue generated from logistic services related business in the latest financial year)	P/E (Note) (times)	P/B (Note) (times)	Market capitalisation as at the Latest Practicable Date (RMB million)
GuangDong GenSho Logistics Co., Ltd. ("GenSho") (603813.SH)	GenSho provides automotive parts transporting, warehousing, and freight forwarding, and other services. (53.5%)	20.49	2.10	1,433.44
World-Link Logistics Asia Holding Ltd. ("World-Link") (6083.HK)	World-Link provides transportation, warehousing, packaging and labeling services, and value-added services. (76.7%)	10.86	2.26	229.14
Goal Rise Logistics (China) Holdings Ltd. ("Goal") (1529.HK)	Goal mainly offers transportation, storage, and other logistics services to production- oriented enterprises. (80.4%)	13.06	0.96	121.46
		Maximum	84.31	8.56
		Minimum	10.86	0.96
		Average	31.63	2.83
		Median	19.44	1.86

Source: Bloomberg, the website of the Stock Exchange and annual reports of the respective companies

Note: Being the P/Es and P/Bs of the respective Transportation Comparable Companies as at the Latest Practicable Date as extracted from Bloomberg.

As shown above, the P/Es of the Transportation Comparable Companies ranged from approximately 10.86 times to approximately 84.31 times with an average and median of approximately 31.63 times and 19.44 times, respectively, as at the Latest Practicable Date. The P/E of Transportation Company as implied by the Valuation is lower than all the P/Es of the Transportation Comparable Companies.

As a general reference only, the P/Bs of the Transportation Comparable Companies ranged from approximately 0.96 time to approximately 8.56 times with an average and median of approximately 2.83 times and 1.86 times, respectively, as at the Latest Practicable Date. The P/B of Transportation Company as implied by the Valuation is near the low end of those of the Transportation Comparable Companies.

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(iii) *Industry Company*

Industry Company is principally engaged in scrap steel processing business.

In evaluating the fairness and reasonableness of the Valuation for Industry Company, we have, on a best effort basis, searched on Bloomberg and the website of the Stock Exchange and identified an exhaustive list of companies (the “**Industrial Comparable Companies**”) which (a) are principally engaged in metal recycling in the waste management industry; (b) have their shares listed on the Main Board of the Stock Exchange or in the PRC; and (c) are profit making for their latest twelve months. Based on these criteria, we have identified three Industrial Comparable Companies.

The following table sets out the details of the Industrial Comparable Companies:

Company name (stock code)	Principal activities (Percentage of revenue generated from metal recycling business in the latest financial year)	Market capitalisation as at the Latest Practicable Date		
		P/E (Note) (times)	P/B (Note) (times)	(RMB million)
GEM Co., Ltd. (“ GEM ”) (002340.SZ)	GEM recycles, processes, and distributes recyclable materials. (91.3%)	25.84	1.72	20,907.95
China Resources and Environment Co., Ltd. (“ China Resources ”) (600217.SH)	China Resources collects, recycles, processes, and sells reusable electronics, metals, rubbers, plastics, chemicals, and other products and materials around the world. (73.9%)	23.20	2.52	7,665.40
Yechiu Metal Recycling (China) Ltd. (“ Yechiu ”) (601388.SH)	Yechiu sorts, smelts, casts recycled aluminum scrap resources and manufactures secondary aluminum products. (91.9%)	18.85	1.34	3,686.23
		Maximum	25.84	2.52
		Minimum	18.85	1.34
		Average	22.63	1.86
		Median	23.20	1.72

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Source: Bloomberg, the website of the Stock Exchange and annual reports of the respective companies

Note: Being the P/Es and P/Bs of the respective Industrial Comparable Companies as at the Latest Practicable Date as extracted from Bloomberg.

As shown above, the P/Es of the Industrial Comparable Companies ranged from approximately 18.85 times to approximately 25.84 times with an average and median of approximately 22.63 times and 23.20 times, respectively, as at the Latest Practicable Date. The P/E of Industry Company as implied by the Valuation is lower than all the P/Es of the Industrial Comparable Companies.

As a general reference only, the P/Bs of the Industrial Comparable Companies ranged from approximately 1.34 times to approximately 2.52 times with an average and median of approximately 1.86 times and 1.72 times, respectively, as at the Latest Practicable Date. The P/B of Industry Company as implied by the Valuation is lower than all the P/Bs of the Industrial Comparable Companies.

(iv) Zhaoyang Company

Zhaoyang Company is principally engaged in production and sale of industrial gases including oxygen, nitrogen and argon.

In evaluating the fairness and reasonableness of the Valuation for Zhaoyang Company, we have, on a best effort basis, searched on Bloomberg and the website of the Stock Exchange and identified an exhaustive list of companies (the “**Zhaoyang Comparable Companies**”) which (a) are principally engaged in production and sale of industrial gases; (b) have their shares listed on the Main Board of the Stock Exchange or in the PRC; and (c) are profit making for their latest twelve months. Based on these criteria, we have identified three Zhaoyang Comparable Companies.

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The following table sets out the details of the Zhaoyang Comparable Companies:

Company name (stock code)	Principal activities (Percentage of revenue generated from production and sale of industrial gases in the latest financial year)	P/E (Note) (times)	P/B (Note) (times)	Market capitalisation as at the Latest Practicable Date (RMB million)
Guangdong Huate Gas Co., Ltd. (“ Huate ”) (688268.SH)	Huate produces and sells industrial gases, electronic gases, electric light gases, ultra high pure gases, calibration gases, laser gases, medical gases, food grade gases, and other products. (79.0%)	103.11	8.38	10,022.40
Hunan Kaimeite Gases Company Ltd. (“ Kaimeite ”) (002549.SZ)	Kaimeite produces and sells dry ice, liquid carbon dioxide, food additive liquid carbon dioxide and other industrial gases. (93.15%)	66.93	5.24	5,101.87
Hubei Heyuan Gas Co., Ltd. (“ Heyuan ”) (002971.SZ)	Heyuan recycles, manufactures, and distributes diversified gas products. (77.1%)	33.83	4.65	3,788.80
		Maximum	103.11	8.38
		Minimum	33.83	4.65
		Average	67.96	6.09
		Median	66.93	5.24

Source: Bloomberg, the website of the Stock Exchange and annual reports of the respective companies

Note: Being the P/Es and P/Bs of the respective Zhaoyang Comparable Companies as at the Latest Practicable Date as extracted from Bloomberg.

As shown above, the P/Es of the Zhaoyang Comparable Companies ranged from approximately 33.83 times to approximately 103.11 times with an average and median of approximately 67.96 times and 66.93 times, respectively, as at the Latest Practicable Date. The P/E of Zhaoyang Company as implied by the Valuation is lower than all the P/Es of the Zhaoyang Comparable Companies.

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As a general reference only, the P/Bs of the Zhaoyang Comparable Companies ranged from approximately 4.65 times to approximately 8.38 times with an average and median of approximately 6.09 times and 5.24 times, respectively, as at the Latest Practicable Date. The P/B of Zhaoyang Company as implied by the Valuation is higher than all the P/Bs of the Zhaoyang Comparable Companies. Taking into account (a) the exceptionally low net asset value of Zhaoyang Company; (b) that Zhaoyang Company is profit making and has achieved a satisfactory growth in profit attributable to shareholders of the parent in 2019; and (c) that by adopting the P/E valuation methodology, the future earnings of Zhaoyang Company can be taken into account, we consider that the valuation methodology using P/E is more appropriate in valuing Zhaoyang Company.

(v) Target PPE

The Target PPE comprises (a) the Steel Production Equipment, comprising primarily 4100 rolling mill, 2700 rolling mill, the No. 2 steelmaking plant, bar, wire, section steel and other production line assets, which are currently leased by the Group for its production at an annual rental of RMB165 million; and (b) the Land Assets, comprising the lands currently used by Industry Company, Transportation Company and Zhaoyang Company for their respective operations.

In evaluating the fairness and reasonableness of the consideration for the proposed acquisition of the Target PPE under the Partnership Agreement, we have considered the Valuation of the Target PPE as appraised by Huakang. We have reviewed the qualifications and experience of Huakang and are of the view that they have the required skills and experience to undertake the valuation of the Target PPE competently. Huakang is authorised by the China Securities Regulatory Commission and the Ministry of Finance of the PRC to provide asset valuation services in the PRC. We therefore consider it appropriate to rely on their work and opinion.

We have reviewed the methodologies, bases and assumptions adopted for the valuations and adjustments made to arrive at the Valuation for the Target PPE.

As regards the Steel Production Equipment, given it is currently leased and used by the Company under a rental agreement signed with Chonggang Group, its market value is determined based on the expected rental income derived from it based on the actual situation. Taking into account that it is impossible to identify any past transaction which involved sales and purchase of assets comparable to the Steel Production Equipment in terms of nature and production scale or to gather any relevant replacement cost information due to the complexity and specialised nature of the Steel Production Equipment, the market approach or the cost approach (or depreciated replacement cost approach) cannot be used for valuing the Steel Production Equipment.

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Concerning the Land Assets, given the availability of related cost data such as the general land development costs in the local areas and the compensation policy for land acquisition of the local government as well as past transactions involving sales and purchase of comparable lands, Huakang has adopted a combination of the cost approach and the market approach in valuing the Land Assets.

The above methodologies as adopted by Huakang are, in our opinion, reasonable approaches in establishing the market value of the Target PPE.

As set out in the 2019 Annual Report, the Group's borrowing costs ranged from 4.64% to 5.22% with a mid-end of 4.93% per annum (the "**Average Interest Rate**"). Based on (a) the current annual rental of RMB165 million of the Steel Production Equipment; (b) a discount rate equivalent to the Average Interest Rate; and (c) the expected remaining economic service life of the Steel Production Equipment of at least 10 years as disclosed in the Letter from the Board, the present value of the rentals of the Steel Production Equipment approximates the Valuation of the Steel Production Equipment.

In assessing the Valuation of the Land Assets, we have considered the average land prices for industrial and commercial uses in Chongqing in the third quarter of 2019. Based on the average land price for industrial use of approximately RMB318,800 per mu and the average land price for commercial use of approximately RMB3,516,670 per mu in Chongqing in the third quarter of 2019 according to the Ministry of Land and Resources as set out in the letter from the Board, the Land Assets are valued at approximately RMB100 million, which is near to the Valuation of the Land Assets.

Given (i) that the P/Es of the Target Companies as implied by their respective Valuation are either near the low end of those, or lower than all the P/Es, of the Comparable Companies; (ii) that the methodologies, bases and assumptions adopted by Huakang in valuing the Target PPE are appropriate; and (iii) the synergy effect to be achieved by the Proposed Acquisition through vertical integration, we consider the Consideration to be fair and reasonable.

7. Financial effects of the Proposed Acquisition

Upon completion of the Proposed Acquisition, the Target Companies will become wholly-owned subsidiaries of the Company and their financial results will be fully consolidated into those of the Group and the Target PPE will be wholly-owned by the Group. However, Independent Shareholders should note that the financial analyses below are for illustrative purposes only and do not represent how the financial performance and financial position of the Group will be upon completion of the Proposed Acquisition.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(i) Earnings

The Group recorded a net profit attributable to Shareholders of approximately RMB925.7 million for the year ended 31 December 2019. As described in the section headed “3. Reasons for and benefits of the Proposed Acquisition through the Partnership” above, the Proposed Acquisition will transform the Group into a vertically-integrated iron and steel producer. It is expected that the Target Assets would contribute to the results of the Group through an overall cost reduction and an increase in efficiency upon completion of the Proposed Acquisition.

(ii) Equity attributable to Shareholders

Net assets of the Group was approximately RMB19.4 billion as at 31 December 2019. As the Company’s capital contribution under the Partnership Agreement is intended to be financed by a combination of internal resources and debt financings, the Directors expect that it would not have any material impact on the Group’s net asset value.

(iii) Working capital

As a result of the capital contribution under the Partnership Agreement, the Group will incur a cash outflow of up to RMB2.5 billion. The Directors are of the view that the Partnership will not have any significant adverse impact on the working capital position of the Group upon completion of the Proposed Acquisition.

OPINION AND RECOMMENDATION

In arriving at our recommendation in respect of the Partnership Agreement, we have considered the principal factors and reasons as discussed above and in particular the following (which should be read in conjunction with and interpreted in the full context of this letter):

- since the assets of Chonggang Group are not sold separately, the Company’s participation in the Partnership allows it to acquire the Target Assets that are part of a vertically-integrated system essential to the production and operation of the Group:
- the Target Companies have been providing goods and/or services to the Group during their ordinary and usual course of business;
- the Steel Production Equipment has been leased to the Group for its iron and steel production since the acquisition by Chonggang Group in November 2017; and
- the Land Assets are currently used by Industry Company, Transportation Company and Zhaoyang Company for their respective operations;

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- if the Company chooses not to participate in the Tender through the Partnership to acquire the Target Assets, the Target Assets may be sold to other independent third parties which would critically affect the Group's production and operation;
- the Proposed Acquisition will transform the Group into a vertically-integrated iron and steel producer and is strategically aligned with the Group's development strategy to streamline its production and operation with a view to reducing costs and increasing efficiency, mitigating the impact arising from fluctuations in steel price and raw material prices;
- the consideration for the Proposed Acquisition and therefore the capital to be contributed by the Company to the Partnership will not be higher than the valuation of the Target Assets as conducted by Huakang, an independent firm of qualified PRC valuers designated by Chongqing SASAC in compliance with the relevant PRC regulatory requirements:
 - the P/Es of the Target Companies as implied by their respective Valuation are either near the low end of those, or lower than all the P/Es, of the Comparable Companies; and
 - the methodologies, bases and assumptions adopted by Huakang in valuing the Target PPE are appropriate; and
- the remuneration to be charged by Siyuanhe under the Partnership Agreement is in line with those charged under similar arrangement involving formation of partnership and/or funds based on our independent search on the website of the Stock Exchange.

Based on the above, we consider that the terms of the Partnership Agreement are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned. We also consider that the entering into of the Partnership Agreement, while not in the ordinary and usual course of business of the Company, is nevertheless in the interests of the Company and the Shareholders as a whole. We therefore advise the Independent Board Committee to recommend, and ourselves recommend, the Independent Shareholders to vote in favour of the resolution to be proposed at the AGM to approve the Partnership Agreement.

Yours faithfully,
For and on behalf of
Rainbow Capital (HK) Limited
Larry Choi
Managing Director

Mr. Larry Choi is a licensed person and a responsible officer of Rainbow Capital (HK) Limited registered with the Securities and Futures Commission to carry out type 6 (advising on corporate finance) regulated activity under the SFO. He has over ten years of experience in the corporate finance industry.

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

As at Latest Practicable Date, the interests and short positions (including interests or short positions which they were taken or deemed to have under relevant provisions of the SFO) of the Directors, supervisors and senior management members in the shares or underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to the Listing Rules and the Model Code for Securities Transactions by Directors of Listed Companies (the “**Model Code**”) and Divisions 7 and 8 of Part XV of the SFO, to be notified to the Company and the Stock Exchange, were as follows:

Name	The Company/ associated corporations		Capacity	Nature of interests	Total number of interested shares held	Percentage in the share capital of A shares of the Company	Percentage in the total share capital of the Company	Class of shares
Wang Li	The Company	Director	Beneficial interest	113,800 (Long position)	0.00136	0.00128	A share	

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, supervisors or their respective associates had any interest in the shares of the Company or its associated corporations.

(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 2019, 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. INTEREST OF SUBSTANTIAL SHAREHOLDERS**Interest in the Company**

As at the Latest Practicable Date, so far as known to any Directors and chief executive of the Company, the following person(s) (other than the Directors and chief executive of the Company) had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO or, were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Company and were recorded in the register to be kept under section 336 of the SFO:

Name of substantial shareholder	Long/short		No. of Shares	Percentage of A share capital	Percentage of H share capital	Percentage of total issued share capital
	position	Capacity				
Chongqing Changshou Iron & Steel Company Limited	Long	Beneficial owner	2,096,981,600	25.02%	–	23.51%

Save as disclosed herein, the Directors and the chief executive of the Company are not aware of any person who, as at the Latest Practicable Date, had an interest or short position in the shares and underlying shares to the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Company.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or supervisors of the Company has entered or proposed to enter into a service contract with any member of the Group other than contracts expiring or determinable by the relevant employer within one year without payment of compensation (except statutory compensation).

5. 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.

6. 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 2019, being the date to which the latest published audited consolidated financial statements of the Company were prepared.

7. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or claims of material importance and no litigation or claims of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

8. MATERIAL CONTRACT

During the two years immediately prior to the Latest Practicable Date, the members of the Group have not entered into any agreement which is or may be significant (i.e. contracts that were not entered into in the ordinary course of business).

9. EXPERT

- (a) The following sets out the qualifications of the expert who has given its opinion or advice as contained in this circular:

Name	Qualifications
Rainbow Capital	a corporation licensed to conduct type 6 (advising on corporate finance) regulated activity under the SFO (Chapter 571 of the Laws of Hong Kong)

- (b) As at the Latest Practicable Date, the above expert did not have any shareholding directly or indirectly in any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (c) As at the Latest Practicable Date, the above expert had no direct or indirect interest in any assets which has been acquired or disposed of by or leased to any member of the Group since 31 December 2019 (the date to which the latest published audited consolidated financial statements of the Group were made up) or proposed to be so acquired, disposed of or leased.
- (d) The above expert has given and has not withdrawn its respective written consent to the issue of this circular with the inclusion of their respective advice, letters, reports and/or summary of their opinions (as the case may be) and references to their names and logos in the form and context in which they respectively appear.

10. MISCELLANEOUS

- (a) The registered office of the Company is at Management Building, No. 1 of Gangcheng Avenue, Economic & Technological Development Zone, Changshou District, Chongqing, the PRC.
- (b) The Company secretaries of the Company is Ms. Meng Xiangyun and Ms. Chiu Hoi Shan.
- (c) 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.
- (d) The circular has been prepared in both English and Chinese. In the case of any discrepancies, the English text shall prevail over the Chinese text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the registered office of the Company at Management Building, No. 1 of Gangcheng Avenue, Economic & Technological Development Zone, Changshou District, Chongqing, the PRC and/or Room 1204-16, The Chinese Bank Building, 61-65 Des Voeux Road, Central, Hong Kong during 9 a.m. to 5 p.m. (Monday to Friday) from the date of this circular up to and including the date of the AGM:

- (a) the Articles of Association of the Company;
- (b) the letter from the Independent Board Committee;
- (c) the letter from the Independent Financial Adviser;
- (d) the annual reports for the three financial years ended 31 December 2017, 31 December 2018 and 31 December 2019;
- (e) this circular.

APPENDIX II PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

No.	Original articles:	Revised articles:
1	Article 2 The registered names of the Company: Chongqing Iron & Steel Company Limited (abbreviation: CISL)	Article 2 The registered names of the Company: Chongqing Iron & Steel Company Limited (abbreviation: Chongqing Iron & Steel)
2	Article 3 The Company's residence: No. 1 Gangcheng Avenue, Changshou Economic Development Zone, Chongqing Postal code: 401258, Telephone: 68873300, Fax: 68873189	Article 3 The Company's residence: No. 2 Jiangnan Avenue, Jiangnan Street , Changshou Zone, Chongqing Postal code: 401258, Telephone: 68873300, Fax: 68873189
3	Article 4 The Chairman of the Company shall be the legal representative of the Company.	Article 4 The general manager of the Company shall be the legal representative of the Company.
4	Article 27 In case Directors, supervisors, senior management members of the Company and shareholders holding shares of the Company up to 5 % or more sell their shares within six (6) months upon buying or buy back within six (6) months upon selling, their revenue received shall be transferred to the Company. The Board of the Company shall take back the revenue. However, the six-month sales restriction on selling shares shall not apply to the securities firms buying and holding the remaining shares up to 5 % or more upon underwriting.	Article 27 In case Directors, supervisors, senior management members of the Company and shareholders holding shares of the Company up to 5 % or more sell their shares or other securities with equity nature within six (6) months upon buying or buy back within six (6) months upon selling, their revenue received shall be transferred to the Company. The Board of the Company shall take back the revenue. However, securities forms buying and holding the remaining shares of 5% or more upon underwriting and other circumstances as prescribed by the securities regulatory authorities of the State Council are exempted.

APPENDIX II PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

No.	Original articles:	Revised articles:
	<p>Should the Board not implement the aforesaid provisions, the shareholders shall have the right to demand the Board to implement within thirty (30) days. Should the Board fail to implement on the mentioned deadline, the shareholders shall have the right to file a lawsuit directly to the People's Court in their own names for the benefits of the Company.</p> <p>Should the Board not implement the first paragraph, the responsible Directors shall, according to the law, be held jointly liable.</p> <p>Provisions of this article are applicable to the Company's shares issued within the territory of the People's Republic of China.</p>	<p>Shares held by Directors, supervisors, senior management members and natural person shareholders as referred to in the preceding paragraph include shares or other securities with equity nature held by his/her spouse, parents, children and by using other person's accounts.</p> <p>Should the Board not implement the aforesaid provisions, the shareholders shall have the right to demand the Board to implement within thirty (30) days. Should the Board fail to implement within the aforementioned period, the shareholders shall have the right to file a lawsuit directly to the People's Court in their own names for the benefits of the Company.</p> <p>Should the Board not implement the first paragraph, the responsible Directors shall, according to the law, be held jointly liable.</p> <p>Provisions of this article are applicable to the Company's shares issued within the territory of the People's Republic of China.</p>
5	<p>Article 45 No registration of the changes relating to share transfer shall be made in the register of shareholders within thirty (30) days prior to the general meeting or within five (5) days prior to the record date for determining the distribution of dividends.</p>	<p>Article 45 Where laws, administrative regulations and the listing rules of the stock exchange at which the shares of the Company are listed for trading contain provisions which stipulate the period of closure of the register of shareholders prior to a shareholders' general meeting or on the reference date set by the Company for the purpose of distribution of dividends, such provisions shall prevail.</p>

APPENDIX II PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

No.	Original articles:	Revised articles:
6	<p>Article 56 If a Director or senior management member violates provisions of laws, administrative regulations or these articles of association in performing his/her duty and results in loss on the part of the Company, a shareholder who holds more than 1% of the Company's shares separately or jointly with others for more than 180 consecutive days has the right to in written notice request the supervisory committee to file a suit against such Director or senior management member; if the supervisory committee violations provisions of laws, administrative regulations or these articles of association in performing their duty and results in loss on the part of the Company, the Company's shareholders can request the Board in writing to file a suit against the supervisory committee.</p> <p>If the supervisory committee or the Board refuses to file the suit after receiving the written request of the Company's shareholder provided in the preceding paragraph or fails to file the suit within 30 days after receiving such request, or in the case of an emergency circumstance where the Company may suffer an irredeemable damage if the suit is not filed forthwith, the shareholder provided in the preceding paragraph has the right to directly file the suit in his/her own name and for the Company's benefit.</p>	<p>Article 56 If a Director or senior management member violates provisions of laws, administrative regulations or these articles of association in performing his/her duty and results in loss on the part of the Company, a shareholder who holds more than 1% of the Company's shares separately or jointly with others for more than 180 consecutive days has the right to in written notice request the supervisory committee to file a suit against such Director or senior management member; if the supervisory committee violations provisions of laws, administrative regulations or these articles of association in performing their duty and results in loss on the part of the Company, the Company's shareholders can request the Board in writing to file a suit against the supervisory committee.</p> <p>However, if an investor protection institution established in accordance with laws, administrative regulations or provisions of the securities regulatory authorities of the State Council holds the shares of the Company, and a lawsuit is filed to the People's Court in its own name for the interests of the Company, the shareholding proportion and duration shall not be subject to the above provisions.</p>

APPENDIX II PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

No.	Original articles:	Revised articles:
	<p>If other persons infringe the Company's legal rights or interests and cause loss to the Company, the shareholder provided in the first paragraph of this article can file a suit against such persons according to provisions of the preceding paragraphs.</p>	<p>If the supervisory committee or the Board refuses to file the suit after receiving the written request of the Company's shareholder provided in the preceding paragraph or fails to file the suit within 30 days after receiving such request, or in the case of an urgent situation where the Company may suffer an irredeemable damage if the suit is not filed forthwith, the shareholder provided in the preceding paragraph has the right to directly file the suit in his/her own name for the Company's benefit.</p> <p>If other persons infringe the Company's legal rights or interests and cause loss to the Company, the shareholder provided in the first paragraph of this article can file a suit against such persons according to provisions of the two preceding paragraphs.</p>
7	<p>Article 70 If the Company is to hold a general meeting, it shall serve a written notice to all registered shareholders 45 days (excluding the day on which the notice is sent) before the meeting is held to inform them of the matters to be deliberated in the meeting as well as the date and place of the meeting. A shareholder who plans to attend the meeting shall serve a written reply to the Company 20 days before the meeting is held.</p>	<p>Article 70 If the Company is to hold an annual general meeting, it shall issue a written notice 20 working days (excluding the day on which the notice is sent) before the meeting is held, and in case the Company is to hold an extraordinary general meeting, it shall issue a written notice 10 working days or 15 days (excluding the day on which the notice is sent), whichever is the longer, before the meeting is held, so as to inform all registered shareholders of the matters to be deliberated in the meeting as well as the date and place of the meeting.</p>

APPENDIX II PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

No.	Original articles:	Revised articles:
8	<p>Article 73 The Company shall convene the general meeting if the written replies received from the shareholders by the Company twenty (20) days before the date of the meeting show that the number of shares carrying voting rights represented by the shareholders who intend to attend is more than one-half of the total number of shares with voting rights, failing which the Company shall, within five (5) days, inform the shareholders again in the form of public notice the proposed matters for consideration at the meeting and the date and venue of the meeting. Any general meetings may be convened after such notification has been published.</p> <p>An extraordinary general meeting shall not decide on matters other than those contained in the notice.</p>	<p>Article 73 An extraordinary general meeting shall not decide on matters not specified in the notice.</p>

APPENDIX II PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

No.	Original articles:	Revised articles:
9	<p>Article 78 For holder of the overseas-listed shares (H shares), the general meeting should dispatch notice of general meeting by person or by pre-paid mail to shareholders (whether or not such shareholder is entitled to vote at the meeting). The mail shall be to the recipients' addresses shown on the register of members. Subject to the laws, regulations and listing rules of the listing place, the aforesaid notices may be issued or provided by the Company via website of the Company or using electronic means, instead of the abovementioned ways in this article. For holders of domestic shares, notice of general meeting can be given by way of public announcement.</p> <p>The public notice referred to in the preceding paragraph shall be published in one or more national newspapers designated by the securities regulatory authority of the State Council in the period that is between 45 days and 50 days before the date of the meeting; after the publication of such notice, the holders of domestic shares shall be deemed to have received the notice of the relevant general meetings.</p>	<p>Article 78 For holder of the overseas-listed shares (H shares), the general meeting should dispatch notice of general meeting by person or by pre-paid mail to shareholders (whether or not such shareholder is entitled to vote at the meeting). The mail shall be to the recipients' addresses shown on the register of members. Subject to the laws, regulations and listing rules of the listing place, the aforesaid notices may be issued or provided by the Company via website of the Company or using electronic means, instead of the abovementioned ways in this article. For holders of domestic shares, notice of general meeting can be given by way of public announcement.</p> <p>The public notice referred to in the preceding paragraph shall be published in one or more national newspapers designated by the securities regulatory authority of the State Council within the period stipulated in Article 70 of these articles of association; after the publication of such notice, the holders of domestic shares shall be deemed to have received the notice of the relevant general meetings.</p>

APPENDIX II PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

No.	Original articles:	Revised articles:
10	<p>Article 80 All shareholders registered on the shares right registration date or their proxies have the right to attend the general meeting and to exercise their voting right according to relevant laws, regulations and these articles of association. Any shareholder who has the right to attend and vote in the general meeting can attend the meeting in person, or entrust one or more proxies (who can be non-shareholders of the Company) to attend and vote in the meeting. The proxy of a shareholder can exercise the following rights according to the entrust from the shareholder:</p> <p>(I) the same right as the shareholder to speak at the general meeting;</p> <p>(II) authority to demand or join in demanding a poll;</p> <p>(III) where more than one proxy are entrusted, voting in the meeting (whether on a show of hands or on a poll) shall be conducted by such proxies by way of poll.</p>	<p>Article 80 All shareholders registered on the shares right registration date or their proxies have the right to attend the general meeting and to exercise their voting right according to relevant laws, regulations and these articles of association. Any shareholder who has the right to attend and vote in the general meeting can attend the meeting in person, or entrust one or more proxies (who can be non-shareholders of the Company) to attend and vote in the meeting. The proxy of a shareholder can exercise the following rights according to the entrust from the shareholder:</p> <p>(I) the same right as the shareholder to speak at the general meeting;</p> <p>(II) authority to demand or join in demanding a poll;</p> <p>(III) where more than one proxy are entrusted, voting in the meeting (whether on a show of hands or on a poll) shall be conducted by such proxies by way of poll.</p> <p>The Company's Board, independent Directors and shareholders holding more than one percent of the shares with voting rights or investor protection institutions may act as soliciting parties, either by themselves or by authorizing securities companies and securities service institutions, to publicly request shareholders of the Company to entrust them to attend the general meeting and exercise the shareholder's rights such as proposal and voting rights on behalf of them.</p>

APPENDIX II PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

No.	Original articles:	Revised articles:
		Where the rights of shareholders are solicited in accordance with the provisions of the previous paragraph, the soliciting parties shall disclose the solicitation documents, and the Company shall cooperate. Provision of consideration or de facto consideration is prohibited when publicly soliciting shareholders' rights.
11	<p>Article 136 The written notice of convening a class meeting shall be given, to notify shareholders whose names appear in the register of shareholders of such class shares of the matters proposed to be considered and the date and place of the meeting forty-five (45) days prior to such meeting. The shareholders who intend to attend the meeting shall serve the written reply to the Company twenty (20) days prior to the date of the meeting.</p> <p>If the number of share carrying voting rights at the meeting represented by the shareholders intending to attend the meeting reaches more than one half of the total number of shares of such class carrying the voting right at the meeting, the Company may hold the class meeting; Otherwise, the Company shall within five (5) days notify the shareholders, again by way of announcement, of the matters to be considered at, and the place and date for, the meeting. The Company may then proceed to hold the meeting.</p>	<p>Article 136 The written notice of convening a class meeting shall be given, to notify shareholders whose names appear in the register of shareholders of such class shares of the matters proposed to be considered and the date and place of the meeting with reference to the notice period as stipulated in Article 70 of these articles of association.</p>

APPENDIX II PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

No.	Original articles:	Revised articles:
12	<p>Article 146 Directors shall be elected or replaced by the general meeting for a term of three years. They can be re-elected if a term of office expires. Before their term expires, they shall not be dismissed by the general meeting without cause.</p> <p>Directors’ term of service shall start from the date of their taking office and ends when the term of the current Board expires. If the term of old Directors expires but new Directors have not yet been elected, the old Directors shall continue to perform their duties according to laws, administrative regulations, department rules and these articles of association till the newly-elected Directors take office.</p> <p>Directors can serve as the Company’s managers or other senior management member(s) at the same time, but Directors who are concurrently managers or senior management member(s) or employees’ representatives shall not be more than half of the Company’s total Directors.</p>	<p>Article 146 Directors shall be elected or replaced by the general meeting, and may be dismissed by the general meeting before their term of office expires. The term of office of Directors is three years, and they may be re-elected after the expiry of the term of office.</p> <p>Directors’ term of service shall start from the date of their taking office and ends when the term of the current Board expires. If the term of old Directors expires but new Directors have not yet been elected, the old Directors shall continue to perform their duties according to laws, administrative regulations, department rules and these articles of association till the newly-elected Directors take office.</p> <p>Directors can serve as the Company’s managers or other senior management member(s) at the same time, but Directors who are concurrently managers or senior management member(s) or employees’ representatives shall not be more than half of the Company’s total Directors.</p>

APPENDIX II PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

No.	Original articles:	Revised articles:
13	<p>Article 157 The Board can set up several special committees, which assist the Board to exercise powers or provide recommendations or advisory opinions for the Board’s decision making under the leadership of the Board. The special committees’ members are not necessarily the Company’s Directors or management personnel.</p>	<p>Article 157 The Board can set up several special committees, and set up the strategy special committee, the nomination special committee and the remuneration and appraisal special committee to assist the Board to exercise its powers or provide recommendations or advisory opinions for the Board’s decision making under the leadership of the Board. The special committees shall be accountable to the Board and perform their duties in accordance with these articles of association and the authorization given by the Board. The proposals of the special committee, shall be submitted to the Board for consideration and decision. All members of the special committees should be Directors. In particular, independent Directors should form the majority of the members of the audit committee, the nomination committee and remuneration and appraisal committee and should be convenors of the same. The convenor of the audit committee shall be accounting professional. The Board shall be responsible for formulating the working regulations of the special committees and governing the operation of the special committees.</p>

PROPOSED AMENDMENTS TO RULES OF PROCEDURES FOR THE GENERAL MEETINGS

No.	Original Articles	Revised Articles
1	<p>Article 1 These rules are formulated in accordance with the laws and regulations including the Company Law of the People’s Republic of China (the “Company Law”), the Securities Law of the People’s Republic of China, the Mandatory Provisions in the Articles of Association of Companies Listed Overseas, Guidelines on the Articles of Association of Listed Companies (2006 Revised), Rules for the Shareholders’ General Meetings of Listed Companies and with the Articles of Association of Chongqing Iron & Steel Company Limited (the “Articles of Association”), in order to protect the lawful interests of Chongqing Iron & Steel Company Limited (the “Company”) and its shareholders, clearly define the responsibilities and authorities of the general meeting, ensure the general meeting to operate in a standardized, efficient and stable manner and perform its functions and powers under the laws.</p>	<p>Article 1 These rules are formulated in accordance with the laws and regulations including the Company Law of the People’s Republic of China (the “Company Law”), the Securities Law of the People’s Republic of China, Guidelines on the Articles of Association of Listed Companies, Rules for the Shareholders’ General Meetings of Listed Companies and with the Articles of Association of Chongqing Iron & Steel Company Limited (the “Articles of Association”), in order to protect the lawful interests of Chongqing Iron & Steel Company Limited (the “Company”) and its shareholders, clearly define the responsibilities and authorities of the general meeting, ensure the general meeting to operate in a standardized, efficient and stable manner and perform its functions and powers under the laws.</p>

No.	Original Articles	Revised Articles
2	<p>Article 15 The written notice of convening a general meeting shall be issued to the shareholders forty-five (45) days prior to such meeting. Shareholders who intend to attend the meeting shall serve the written reply slip to the Company twenty (20) days prior to the date of the meeting.</p> <p>Notice of a general meeting shall be served on the shareholders (whether or not entitled to vote at the meeting), by delivery or prepaid mail to the registered address of such shareholders. Subject to the laws, regulations and listing rules of the listing place, the aforesaid notices may be issued or provided by the Company via the website of the Company or using electronic means, instead of the abovementioned ways in this article. For the holders of domestic shares, notice of the meeting may also be made by way of announcement.</p> <p>The announcement referred to in the preceding paragraph shall be published in one or more newspapers designated by the securities authority of the State Council within the interval between forty-five (45) days and fifty (50) days before the date of the meeting; after the publication of notice, the holders of domestic shares shall be deemed to have received notice of the relevant general meeting.</p>	<p>Article 15 The written notice of convening a general meeting shall be issued to the shareholders twenty (20) business days prior to such meeting (excluding the date that the notice is dispatched) and the written notice of convening an extraordinary general meeting shall be issued to the shareholders ten (10) business days or fifteen (15) days (whichever is longer) prior to such meeting (excluding the date that the notice is dispatched) to notify shareholders whose names appear in the register of shareholders of the matters proposed to be considered and the date and place of the meeting.</p> <p>For holder of overseas-listed foreign shares, notice of a general meeting shall be served on the shareholders (whether or not entitled to vote at the meeting), by delivery or prepaid mail to the registered address of such shareholders. Subject to the laws, regulations and listing rules of the listing place, the aforesaid notices may be issued or provided by the Company via the website of the Company or using electronic means, instead of the abovementioned ways in this article. For the holders of domestic shares, notice of the meeting may also be made by way of announcement.</p> <p>The announcement referred to in the preceding paragraph shall be published in one or more newspapers designated by the securities authority of the State Council within the period stipulated in these Rules; after the publication of notice, the holders of domestic shares shall be deemed to have received notice of the relevant general meeting.</p>

No.	Original Articles	Revised Articles
3	Article 16 The Company shall, based on the written replies received twenty (20) days before the date of the general meeting, calculate the number of voting shares represented by the shareholders who intend to attend the meeting. If the number of voting shares represented by the shareholders who intend to attend the meeting reaches more than one half of the Company's total voting shares, the Company may hold the meeting; Otherwise, the Company shall within five (5) days notify the shareholders, again by way of an announcement, of the matters to be considered at, and the place and date for, the meeting. The Company may then proceed to hold the meeting.	(Delete)

No.	Original Articles	Revised Articles
4	<p>Article 33 General meetings shall be presided over by the chairman of the Board. Should the chairman is unable or fails to perform his duties, the meeting shall be presided over by a director elected by more than half members of the Board.</p> <p>The general meeting convened by the Supervisory Committee shall be presided over by the chairman of the Supervisory Committee. If the chairman of the Supervisory Committee cannot perform or fails to perform his duties, the vice-chairman of the Supervisory Committee shall preside over the meeting. If the vice-chairman cannot perform or fails to perform his duties, a supervisor shall be jointly elected by more than half of the supervisors to chair the meeting.</p> <p>Shareholder(s) may convene the meeting themselves and a representative nominated by the convener(s) shall preside over the meeting.</p> <p>When the general meeting is held and the chairman of the meeting violates these Rules which makes it difficult for the general meeting to continue, a person may be elected at the general meeting to act as the chairman of the meeting, subject to the approval of more than half of the shareholders having the voting rights who are present at the meeting. If for any reason, the shareholders shall fail to elect a chairman of the meeting, then the shareholder (including proxy) present and holding the largest number of shares carrying the right to vote thereat shall be the chairman of the meeting.</p>	<p>Article 32 General meetings shall be presided over by the chairman of the Board. Should the chairman be unable or fails to perform his duties, the meeting shall be presided over by the vice chairman; should the vice chairman be unable or fails to perform his duties, the meeting shall be presided over by a director elected by more than half members of the Board.</p> <p>The general meeting convened by the Supervisory Committee shall be presided over by the chairman of the Supervisory Committee. If the chairman of the Supervisory Committee cannot perform or fails to perform his duties, the vice-chairman of the Supervisory Committee shall preside over the meeting. If the vice-chairman cannot perform or fails to perform his duties, a supervisor shall be jointly elected by more than half of the supervisors to chair the meeting.</p> <p>Shareholder(s) may convene the meeting themselves and a representative nominated by the convener(s) shall preside over the meeting.</p> <p>When the general meeting is held and the chairman of the meeting violates these Rules which makes it difficult for the general meeting to continue, a person may be elected at the general meeting to act as the chairman of the meeting, subject to the approval of more than half of the shareholders having the voting rights who are present at the meeting. If for any reason, the shareholders shall fail to elect a chairman of the meeting, then the shareholder (including proxy) present and holding the largest number of shares carrying the right to vote thereat shall be the chairman of the meeting.</p>

No.	Original Articles	Revised Articles
5	<p>Article 62 The written notice of convening a class meeting shall be given, to notify shareholders whose names appear in the register of shareholders of such class shares of the matters proposed to be considered and the date and place of the meeting forty-five (45) days prior to such meeting. The shareholders who intend to attend the meeting shall serve the written reply to the Company twenty (20) days prior to the date of the meeting.</p> <p>If the number of share carrying voting rights at the meeting represented by the shareholders intending to attend the meeting reaches more than one half of the total number of shares of such class carrying the voting right at the meeting, the Company may hold the class meeting; Otherwise, the Company shall within five (5) days notify the shareholders, again by way of announcement, of the matters to be considered at, and the place and date for, the meeting. The Company may then proceed to hold the meeting.</p> <p>If the listing rules of the place where the Company's shares are listed have special provisions, such provisions shall be complied with.</p>	<p>Article 61 The written notice of convening a class meeting shall be given, to notify shareholders whose names appear in the register of shareholders of such class shares of the matters proposed to be considered and the date and place of the meeting by reference to the requirements on the notice period mentioned in Article 15 of these Rules.</p> <p>If the listing rules of the place where the Company's shares are listed have special provisions, such provisions shall be complied with.</p>

Article 16 of the Rules of Procedures for General Meetings of Chongqing Iron & Steel Company Limited is deleted after these amendments and the subsequent articles shall be renumbered accordingly.

NOTICE OF 2019 ANNUAL GENERAL MEETING



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)

NOTICE OF 2019 ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 2019 annual general meeting of Chongqing Iron & Steel Company Limited (the “**Company**”) will be held at 2:00 p.m. on Monday, 1 June 2020 at the Chongqing Iron & Steel Conference Center, No. 1 of Gangcheng Avenue, Economic & Technological Development Zone, Changshou District, Chongqing, the PRC, for the purpose of considering and, if thought fit, passing the following resolutions of the Company.

RESOLUTIONS ADOPTING NON-CUMULATIVE VOTING

ORDINARY RESOLUTIONS

1. The final financial accounts report for the year 2019
2. The 2019 annual report (full text and summary)
3. The profit distribution plan for the year 2019
4. The report of the board of directors for the year 2019
5. The report of the supervisory committee for the year 2019
6. The proposal for the re-appointment of the financial and internal control auditor of the Company for the year 2020
7. The proposal for the proposed budget for the year 2020
8. The proposal for the related investment in relation to joint establishment of special fund for acquisition of Chonggang Group through capital contribution

NOTICE OF 2019 ANNUAL GENERAL MEETING

SPECIAL RESOLUTIONS

9. The proposal for the grant of general mandate to the board of directors to issue corporate bonds
10. The proposal for the amendments to the Articles of Association of Chongqing Iron & Steel Company Limited

ORDINARY RESOLUTION

11. The proposal for the amendments to the Rules of Procedures of the General Meeting of Chongqing Iron & Steel Company Limited

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

Chongqing, the PRC, 15 April 2020

As at the date of this announcement, the Directors of the Company are: Mr. Zhou Zhuping (Non-executive Director), Mr. Song De An (Non-executive Director), Mr. Zhang Shuogong (Non-executive Director), Mr. Li Yongxiang (Executive Director), Mr. Tu Deling (Executive Director), Mr. Wang Li (Executive Director), Mr. Xu Yixiang (Independent Non-executive Director), Mr. Xin Qingquan (Independent Non-executive Director) and Mr. Wong Chunwa (Independent Non-executive Director).

Notes:

I. ELIGIBILITY FOR ATTENDING THE AGM

Shareholders whose names appear on the register of members of the Company at the close of business on 29 April 2020 are entitled to attend the AGM upon completion of the necessary registration procedures (Holders of A Shares will be otherwise notified).

II. REGISTRATION PROCEDURES FOR ATTENDING THE AGM

1. Shareholders intending to attend the AGM are required to deposit the written reply slip with the Company by 4:00 p.m. on 12 May 2020.
2. The register of members of the Company will be closed from 2 May 2020 to 1 June 2020 (both days inclusive), during which no transfer of shares will be effected. Holders of H Shares of the Company intending to attend the AGM are required to lodge their respective instrument of transfer and the relevant share certificates to Hong Kong Registrars Limited, the Registrars of the Company, by 4:30 p.m. on 29 April 2020.

NOTICE OF 2019 ANNUAL GENERAL MEETING

III. PROXIES

1. Any shareholder entitled to attend and vote at the AGM is 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. The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing. If the proxy form is signed by a person authorized by the appointer, the power of attorney or other authorization documents shall be notarized. The notarized power of attorney or other authorization documents together with the proxy form must be lodged with Hong Kong Registrars Limited, the Registrars of the Company, no less than 24 hours before the time appointed for the holding of the AGM (or appointed for voting) i.e. by no later than 2:00 p.m. on 31 May 2020.
3. For the shareholders appointing more than one proxy, the voting right can only be exercised by way of poll.

IV. MISCELLANEOUS

1. Shareholders attending the AGM shall be responsible for their own travel and accommodation expenses.
2. Information may be dispatched by hand or registered post.
3. Address of Hong Kong Registrars Limited: Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
4. Office of Secretary to the Board of Chongqing Iron & Steel Company Limited

Address: Room 312, Management Building, No. 1 of Gangcheng Avenue, Economic & Technological Development Zone, Changshou District, Chongqing, the PRC

Postal Code: 401258

Tel: (86)23 6898 3482

Fax: (86)23 6887 3189

Contact Person: Peng Guoju/Ji Hong

SUPPLEMENTAL NOTICE OF 2019 ANNUAL GENERAL MEETING



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)

SUPPLEMENTAL NOTICE OF 2019 ANNUAL GENERAL MEETING

References are made to the notice of 2019 annual general meeting (the “**AGM**”) dated 15 April 2020 (the “**Original Notice**”) and the announcement (the “**Announcement**”) dated 21 May 2020 in relation to the postponement of 2019 annual general meeting and change of book closure period of Chongqing Iron & Steel Company Limited (the “**Company**”), which set out the time and venue of the AGM and contain the resolutions to be tabled before the AGM for shareholders’ approval.

SUPPLEMENTAL NOTICE IS HEREBY GIVEN THAT the AGM, which will be held at 2:00 p.m. on Tuesday, 16 June 2020 at the Chongqing Iron & Steel Conference Center, No. 1 of Gangcheng Avenue, Economic & Technological Development Zone, Changshou District, Chongqing, the PRC, will also consider and, if thought fit, pass the following resolution as a special resolution, which was submitted by Chongqing Changshou Iron & Steel Company Limited, a shareholder of the Company, in compliance with the laws and the articles of association of the Company, in addition to the resolutions set out in the Original Notice:

RESOLUTION ADOPTING NON-CUMULATIVE VOTING

SPECIAL RESOLUTION

12. The proposal for the issuance of medium-term notes by the Company

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

Chongqing, the PRC, 27 May 2020

As at the date of this announcement, the Directors of the Company are: Mr. Zhou Zhuping (Non-executive Director), Mr. Song De An (Non-executive Director), Mr. Zhang Shuogong (Non-executive Director), Mr. Li Yongxiang (Executive Director), Mr. Tu Deling (Executive Director), Mr. Wang Li (Executive Director), Mr. Xu Yixiang (Independent Non-executive Director), Mr. Xin Qingquan (Independent Non-executive Director) and Mr. Wong Chunwa (Independent Non-executive Director).

SUPPLEMENTAL NOTICE OF 2019 ANNUAL GENERAL MEETING

Notes:

1. Saved as the resolution newly proposed, there are no any other changes to the resolutions set out in the Original Notice. For details of other resolutions to be considered and approved at the AGM, eligibility for attending the AGM, registration procedures, closure of register of members and other relevant matters regarding the AGM, please refer to the Original Notice and the Announcement.
2. As the form of proxy for the 2019 AGM published by the Company on 16 April 2020 (the “**First Form of Proxy**”) does not contain the newly added resolution set out in this supplemental notice, the supplemental form of proxy containing the above newly added resolution (the “**Supplemental Form of Proxy**”) has been prepared and is enclosed in this supplemental notice. The Supplemental Form of Proxy is the supplemental form of proxy applicable to the newly added resolution set out in this supplemental notice and only serves as a supplement to the First Form of Proxy. The Supplemental Form of Proxy will not affect the validity of the First Form of Proxy duly completed and lodged with the H Share Registrar of the Company.
3. If a shareholder has duly completed and only submitted the First Form of Proxy in accordance with the instructions set out therein, the appointed proxy will vote on the resolutions set out in the First Form of Proxy per the shareholder’s instruction and he is entitled to vote on or abstain from voting on, at his own discretion, the resolution set out in the Supplemental Form of Proxy. Similarly, if a shareholder has duly completed and only submitted the Supplemental Form of Proxy in accordance with the instructions set out therein, the appointed proxy will vote on the resolution set out in the Supplemental Form of Proxy per the shareholder’s instruction and he is entitled to vote on or abstain from voting on, at his discretion, the resolutions set out in the First Form of Proxy. If a shareholder wishes to provide specific instruction to his proxy regarding the voting of all resolutions set out in the First Form of Proxy and the Supplemental Form of Proxy, the shareholder shall, at the same time, duly complete and submit the First Form of Proxy and the Supplemental Form of Proxy in accordance with the instructions set out therein.