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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt as to any aspect of this circular 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) CONTINUING CONNECTED TRANSACTIONS** **(2) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION** **AND** **(3) NOTICE OF ANNUAL GENERAL MEETING**

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

  
**Halcyon Capital Limited**

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A letter from the Board is set out from pages 1 to 25 of this circular.

A notice convening the AGM to be held at 2:30 p.m. on Thursday, 15 June 2017 at No. 2 Conference Room, 3/F., the Management Building, No. 1 of Gangcheng Avenue, Changshou Economic and Technological Development Zone, Chongqing, the PRC, is set out on pages 58 to 60 of this circular. A form of proxy for use at the AGM is 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 26 May 2017.

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 in accordance with the instructions printed thereon and return it 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, Changshou Economic and Technological Development Zone, 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 shall not preclude you from attending and voting in person at the AGM, or any adjournment thereof, if you so wish.

26 May 2017

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## DEFINITIONS

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

|                            |   |
|----------------------------|---|
| “AGM”                      | the annual general meeting of the Company to be convened at No. 2 Conference Room, 3/F., the Management Building, No. 1 of Gangcheng Avenue, Changshou Economic and Technological Development Zone, Chongqing, the PRC, at 2:30 p.m. on 15 June 2017, for purpose of approving, among other things, the New Service and Supply Agreement (including the Annual Caps) and the transactions contemplated thereunder and the proposed amendment to the Articles of Association |
| “Annual Caps”              | the Group’s production materials caps, the Group’s lease caps, Chonggang Holding Group’s production and raw materials caps, Chonggang Holding Group’s services caps, Chonggang Holding Group’s lease caps and the welfare caps for the financial years ending 31 December 2017, 2018 and 2019 respectively  |
| “Articles of Association”  | the articles of association of the Company  |
| “Board”                    | the board of Directors  |
| “CCT Management Committee” | continuing connected transaction management committee set up by the Company for managing the connected transactions of the Company  |
| “Changshou New District”   | the production base in Jiangnan Town, Changshou District, Chongqing, the PRC  |
| “Chonggang Holding”        | 重慶鋼鐵（集團）有限責任公司 (Chongqing Iron and Steel (Group) Company Limited), a state-owned limited liability company established in the PRC and the controlling shareholder (as the term is defined in the Listing Rules) of the Company  |
| “Chonggang Holding Group”  | Chonggang Holding and its subsidiaries (excluding the Company)  |
| “Company”                  | Chongqing Iron & Steel Company Limited, a company incorporated in PRC with limited liability and the shares of which are listed on Stock Exchange   |

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## DEFINITIONS

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|   |  |
|---|--|
| “Continuing Connected Transactions”   | continuing connected transactions under the New Service and Supply Agreement   |
| “Director(s)”   | the director(s) of the Company   |
| “Electronic Information and Automobile Transportation Service and Supply Agreement” | the electronic information and automobile transportation service and supply agreement dated 4 February 2015 entered into between the Company and Chonggang Holding   |
| “Group”   | the Company and its subsidiaries   |
| “Guide Price”   | guide price set by the PRC government  |
| “Hong Kong”   | the Hong Kong Special Administrative Region of the PRC   |
| “Independent Board Committee”   | a board committee comprising three independent non-executive Directors, Mr. Xu Yi Xiang, Mr. Xin Qing Quan and Mr. Wong Chun Wa  |
| “Independent Financial Adviser” or “Halcyon”  | Halcyon Capital Limited, a corporation licensed under the SFO to conduct type 6 (advising on corporate finance) regulated activity and the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the New Service and Supply Agreement and the Annual Caps |
| “Independent Shareholders”  | Shareholders other than Chonggang Holding and its associate(s)   |
| “Latest Practicable Date”   | 23 May 2017  |
| “Listing Rules”   | the Rules Governing the Listing of Securities on the Stock Exchange  |
| “New Service and Supply Agreement”  | the service and supply agreement dated 13 January 2017 entered into between the Company and Chonggang Holding  |
| “Open Market Price”   | open market price between independent parties on normal commercial terms   |
| “Original Service and Supply Agreement”   | the service and supply agreement dated 19 March 2014 entered into between the Company and Chonggang Holding  |

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## DEFINITIONS

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|                  |   |
|------------------|---|
| “PRC”            | the People’s Republic of China  |
| “RMB”            | Renminbi, the lawful currency of the PRC  |
| “SFO”            | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)   |
| “Shareholders”   | holders of shares of the Company  |
| “State Price”    | price set by the PRC government (including the municipal government and other regulatory bodies which govern such transactions) |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited   |
| “%”              | per cent  |

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## LETTER FROM THE BOARD

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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)

*Executive Directors:*

Mr. Tu De Ling  
Mr. Li Ren Sheng  
Mr. Zhang Li Quan  
Mr. Yao Xiao Hu

*Non-executive Directors:*

Mr. Liu Da Wei  
Mr. Zhou Hong

*Independent Non-executive Directors:*

Mr. Xu Yi Xiang  
Mr. Xin Qing Quan  
Mr. Wong Chun Wa

*Registered office:*

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

26 May 2017

**(1) CONTINUING CONNECTED TRANSACTIONS**  
**(2) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION**  
**AND**  
**(3) NOTICE OF ANNUAL GENERAL MEETING**

*To the Shareholders*

Dear Sir or Madam,

**I. INTRODUCTION**

Reference is made to (i) the announcements of the Company dated 14 January 2017 and 20 April 2017 in relation to the New Service and Supply Agreement and (ii) the announcement dated 31 March 2017 in relation to the proposed amendments to the Articles of Association.

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you information which will help you make an informed decision on whether to vote for or against the resolutions to be proposed at the AGM in relation to the following matters:

- (a) the New Service and Supply Agreement and the proposed Annual Caps for transactions thereunder for the three years ending 31 December 2019; and
- (b) the proposed amendments to the Articles of Association.

### II. CONTINUING CONNECTED TRANSACTIONS

References are made to the announcements of the Company dated 20 March 2014 and 5 February 2015 in respect of the continuing connected transactions in relation to the Original Service and Supply Agreement and the Electronic Information and Automobile Transportation Service and Supply Agreement entered into between the Company and Chonggang Holding respectively. In order to achieve stable production operation and in order to ensure the continuous provision and receipt of services, production and raw materials, lease of factory premises and welfare services, the Board hereby announces that on 13 January 2017, the Company and Chonggang Holding entered into the New Service and Supply Agreement commencing on 13 January 2017 and expiring on 31 December 2019, under which the services under the Electronic Information and Automobile Transportation Service and Supply Agreement are covered.

#### NEW SERVICE AND SUPPLY AGREEMENT

##### Major Terms of the New Service and Supply Agreement

###### *Date*

13 January 2017

###### *Parties*

- (i) the Company; and
- (ii) Chonggang Holding

###### *Term*

13 January 2017 to 31 December 2019

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## LETTER FROM THE BOARD

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### *Subject Matter*

- (i) Chonggang Holding agreed (by itself and/or Chonggang Holding Group) to provide to the Group the following:
  - (a) raw materials such as iron ore, scrap steel, refractory materials and ancillary products (including dolomite and limestone etc.);
  - (b) water and road transportation, technical services (including construction and labour services etc.) and information services (including provision of equipment and labour services incidental to information services);
  - (c) production materials such as electricity, industrial gas, equipment and spare parts; and
  - (d) social welfare services (including mainly medical and pensions funds management services etc.), the fees in respect of which were paid by the Company through Chonggang Holding but no fees will be charged by Chonggang Holding for managing such social welfare services of the Company's employees.
- (ii) The Company agreed (by itself and/or the Group) to provide to Chonggang Holding Group production materials such as water, electricity, gas, steel billets, steel products and ancillary products (including cement, hardware, timber etc.).
- (iii) The Group and Chonggang Holding Group will each allow the other to use and occupy its factory premises.

### *Condition Precedent*

The New Service and Supply Agreement is conditional upon the passing of the resolution(s) approving the New Service and Supply Agreement (including the Annual Caps) and the transactions contemplated thereunder by the Independent Shareholders at the AGM to be convened.



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## LETTER FROM THE BOARD

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### *Price*

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

- (a) *Provision of production and raw materials, services, lease of factory premises and welfare services by Chonggang Holding Group to the Group*
  - (i) according to the State Price; or
  - (ii) if there is no State Price, not higher than the Guide Price for such transactions; or
  - (iii) if there is no State Price and Guide Price, not higher than such Open Market Price in comparable locality, or if there are no comparable localities, not higher than such Open Market Price in the PRC generally; or
  - (iv) if there is no State Price, Guide Price and Open Market Price for such transactions, the parties are to negotiate on normal commercial terms for such transactions based on the actual or reasonable costs of such transactions (whichever is lower) together with a reasonable profit for Chonggang Holding Group. A "reasonable profit" for Chonggang Holding Group is a profit that is agreed between the parties as being no more than (i) margins set by the independent suppliers for similar production and raw materials and/or services on comparable scales and similar terms, which are in line with the normal commercial practice of the industry; or (ii) profit margin of 5% (whichever is lower).

## LETTER FROM THE BOARD

The basis of price determination for the provision of production and raw materials, services, lease of factory premises and welfare services by Chonggang Holding Group to the Group can be summarised in the following table:

| Basis of price determination  |   | Materials and services involved   |
|---|---|---|
| (i) Determined with reference to the State Price and the Guide Price  | Set by the governmental departments of Chongqing City and the Ministry of Construction of the PRC | 1. Production materials – electricity   |
|   | Set by the governmental departments of Chongqing City   | 2. Social welfare services  |
| (ii) Determined with reference to prices through tender and the Group will invite a minimum of 3 tenders in accordance of the Law of the PRC on Bid Invitation and Bidding (《中華人民共和國招標投標法》) and the Regulation on the Implementation of the Law of the PRC on Bid Invitation and Bidding (《中華人民共和國招標投標法實施條例》)   |   | 1. Production materials – equipment and spare parts<br>2. Technical services – construction services  |
| (iii) Determined with reference to the Open Market Price  |   | 1. Raw materials (such as iron ore, scrap steel and refractory materials, ancillary products (including dolomite and limestone etc.))   |
| (iv) Determined with reference to a mark-up above cost of providing the products or services of no more than (i) margins set by the independent suppliers for similar production and raw materials and/or services on comparable scales and similar terms, which are in line with the normal commercial practice of the industry; or (ii) profit margin of 5% (whichever is lower) <sup>#</sup> |   | 1. Production materials – industrial gas<br>2. Water and road transportation services<br>3. Technical services – labour services<br>4. Lease of factory premises<br>5. Information services (including provision of equipment and labour services incidental to information services) |

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## LETTER FROM THE BOARD

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(b) *Provision of production materials and lease of factory premises by the Group to Chonggang Holding Group*

- (i) according to the State Price; or
- (ii) if there is no State Price, not lower than the Guide Price for such transactions; or
- (iii) if there is no State Price and Guide Price, not lower than such Open Market Price in comparable locality, or if there is no comparable locality, not lower than such Open Market Price in the PRC generally; or
- (iv) if there is no State Price, Guide Price and Open Market Price for such transactions, the parties are to negotiate on normal commercial terms for such transactions based on the actual or reasonable costs of such transactions (whichever is higher) together with a reasonable profit for the Group. A “reasonable profit” for the Group is a profit that is agreed between the parties as being (i) margins set by the independent suppliers for similar production and raw materials on comparable scales and similar terms, which are in line with the normal commercial practice of the industry; or (ii) profit margin of 5% (whichever is higher).

The basis of price determination for the provision of production materials and lease of factory premises by the Group to Chonggang Holding Group can be summarised in the following table:

| <b>Basis of price determination</b>  | <b>Materials and services involved</b>  |
|--|---|
| (i) Determined with reference to the State Price and the Guide Price set by the governmental departments of Chongqing City   | 1. Production materials – water, electricity and gas  |
| (ii) Determined with reference to the Open Market Price  | 1. Production materials – steel billets and steel products  |
| (iii) Determined with reference to a mark-up above cost of providing the products or services of (i) margins set by the independent suppliers for similar production and raw materials and/or services on comparable scales and similar terms, which are in line with the normal commercial practice of the industry; or (ii) profit margin of 5% (whichever is higher) <sup>#</sup> | 1. Production materials – ancillary products (such as cement, hardware and timber etc.)<br><br>2. Lease of factory premises |

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## LETTER FROM THE BOARD

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# The finance department of the Company will conduct research on the appropriate markup margin for the Continuing Connected Transactions involving provision of materials and services both by the Group to Chonggang Holding Group and by Chonggang Holding Group to the Group. Markup margin will be determined based on the trading practice of the industry through enquiry with industry players, researches on industry websites, and attending events and gatherings organised by industrial associations; and also based on the historical profit margin of comparable materials and services of the Company. The Company has set up the CCT Management Committee which directly reports to the Board. The CCT Management Committee is responsible for the on-going monitoring of all connected transactions of the Company. The responsibilities of the CCT Management Committee include, among other things, monitoring the aforesaid procedures of determining the markup margin and ensuring all Continuing Connected Transactions are conducted in accordance with the approved pricing policy. The secretary office to the Board will also report on quarterly basis to the CCT Management Committee regarding the carrying out of the Continuing Connected Transactions and the CCT Management Committee will then report to the Board on quarterly basis.

The floor level of 5% markup margin is determined based on the trading practice of the industry and the historical profit margin of comparable materials and services of the Company, with reference to the historical transaction figures of the continuing connected transactions under the Original Service and Supply Agreement and the Electronic Information and Automobile Transportation Service and Supply Agreement.

The price for the provision of services or materials may be settled by one-off payment or installments. The time of payment shall be determined by the parties based on the nature of the material and the usual business practice of the provision of the material, and on the last day of the month unless the parties mutually agree otherwise.

The total consideration to be paid by the Group to the Chonggang Holding Group will be satisfied by the Group's internal resources. No guarantee or other security was given or required as part of or in connection with the transaction.

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## LETTER FROM THE BOARD

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### ANNUAL CAPS FOR THE CONTINUING CONNECTED TRANSACTIONS UNDER THE NEW SERVICE AND SUPPLY AGREEMENT

The Annual Caps are proposed as follows:

The aggregate consideration to be paid by the Group to Chonggang Holding Group under the New Service and Supply Agreement will not exceed the respective Annual Caps as shown in the table below for each of the financial years ending 31 December 2017, 2018 and 2019:

|  | <b>Year ending</b><br><b>31/12/2017</b><br><i>RMB million</i> | <b>Year ending</b><br><b>31/12/2018</b><br><i>RMB million</i> | <b>Year ending</b><br><b>31/12/2019</b><br><i>RMB million</i> |
|--|---|---|---|
| Chonggang Holding Group's production and raw materials caps (production and raw materials such as iron ore, scrap steel, refractory materials, ancillary products (including dolomite and limestone etc.), electricity, industrial gas, equipment and spare parts) | 3,665.32  | 4,406.36  | 5,080.48  |
| Chonggang Holding Group's services caps (water and road transportation, technical services (including construction and labour services etc.)) and information services (including provision of equipment and labour services incidental to information services)   | 483.00  | 653.30  | 790.45  |
| Chonggang Holding Group's lease caps (lease of Chonggang Holding Group's factory premises)   | 1.40  | 1.40  | 1.40  |
| Chonggang Holding Group's Welfare caps   | 106.30  | 117.00  | 117.00  |

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## LETTER FROM THE BOARD

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The aggregate consideration to be received by the Group from Chonggang Holding Group under the New Service and Supply Agreement will not exceed the respective Annual Caps as shown in the table below for each of the financial years ending 31 December 2017, 2018 and 2019:

|  | <b>Year ending<br/>31/12/2017<br/><i>RMB million</i></b> | <b>Year ending<br/>31/12/2018<br/><i>RMB million</i></b> | <b>Year ending<br/>31/12/2019<br/><i>RMB million</i></b> |
|--|--|--|--|
| Group's production materials caps (such as water, electricity and gas used in Chonggang Holding Group's production process, steel billets, steel products and ancillary products (including cement, hardware and timber etc.)) | 437.92   | 542.26   | 674.63   |
| Group's lease caps (lease of the Group's factory premises)   | 1.00   | 1.00   | 1.00   |

The Annual Caps are determined by reference to:

- (i) the amount and value of previous transactions between the Group and Chonggang Holding Group for the three years ended 31 December 2014, 31 December 2015 and 31 December 2016 under the Original Service and Supply Agreement and for the two years ended 31 December 2015 and 31 December 2016 under the Electronic Information and Automobile Transportation Service and Supply Agreement as stated herein below;
- (ii) the production plan of the Group for the three years ending 31 December 2019;
- (iii) the expected rise in market price of materials to be provided by Chonggang Holding Group and the corresponding increase in cost of production and raw materials, services and lease of factory premises;
- (iv) the cost of providing the relevant production materials and lease of factory premises by the Group;
- (v) the prevailing market rates and state-prescribed rates applicable to the relevant materials and/or services; and
- (vi) due to the expected upturn of the market, the expected increase in the volume of services and/or materials required by the Group and Chonggang Holding Group in Changshou New district as determined by the availability of such services and/or materials in the local market and the size of population being served.

## LETTER FROM THE BOARD

The historical transaction figures of the total amount paid by the Group to Chonggang Holding Group under the Original Service and Supply Agreement are as follows:

|  | Year ended 31/12/2014          |               | Year ended 31/12/2015          |               | Year ended 31/12/2016          |               |
|--|--------------------------------|---------------|--------------------------------|---------------|--------------------------------|---------------|
|  | <i>RMB million</i>             |               | <i>RMB million</i>             |               | <i>RMB million</i>             |               |
|  | Historical transaction figures |               | Historical transaction figures |               | Historical transaction figures |               |
|  | Annual cap                     | approximately | Annual cap                     | approximately | Annual cap                     | approximately |
| Chonggang Holding Group's production and raw materials such as pig iron, iron ore, ferroalloys, coal, scrap steel, refractory materials, ancillary products (including dolomite and limestone etc.), electricity, water, oxygen, equipment and spare parts | 11,201.90                      | 4,769.16      | 15,325.60                      | 2,807.08      | 17,738.00                      | 1,142.86      |
| Chonggang Holding Group's services (water and road transportation and technical services (including construction, design and supervision and labour services etc.))  | 1,092.20                       | 496.97        | 1,198.70                       | 311.71        | 1,291.00                       | 183.25        |
| Chonggang Holding Group's lease (lease of Chonggang Holding Group's factory premises)  | 4.00                           | 0.35          | 2.00                           | 0.57          | 2.00                           | 0.58          |
| Chonggang Holding Group's welfare  | 126.40                         | 34.51         | 132.70                         | 43.29         | 139.30                         | 81.02         |

The historical transaction figures of the total amount paid by Chonggang Holding Group to the Group under the Original Service and Supply Agreement are as follows:

|  | Year ended 31/12/2014          |               | Year ended 31/12/2015          |               | Year ended 31/12/2016          |               |
|--|--------------------------------|---------------|--------------------------------|---------------|--------------------------------|---------------|
|  | <i>RMB million</i>             |               | <i>RMB million</i>             |               | <i>RMB million</i>             |               |
|  | Historical transaction figures |               | Historical transaction figures |               | Historical transaction figures |               |
|  | Annual cap                     | approximately | Annual cap                     | approximately | Annual cap                     | approximately |
| Group's production materials (including water, electricity and natural gas used in the Chonggang Holding Group's production process, steel products (such as rolled steel, steel billets etc.) and ancillary products (cement, hardware, and timber etc.)) | 1,367.60                       | 435.86        | 1,715.40                       | 468.89        | 2,376.90                       | 447.43        |
| Group's lease (lease of the Group's factory premises)  | 3.00                           | 0.94          | 3.00                           | 0.85          | 3.00                           | 0.87          |

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## LETTER FROM THE BOARD

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The historical figures of the total amount paid by the Company to Chonggang Holding Group under the Electronic Information and Automobile Transportation Service and Supply Agreement are as follows:

|                                   | Year ended 31/12/2015 |                                      | Year ended 31/12/2016 |                                      |
|-----------------------------------|-----------------------|--------------------------------------|-----------------------|--------------------------------------|
|                                   | <i>RMB million</i>    |                                      | <i>RMB million</i>    |                                      |
|                                   |                       | Historical<br>transaction<br>figures |                       | Historical<br>transaction<br>figures |
|                                   | Annual cap            | approximately                        | Annual cap            | approximately                        |
| Electronic information service    | 145.00                | 108.49                               | 145.00                | 93.79                                |
| Automobile transportation service | 115.00                | 79.98                                | 115.00                | 59.84                                |

The total amount of transactions conducted between the Group and Chonggang Holding under the New Service and Supply Agreement from January 2017 to April 2017 is approximately RMB140 million and that from January 2017 to 15 June 2017 (i.e. the date of the AGM), is expected to be approximately RMB190 million. The figures have not yet been audited and are subject to review by auditors.

### REASONS FOR ENTERING INTO THE NEW SERVICE AND SUPPLY AGREEMENT

Since the environmental relocation of the Company has completed in 2014 and the production facilities in Changshou New District have been put into operation, the Company possesses certain extent of production capacity from its production activities. Therefore, it is beneficial for the Company to enter into the New Service and Supply Agreement with Chonggang Holding to secure a stable and reliable supply of production and raw materials, provision of services, lease of factory premises and welfare services at reasonable prices, which are essential to ensure the Company's stable production.

According to the management of the Group, given the close geographical proximity of operations of the member companies within Chonggang Holding Group and the Group and that certain materials required by the Group cannot be sourced from nearby suppliers in a cost effective manner and Chonggang Holding Group would offer more flexible settlement terms than other suppliers of overseas raw materials, the Directors believe that the arrangement under the New Service and Supply Agreement (including sourcing certain production and raw materials from Chonggang Holding Group) would be cost effective to the Group as a whole and the Group can be benefited from relieving its pressure on funding as well as lowering the related purchasing costs. Nevertheless, the Directors consider that there is no potential issue of heavy reliance on Chonggang Holding Group as the Group is not obliged to acquire the production and raw materials from Chonggang Holding Group. Such production and raw materials are readily available in the market



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## LETTER FROM THE BOARD

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and can be acquired from independent suppliers and it is at the Group's own discretion to determine whether to purchase the production and raw materials supplied from Chonggang Holding Group or independent suppliers in respect of the Continuing Connected Transactions.

Although there is an increase in Chonggang Holding Group's production and raw materials caps, such caps as percentages to the Group's estimated total operating costs for the three years ending 31 December 2019 are expected to decrease after taking into account the projected production costs of the Group. Therefore, the Directors consider there will not be an increasing reliance on Chonggang Holding with respect to the procurement of production and raw materials from Chonggang Holding Group pursuant to the New Service and Supply Agreement.

The provision of materials by the Group to Chonggang Holding Group will benefit Chonggang Holding Group's stable production, thus ensuring the provision of continuous and stable services and materials by Chonggang Holding Group to the Group. In addition, by charging Chonggang Holding Group for the supply of relevant production materials will not only enable the Group to recover all relevant purchase costs and operating costs of such materials provided to Chonggang Holding Group, but also allows the Group to retain a certain amount of premium.

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

### INFORMATION OF THE COMPANY AND CHONGGANG HOLDING

The Company is a company incorporated in PRC with limited liability and the shares of which are listed on Stock Exchange and is principally engaged in the manufacture and sale of steel products such as medium-gauge steel plates, steel sections and wire rods. The ultimate beneficial owner of the Company is Chonggang Holding.

Chonggang Holding is a state-owned limited liability company established in the PRC and the controlling shareholder (as the term is defined in the Listing Rules) of the Company. Chonggang Holding, together with its subsidiaries, are engaged in a wide variety of businesses, including the production of iron and steel products, refractory materials, equipment and spare parts, mining, infrastructure and building maintenance, equipment installation and maintenance, automotive transportation, industrial design and technology consultancy relating to the iron and steel industry, import and export agency and trading of steel and electronic machinery products. The ultimate beneficial owner of Chonggang Holding is the Chongqing State-Owned Assets Supervision and Administration Commission Bureau under the State-Owned Assets Supervision and Administration

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## LETTER FROM THE BOARD

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Commission of the State Council. Authorised by the State Council and in accordance with the Company Law of the PRC and other administrative regulations, the State-Owned Assets Supervision and Administration Commission has different functions including performing investor's responsibilities, supervising and managing the state-owned assets of the enterprises under the supervision of the Central Government (excluding financial enterprises), and enhancing the management of the state-owned assets.

### INTERNAL CONTROL

The Company has set up the CCT Management Committee which directly reports to the Board. The CCT Management Committee, comprising personnel from various operational departments, was chaired by a Director and is responsible for the on-going monitoring of all connected transactions of the Company. The main responsibilities of the CCT Management Committee include, among other things, (i) matters involving approval and monitoring of the continuing connected transactions and the proposed annual caps; (ii) gathering information for disclosure of the continuing connected transactions pursuant to the Listing Rules; and (iii) monitoring of pricing procedures for the continuing connected transactions to ensure prices to be determined are on normal commercial terms. The finance department of the Company reported on quarterly basis to the CCT Management Committee regarding the actual monetary amount of the continuing connected transactions conducted during the quarter and the estimated amount in the following quarter so as to facilitate the CCT Management Committee to (i) monitor the actual amount of the continuing connected transactions carried out; and (ii) assess whether the proposed annual caps were exceeded. The secretary office to the Board also report on quarterly basis to the CCT Management Committee regarding the carrying out of the continuing connected transactions and the CCT Management Committee then report to the Board on quarterly basis.

The finance department of the Company will carry out the pricing management. The finance department will lead the relevant managing department of each profession to conduct research on market prices for the continuing connected transactions involving provision of services by Chonggang Holding Group to the Group. Open market prices will be obtained through quotations from independent third party service providers, including recent transaction prices of the Group with independent third parties, enquiry with industry players, researches on industry websites, and attending events and gatherings organised by industrial associations. The Company will procure to obtain at least 2 quotations from independent third party service providers. The market price information will be circulated by the finance department to other departments and companies of the Group to facilitate the determination of prices for the continuing connected transactions.

For the continuing connected transactions involving provision of services by Chonggang Holding Group to the Group, it is the Group's policy to request service providers, including Chonggang Holding Group and other independent service providers, to provide quotations in respect of the requested services and products. Following the receipt of quotations from Chonggang Holding

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## LETTER FROM THE BOARD

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Group and other independent service providers, the Group will compare and negotiate the terms of quotations with service providers, and determine the selection of service providers by taking into account factors such as price quotations, quality of the products and services, ability of the service providers in meeting technical specifications and delivery schedules, and qualification and relevant experiences of the service providers. The contract will be awarded to the service provider who offers the best commercial terms and technical terms to the Company. Other than obtaining of quotations, the Group may award a contract through a tender process, and there should be no less than three tenderers participating the tender process. The contract will be awarded to the service provider after assessment based on the criteria as set out above. The Company will try to obtain as many quotations and/or tenders as possible for the Company's interest. Accordingly, Chonggang Holding Group may or may not be awarded the contracts.

### LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Chonggang Holding is interested in approximately 47.27% of the total issued share capital of the Company, the provision or receipt of services, production and raw materials, lease of factory premises and welfare services by Chonggang Holding Group under the New Service and Supply Agreement constitute continuing connected transactions for the Company under the Listing Rules. As each of the applicable percentage ratios for the aggregate amount of the transactions contemplated under the New Service and Supply Agreement, on an annual basis, is more than 5% and the respective Annual Caps exceeds HK\$10,000,000, the transactions contemplated under the New Service and Supply Agreement constitute non-exempt continuing connected transactions under the Listing Rules and are subject to the requirements of reporting and announcement, Independent Shareholders' approval and annual review under the Listing Rules.

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

### DIRECTORS' INTERESTS IN THE NEW SERVICE AND SUPPLY AGREEMENT

Other than Mr. Liu Da Wei and Mr. Zhou Hong, connected Directors, who have abstained from voting on the relevant Board's resolutions for the approval of the New Service and Supply Agreement (including the Annual Caps) and the transactions contemplated thereunder, none of the Directors has material interests in such transactions.

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## LETTER FROM THE BOARD

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### III. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

In line with the spirit and principles of relevant laws and regulations and other documents in the PRC including the Guiding Opinions of the CPC Central Committee and the State Council on Deepening the Reform of State-owned Enterprises (《中共中央、國務院關於深化國有企業改革的指導意見》), the Certain Opinions of the General Office of the CPC Central Committee on Upholding the Party's Leadership and Strengthening the Party Construction in Deepening the Reform of State-owned Enterprises (《中共中央辦公廳關於在深化國有企業改革中堅持黨的領導加強黨的建設的若干意見》) and the Opinions of the General Office of Chongqing Municipality of Communist Party of China on Implementing Overall Strictness in Administering the Party in Advancing the Reform and Development of State-owned Enterprises (《中共重慶市委辦公廳關於在推進國有企業改革發展中落實全面從嚴治黨的意見》), the general requirements of the party construction should be included in the Articles of Association of the Company to consolidate the legal status of the party in the corporate governance structure of the Company and to promote the party organization to play a core political role in an organized, institutionalized and concrete way. The Company proposed amendments to the Articles of Association. The details are as follows:

1. An article will be added to Chapter 1 in the original Articles of Association, details are as follows:

|            |   |
|------------|---|
| Article 11 | In accordance with the Company Law and the “Constitution of the Communist Party of China”, the Company shall establish a committee for the Communist Party of China and a discipline inspection committee to carry out activities of the party. Party organization is an organic composition of the corporate governance structure of the Company. The Company insists on simultaneous planning of Party construction and production operations, simultaneous establishment of Party organisations and working organs, simultaneous allocation of person-incharge of the Party organization and staff for Party affairs as well as simultaneous proceeding of work, so as to make clear the duties and manner of work of the Party organization in respect of decision-making, implementation and supervision, to allow docking between mechanisms, between systems, between regimes and between work, and to promote the Party organization to play a core political role in an organized, institutionalized and concrete way. |
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## LETTER FROM THE BOARD

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2. Chapter 12 will be added after Chapter 11 in the original Articles of Association, details are as follows:

### Chapter 12 The Party Committee

Article 140      The establishment and term of office of the Party committee and discipline inspection committee of the Company shall be implemented in accordance with relevant documents of the Party. The organizational structure of the Party organization and its staffing shall be incorporated into the administrative organs and the establishment of the Company. The Company shall provide necessary conditions for the activities of the Party organization and include expenses of the Party organization in the Company's budget, which will be credited to the Company's management fee.

Article 141      The Party organization of the Company shall play a core political role and carry out the works with focus on direction control, overall management and ensuring implementation. It shall ensure and supervise the implementation of the directional policies of the Party and the country throughout the Company; support the Board, supervisory committee and senior management in exercising their power in accordance with the laws; faithfully believe in the public and the staff and support the meetings of employee representatives in performing their function; participate in the decision-making process of material matters of the Company; strengthen the self construction of the Party organization, play a leading role in the ideological and political work and the spiritual civilization construction of the Company and lead the mass organizations such as the labor union and the Communist Youth League.

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## LETTER FROM THE BOARD

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Article 142      The Party committee shall consider and make decisions for the followings:

- (I)      Major measures of the Company in carrying out the directions and policies of the Party and important decisions made by the higher Party organization;
- (II)     Ideological construction, organization construction, work style construction, anti-corruption construction, system construction of and other aspects of the Party of the Company;
- (III)    Matters in relation to the appointment and dismissal of and reward and punishment for employees in accordance with management supervision authority; or recommendation of candidates to the Board or the General Manager in accordance with certain procedures; vetting and raising opinions on the candidates nominated by the Board or the General Manager;
- (IV)    Important matters in relation to united front work and mass organization;
- (V)     Important matters to be referred and reported to the higher Party organization;
- (VI)    Other matters to be considered and decided by the Party committee.

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## LETTER FROM THE BOARD

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Article 143      The Party committee shall participate in the decision-making process regarding the following material matters:

- (I)      Important measures of the Company regarding the implementation of national laws and regulations and important decisions of the higher level;
- (II)     The development strategies and mid to long term development plans of the Company;
- (III)    The production and operation policies of the Company;
- (IV)    Principle and directional matters in respect of the asset restructuring, asset transfer, capital operation and significant investment of the Company;
- (V)     The formulation and modification of the Company's important reform proposals and important rules and regulations;
- (VI)    The merger, division, change and dissolution of the Company, set up and adjustment of internal management institutions and set up and dissolution of subordinated branches;
- (VII)   The assessment, remuneration, management and supervision of the Company's mid to high level operation management personnel;
- (VIII) Material matters related to the interest of our staff which are required to be submitted to the meeting of employee representatives for discussion;
- (IX)    Important measures adopted by the Company regarding the political and social responsibilities of the Company such as particularly significant safe production and maintenance of stability;
- (X)     Material matters required to be approved by and reported to the higher level;
- (XI)    Other matters required to be decided by the Party committee.

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## LETTER FROM THE BOARD

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Article 144      Major procedures for the Party committee's participation in decision-making process:

- (I)      Prior consideration by the Party committee. The Party committee shall hold meetings of the Party committee to conduct discussion and research on material matters proposed to be decided by the Board and senior management, and provide advices and recommendations in this regard. If matters proposed to be decided by the Board and senior management are not in compliance with the directional policies of the Party and national laws and regulations or may prejudice national and public interests or legitimate interests of the Company and its employees, the Party committee shall propose revocation or deferred discussion thereof. If the Party committee considers that other material matters are required to be decided by the Board and senior management, such material matters may be proposed to the Board and senior management;
- (II)     Communication before the meeting. Members of the Party committee who also serve as members of the Board and senior management (especially the Chairman of the Board or the General Manager) shall communicate with other members of the Board and senior management regarding the relevant advices and recommendations of the Party committee before submitting the proposals to the Board or General Manager office;
- (III)    Expression during the meeting. Members of the Party committee who also serve as members of the Board and senior management shall fully express the advices and recommendations of the Party Committee during the decision-making process of the Board and senior management;
- (IV)    Report after the meeting. Members of the Party committee who also serve as members of the Board and senior management shall report to the Party organization in respect of the decision of the Board and senior management in a timely manner.



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## LETTER FROM THE BOARD

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Article 145      Implementation of the Company's material decisions and arrangements. The Party organization of the Company shall play a leading role in complying with various rules and regulations of the Company, conduct promotion, motivation and explanation of the implementation of the Company's material decisions, organize and lead all the Party members and staff to focus their mind and action on the strategic goal of development and implementation of material decisions of the Company and facilitate the reform and development of the Company.

Article 146      The Party committee shall establish a supervision system for the implementation of the Company's material decisions and conduct regular supervision and inspection. For the Company's practices which are not in compliance with the Party's directional policies, the PRC laws and regulations and the requirements of the Party central committee and municipal committee, the Party committee shall provide rectification advices in a timely manner and report to the higher level of the Party organization regarding the failure in rectification in a timely manner.

Articles 142 and 143 better provide the contents regarding the Company's works on Party building and further include the contents regarding the playing of the core leadership and political roles by the Party committee and the safeguarding of the implementation and execution of the directions and policies of the Party.

Regarding the matters stipulated in Article 142, internal matters relating to the Communist Party shall be considered and determined by the Party Committee but matters relating to the operation of the Company shall be determined according to the voting results of the Board and/or shareholders as provided in the Articles of Association. The Party Committee provides comments and suggestions only on the appointment and dismissal of key personnel.

Regarding the matters stipulated in Article 143, the Party committee participates in the decision-making process in accordance with the procedures as set out in Article 144. The Board and senior management shall take into account the actual circumstances and decide whether or not to take the advices and recommendations provided by the Party committee. The relevant authority of the Board and senior management as provided in the Articles of Association shall not be changed.

Regarding Article 144, the reporting will not result in selective disclosure. The Company will enhance the control and management over inside information and if the matters considered and reported at Board meetings involve inside information which is price sensitive, the Company shall disclose such inside information to the public contemporaneously.

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## LETTER FROM THE BOARD

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3. The Article 151 in the original Articles of Association will be amended as follows:

Article 159      The Board is accountable to the general meeting, and shall exercise the following powers:

- (I)      to convene general meetings and report to the general meeting;
- (II)     carry out the resolutions passed at the general meetings;
- (III)    to decide on the operational plan and investment proposal of the Company;
- (IV)    to formulate the Company's annual financial budget and final accounts, plans for profit distribution and recovery of losses;
- (V)     to distribute interim dividends according to Article 235 of these articles of association;
- (VI)    to formulate plans for increases in or reductions of the Company's registered capital;
- (VII)   to formulate proposals for major acquisition, and purchase of shares of the Company;
- (VIII) To determine the investments, acquisition and disposal of assets, pledge of assets, external guarantees, trust asset management and connected transactions of the Company within the authorisation of the general meeting;
- (IX)    to formulate plans for the issue of corporate bonds;
- (X)     to formulate plans for division, merger, dissolution and changes in form of the Company;
- (XI)    to appoint or dismiss the Company's General Manager and Secretary to the Board, and pursuant to the General Manager's nominations to appoint or dismiss the deputy General Managers, financial officers and other senior management members of the Company and fix their remuneration, bonus and punishment;

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## LETTER FROM THE BOARD

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- (XII) formulate proposals for amendment to these articles of association;
- (XIII) to formulate the Company's basic management system;
- (XIV) To manage the information disclosure of the Company;
- (XV) To determine the establishment of the Company's internal management structure;
- (XVI) To propose at general meetings for the appointment or change of accountants conducting auditing for the Company;
- (XVII) To hear the work reports and inspect the work of the General Manager of the Company;
- (XVIII) to determine other material operation and administrative matters which are not required in these articles of association subject to decisions at the general meeting;
- (XIX) to determine the establishment of special committee of the Board and the appointment and removal of the relevant person-in-charge;
- (XX) to exercise other powers conferred by the general meeting and these articles of association.

When resolving on the matters as set out in (VI), (IX), (X) and (XII) above, approval from two third of the Directors must be obtained. Other matters are subject to approval of more than half of the Directors.

4. An article will be added after "Article 155 under Chapter 12 The Board" in the original Articles of Association, details are as follows:

Article 164      For those within the scope of major issues involving decision-making of the Party committee of the Company, the Board shall take advice and suggestions from the Party committee of the Company in advance.

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## LETTER FROM THE BOARD

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5. Contents will be added after “Article 183 under Chapter 14 General Manager and Other Senior Management Members” in the original Articles of Association, details are as follows:

Article 191 The General Manager of the Company shall be responsible to the Board and shall have the following powers and duties:

- (I) to be responsible for the production and management of the Company and to organize the implementation of the resolutions of the Board;
- (II) organize the implementation of the annual business plans and investment proposals of the Company;
- (III) to prepare proposals for the internal management structure of the Company;
- (IV) to prepare the management systems of the Company;
- (V) to draft the regulations of the Company;
- (VI) to employ and dismiss deputy General Managers and persons in charge of financial matters;
- (VII) to employ and dismiss management staff other than those who shall be employed and dismissed by the Board;
- (VIII) other powers conferred by these articles of association and the Board.

In exercising the above-mentioned powers, the General Manager shall take advice from the Party committee in advance for those matters within the scope of major issues involving decision-making of the Party committee of the Company.

6. The Article 299 in the original Articles of Association will be amended as follows:

Article 308 The wordings “more than”, “within” and “less than” in these articles of association shall all include the numbers themselves that follow such wording, while the wordings “not up to”, “other than”, “less than”, “over” and “more than” shall not include the numbers themselves.

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## LETTER FROM THE BOARD

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### IV. RECOMMENDATION

#### (i) Continuing Connected Transactions under the New Service and Supply Agreement

Based on its views set out above, the Board recommends that the Independent Shareholders vote in favour of the resolution concerning the New Service and Supply Agreement and the Annual Caps of the transactions thereunder for the three years ending 31 December 2017, 31 December 2018 and 31 December 2019.

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders set out on page 26 of this circular. The Independent Board Committee, having taken into account the advice of Halcyon, considers that (i) the transactions under the New Service and Supply Agreement are entered into in the ordinary course of business of the Group; (ii) the terms of the New Service and Supply Agreement are normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole; and (iii) the Annual Caps for the transactions contemplated under the New Service and Supply Agreement for the three years ending 31 December 2017, 31 December 2018 and 31 December 2019 are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution concerning the New Service and Supply Agreement and the Annual Caps of the transactions thereunder for the three years ending 31 December 2017, 31 December 2018 and 31 December 2019 to be proposed at the AGM.

#### (ii) Proposed amendments to the Articles of Association

The Board considers that the proposed amendments to the Articles of Association are in the best interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends that the Shareholders shall vote in favour of the relevant resolution to be proposed at the AGM.

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## LETTER FROM THE BOARD

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### V. AGM

A notice of the AGM to be held at 2:30 p.m. on Thursday, 15 June 2017 at No. 2 Conference Room, 3/F., the Management Building, No. 1 of Gangcheng Avenue, Economic & Technological Development Zone, Changshou District, Chongqing, the PRC, at which relevant resolutions will be proposed to approve the New Service and Supply Agreement and the proposed amendments to the Articles of Association is set out on pages 58 to 60 of this circular.

As at the Latest Practicable Date, Chonggang Holding and its associates is interested in 2,096,981,600 shares, representing approximately 47.27% of the total issued share capital of the Company and will be required to abstain from voting at the AGM with respect to the ordinary resolution in connection with the New Service and Supply Agreement.

The proxy form 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 proxy form 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 adjournment 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 should you so desire. Voting at the AGM will be taken by poll in accordance with the Listing Rules.

### VI. ADDITIONAL INFORMATION

Additional information is also set out in the appendix of this circular for your information

By Order of the Board  
**Chongqing Iron & Steel Company Limited**  
**You Xiao An**  
*Secretary to the Board*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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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)

26 May 2017

*To the Independent Shareholders*

Dear Sir/Madam,

**(1) CONTINUING CONNECTED TRANSACTIONS**  
**(2) PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION**  
**AND**  
**(3) NOTICE OF ANNUAL GENERAL MEETING**

We refer to the circular dated 26 May 2017 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 the terms of the New Service and Supply Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Halcyon 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 Halcyon, we are of the opinion that (i) the transactions under the New Service and Supply Agreement are entered into in the ordinary course of business of the Group; (ii) the terms of the New Service and Supply Agreement are normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole; and (iii) the Annual Caps for the transactions contemplated under the New Service and Supply Agreement for the three years ending 31 December 2019 are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions as set out in the notice of AGM to approve the New Service and Supply Agreement at the AGM.

Yours faithfully,  
**Independent Board Committee**  
**Mr. Xu Yi Xiang**  
**Mr. Xin Qing Quan**  
**Mr. Wong Chun Wa**

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## LETTER FROM HALCYON

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*The following is the full text of the letter of advice from Halcyon Capital Limited to the Independent Board Committee and the Independent Shareholders which has been prepared for the purpose of the inclusion in this circular.*



**Halcyon Capital Limited**  
11/F, 8 Wyndham Street,  
Central, Hong Kong

26 May 2017

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

### CONTINUING CONNECTED TRANSACTIONS

#### INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders with respect to (i) the terms of certain continuing connected transactions between the Group and Chonggang Holding Group pursuant to the New Service and Supply Agreement; and (ii) the Annual Caps, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular of the Company dated 26 May 2017 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same respective meanings as defined in the Circular unless the context otherwise requires.

As at the Latest Practicable Date, Chonggang Holding is interested in approximately 47.27% of the total issued share capital of the Company and is a controlling Shareholder within the meaning of the Listing Rules. Accordingly, Chonggang Holding is a connected person of the Company and transactions under the New Service and Supply Agreement constitute connected transactions for the Company under the Listing Rules. As each of the applicable percentage ratios for the aggregate amount of the transactions contemplated under the New Service and Supply Agreement, on an annual basis, is more than 5% and the respective Annual Caps exceeds HK\$10,000,000, the transactions contemplated under the New Service and Supply Agreement constitute non-exempt continuing connected transactions under the Listing Rules and are subject to the requirements of reporting and announcement, Independent Shareholders’ approval and annual review under the Listing Rules. An AGM will be convened at which resolution(s) will be proposed to seek the approval of the Independent Shareholders by way of poll for the New Service and Supply Agreement (including the Annual Caps) and the transactions contemplated thereunder. Chonggang Holding and its associate(s) as defined under the Listing Rules will abstain from voting.



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## LETTER FROM HALCYON

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The Independent Board Committee comprising all independent non-executive Directors, namely Mr. Xu Yi Xiang, Mr. Xin Qing Quan and Mr. Wong Chun Wa, has been established to advise the Independent Shareholders in respect of the terms of the New Service and Supply Agreement and each of the Annual Caps. In our capacity as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, our role is to provide the Independent Board Committee and the Independent Shareholders with an independent opinion and recommendation as to whether the entering into of the Continuing Connected Transactions under the New Service and Supply Agreement (including the Annual Caps) is on normal commercial terms, in the ordinary and usual course of business of the Group, and in the interests of the Group and the Independent Shareholders as a whole and whether the terms of the transactions under the New Service and Supply Agreement (including the Annual Caps) are fair and reasonable.

### **BASIS OF OUR OPINION**

Except for being appointed as the independent financial adviser to the then independent board committee and independent shareholders of the Company (details of which have been set out in the letter from the independent financial adviser contained in the circular of the Company dated 25 April 2014), we have no other relationships with or interests in the Company and any other parties that could reasonably be regarded as relevant to our independence. Apart from the normal professional fees paid to us in connection with our appointments, no arrangements exist whereby we had received any fees or benefits from the Company or any other party to the transactions, therefore we consider such relationship would not affect our independence. We are therefore independent under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in connection with the Continuing Connected Transactions.

In formulating our opinion and recommendation, we have relied on the information, financial information and facts included in the Circular and supplied to us, and the representations expressed by the Directors and/or management of the Group, and have assumed that all such information, financial information, facts and any representations made to us, or referred to in the Circular, for which they are fully responsible, in all material aspects, were true, accurate and complete as at the time they were made and as at the date hereof, have been properly extracted from the relevant underlying accounting records (in the case of financial information) and made after due and careful inquiry by the Directors and/or the management of the Group. The Directors and/or the management of the Group have confirmed that, having made all reasonable enquiries and to the best of their knowledge and belief, all relevant information has been supplied to us and that no material facts have been omitted from the information supplied and representations expressed to us. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable. We have no reason to doubt the completeness, truth or accuracy of the information and representations provided and we are not aware of any facts or circumstances which would render such information provided and representations made to us untrue, inaccurate or misleading.

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## LETTER FROM HALCYON

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Our review and analyses were based upon, among others, the information provided by the Group including the New Service and Supply Agreement and certain published information from the public domain.

We have also discussed with the Directors and/or the management of the Group with respect to the terms of and the reasons for the Continuing Connected Transactions (including the Annual Caps), and considered that we have reviewed sufficient information to reach an informed view and to justify reliance on the information provided and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information included in the Circular and supplied to us by the Directors and/or the management of the Group nor have we conducted any form of in-depth investigation into the businesses, affairs, financial position, internal control, profitability or prospects of the Group, Chonggang Holding Group and each of their respective associates, and the parties involved in the Continuing Connected Transactions.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion in respect of the terms of the Continuing Connected Transactions, we have considered the following principal factors and reasons:

#### **I. Background and reasons for the Continuing Connected Transactions**

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

Chonggang Holding, together with its subsidiaries, are engaged in a wide variety of businesses, including the production of iron and steel products, refractory materials, equipment and spare parts, mining, infrastructure and building maintenance, equipment installation and maintenance, automotive transportation, industrial design and technology consultancy relating to the iron and steel industry, import and export agency and trading of steel and electronic machinery products. Chonggang Holding is interested in, as at the Latest Practicable Date, approximately 47.27% of the issued share capital of the Company and is the controlling Shareholder.

As stated in the Board Letter, since the environmental relocation of the Company has completed in 2014 and the production facilities in Changshou New District have been put into operation, the Company possesses certain extent of production capacity from its production activities. According to the Company's various announcements in relation to its plan for material assets reorganisation since June 2016, the Company entered into framework agreement for material assets reorganisation with Chonggang Holding and Chongqing Yufu Holding Group Co., Ltd. on 31 August 2016 and the Board approved the termination of the plan for material assets reorganisation on 2 May 2017 after considering the difficulties in satisfying the regulatory requirements and obtaining

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## LETTER FROM HALCYON

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the approval from relevant parties. As disclosed in the Company's announcement dated 3 May 2017, the termination of the material assets reorganisation would have no adverse impact on the normal operation of the existing iron and steel businesses of the Group, which is to be continued thereafter. It is beneficial for the Company to enter into the New Service and Supply Agreement with Chonggang Holding to secure a stable and reliable supply of production and raw materials, provision of services, lease of factory premises and welfare services at reasonable prices, which are essential to ensure the Company's stable production. Furthermore, the Board considered that the provision of materials by the Group to Chonggang Holding Group will benefit Chonggang Holding Group's stable production, thus ensuring the provision of continuous and stable materials and services by Chonggang Holding Group to the Group. In addition, by charging Chonggang Holding Group for the supply of relevant production materials will not only enable the Group to recover all relevant purchase costs and operating costs of such materials provided to Chonggang Holding Group, but also allows the Group to retain a certain amount of premium.

According to the management of the Group, given the close geographical proximity of operations of the member companies within Chonggang Holding Group and the Group and that certain materials required by the Group cannot be sourced from nearby suppliers in a cost effective manner and Chonggang Holding Group would offer more flexible settlement terms than other suppliers of overseas raw materials, the Directors believe that, which we concur with, the arrangement under the New Service and Supply Agreement (including sourcing certain production and raw materials from Chonggang Holding Group) would be cost effective to the Group as a whole and the Group can be benefited from relieving its pressure on funding as well as lowering the related purchasing costs. Nevertheless, as advised by the Directors, they consider that there is no potential issue of heavy reliance on Chonggang Holding Group as the Group is not obliged to acquire the production and raw materials from Chonggang Holding Group. Such production and raw materials are readily available in the market and can be acquired from independent suppliers and it is at the Group's own discretion to determine whether to purchase the production and raw materials supplied from Chonggang Holding Group or independent suppliers in respect of the Continuing Connected Transactions. In addition, the Continuing Connected Transactions will be governed by the Group's internal control measures (further details are set out in the section headed "Internal Control and Reporting Requirements and Conditions of the Continuing Connected Transactions" below), in particular, the Company has set up the CCT Management Committee to monitor the pricing procedures for the Continuing Connected Transactions to ensure prices to be determined are on normal commercial terms and not less favourable than those available from other independent suppliers of the Group, to govern the conduct of the Continuing Connected Transactions and to safeguard the interests of the Independent Shareholders.

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## LETTER FROM HALCYON

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### *The New Service and Supply Agreement*

The transactions contemplated under the New Service and Supply Agreement include the following:

(a) *Provision of production materials and lease of factory premises by the Group to Chonggang Holding Group*

Pursuant to the New Service and Supply Agreement, among other things, the Group agreed to (i) provide production materials; and (ii) lease part of the Group's factory premises to Chonggang Holding Group.

(i) Production materials

The production materials provided by the Group to Chonggang Holding Group include water, electricity, gas, steel billets, steel products and ancillary products (such as cement, hardware and timber, etc.), which are mainly used in the production process of Chonggang Holding Group. The Group has supplied these production materials to Chonggang Holding Group since its listing in 1997. Besides, the ownerships of the water, electricity and gas supply network for the production site occupied by Chonggang Holding Group and the Group at the Changshou New District in Chongqing City, are vested in the Group. Therefore, Chonggang Holding Group has to rely on the supply of water, electricity and gas provided by the Group for its production.

(ii) Lease of factory premises

As advised by the Directors, Chonggang Holding Group has been providing various materials and services to the Group in the production sites in Changshou New District. As such, the Group has been leasing part of its factory premises to Chonggang Holding Group for storage purposes and as the service and operation bases of Chonggang Holding Group.

(b) *Provision of production and raw materials, services, lease of factory premises and welfare services by Chonggang Holding Group to the Group*

Pursuant to the New Service and Supply Agreement, among other things, Chonggang Holding Group agreed to (i) provide production and raw materials; (ii) provide services; and (iii) lease part of Chonggang Holding Group's factory premises to the Group.

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## LETTER FROM HALCYON

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(i) Production and raw materials

The Group has purchased production materials (such as electricity, industrial gas, equipment and spare parts) and raw materials (such as iron ore, scrap steel, refractory materials and ancillary products (including dolomite and limestone, etc.)), which are required for its production of steel, from Chonggang Holding Group. As the Company considers that, apart from the proximity between the production sites of the Group and Chonggang Holding Group, Chonggang Holding Group has been able to provide good quality materials, and durable equipment and spare parts at reasonable prices consistently over the years, the Directors consider that it is for the interest of the Company to continue the business relationship with Chonggang Holding Group in the future years.

(ii) Services

Services provided by Chonggang Holding Group to the Group can be broadly classified into four categories:

- (a) Water and road transportation services – they represent (i) the water and road transportation services provided by Chonggang Holding Group to the Group for the delivery of raw materials and products to and from the production site of the Group; and (ii) the automobile transportation services provided by Chonggang Holding Group to the Group for the transportation of the Group's employees to and from the production site of the Group;
- (b) Technical services – they represent primarily construction services and labour services;
- (c) Information services – they represent primarily the software support and maintenance services provided by Chonggang Holding Group to the Group (including the provision of equipment and labour services incidental to information services); and
- (d) Social welfare services – they represent primarily the medical and pension funds management services for the Group's employees as the Group pays the social welfare contribution of its employees to the government social insurance authorities through Chonggang Holding Group.

The above services provided by Chonggang Holding Group have been facilitating the operation of the Group. As advised by the Directors, it is not cost-effective for the Group to set up or maintain its own teams to carry out the above functions separately.

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## LETTER FROM HALCYON

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(iii) Lease of factory premises

Pursuant to the New Service and Supply Agreement, Chonggang Holding Group agreed to continue to lease part of its premises to the Group in Dadukou District. As advised by the Directors, although the Company closed down all its production facilities in Dadukou District in 2011 and transferred all its production activities to Changshou New District, the Group still maintains part of its business operations in Dadukou District, including the raw material purchase department and sales department, to facilitate the business liaison with relevant suppliers and customers of the Group near Dadukou District.

Having taken into account the aforesaid, we concur with the Directors' view that the entering into of the New Service and Supply Agreement is in the ordinary and usual course of business of the Group.

### II. Principal terms of the New Service and Supply Agreement

Set out below are the details of the major terms under the New Service and Supply Agreement:

|                       |   |  |
|-----------------------|---|--|
| <b>Agreement date</b> | : | 13 January 2017  |
| <b>Parties</b>        | : | (i) the Company; and<br>(ii) Chonggang Holding   |
| <b>Term</b>           | : | 13 January 2017 to 31 December 2019  |
| <b>Subject matter</b> | : | (i) Chonggang Holding agreed (for itself and/or Chonggang Holding Group) to provide to the Group the following:<br><br>(a) raw materials such as iron ore, scrap steel, refractory materials and ancillary products (including dolomite and limestone, etc.);<br><br>(b) water and road transportation and technical services (including construction and labour services, etc.) and information services (including provision of equipment and labour services incidental to information services);<br><br>(c) production materials such as electricity, industrial gas, equipment and spare parts; and |

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## LETTER FROM HALCYON

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(d) social welfare services (including mainly medical and pensions funds management services, etc.), the fees in respect of which were paid by the Company through Chonggang Holding but no fees will be charged by Chonggang Holding for managing such social welfare services of the Company's employees.

(ii) The Company agreed (for itself and/or the Group) to provide to Chonggang Holding Group production materials such as water, electricity, gas, steel billets, steel products and ancillary products (including cement, hardware, timber, etc.).

(iii) The Group and Chonggang Holding Group will allow each other to use and occupy their respective factory premises.

**Conditions precedent** : The New Service and Supply Agreement is conditional upon the passing of the resolution(s) approving the New Service and Supply Agreement (including the Annual Caps) and the transactions contemplated thereunder by the Independent Shareholders at the AGM to be convened.

**Basis of price determination** : The pricing or consideration of the New Services and Supply Agreement will be determined with reference to the following:

(a) *Provision of production and raw materials, services, lease of factory premises and welfare services by Chonggang Holding Group to the Group*

(i) according to the State Price; or

(ii) if there is no State Price, not higher than the Guide Price for such transactions; or

(iii) if there is no State Price and Guide Price, not higher than such Open Market Price in comparable locality, or if there are no comparable localities, not higher than such Open Market Price in the PRC generally; or

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## LETTER FROM HALCYON

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- (iv) if there is no State Price, Guide Price and Open Market Price for such transactions, the parties are to negotiate on normal commercial terms for such transactions based on the actual or reasonable costs of such transactions (whichever is lower) together with a reasonable profit for Chonggang Holding Group. A “**reasonable profit**” for Chonggang Holding Group is a profit that is agreed between the parties as being no more than (i) margins set by the independent suppliers for similar production and raw materials and/or services on comparable scales and similar terms, which are in line with the normal commercial practise of the industry; or (ii) profit margin of 5% (whichever is lower).

(b) *Provision of production materials and lease of factory premises by the Group to Chonggang Holding Group*

- (i) according to the State Price; or
- (ii) if there is no State Price, not lower than the Guide Price for such transactions; or
- (iii) if there is no State Price and Guide Price, not lower than such Open Market Price in comparable locality, or if there are no comparable localities, not lower than such Open Market Price in the PRC generally; or
- (iv) if there is no State Price, Guide Price and Open Market Price for such transactions, the parties are to negotiate on normal commercial terms for such transactions based on the actual or reasonable costs of such transactions (whichever is higher) together with a reasonable profit for the Group. A “reasonable profit” for the Group is a profit that is agreed between the parties as being (i) margins set by the independent suppliers for similar production and raw materials and/or services on comparable scales and similar terms, which are in line with the normal commercial practise of the industry; or (ii) profit margin of 5% (whichever is higher).



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## LETTER FROM HALCYON

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**Payment term** : The price for the provision of services or materials may be settled by one-off payment or installments. The time of payment shall be determined by the parties based on the nature of the service or material and the usual business practise of the provision of the service or material, and on the last day of the month unless the parties mutually agree otherwise.

As stated in the Board Letter, the basis of price determination for the provision of production and raw materials, services, lease of factory premises and welfare services by Chonggang Holding Group to the Group can be summarised in the following table:

| Basis of price determination |  | Materials and services involved |   |
|------------------------------|--|---------------------------------|---|
| (i)                          | Determined with reference to the State Price and the Guide Price   | 1.                              | Production materials – electricity  |
|                              |  | 2.                              | Social welfare services   |
| (ii)                         | Determined with reference to price through tender  | 1.                              | Production materials – equipment and spare parts  |
|                              |  | 2.                              | Technical services – construction services  |
| (iii)                        | Determined with reference to the Open Market Price   | 1.                              | Raw materials (such as iron ore, scrap steel and refractory materials, ancillary products (including dolomite and limestone, etc.)) |
| (iv)                         | Determined with reference to a mark-up above cost of providing the products or services of no more than (i) margins set by the independent suppliers for similar production and raw materials and/or services on comparable scales and similar terms, which are in line with the normal commercial practise of the industry; or (ii) profit margin of 5% (Note) (whichever is lower) | 1.                              | Production materials – industrial gas   |
|                              |  | 2.                              | Water and road transportation services  |
|                              |  | 3.                              | Technical services – labour services  |
|                              |  | 4.                              | Lease of factory premises   |
|                              |  | 5.                              | Information services (including provision of equipment and labour services incidental to information services)                      |

*Note:* The floor level of 5% profit margin is determined based on the trading practise of the industry and the historical profit margin of comparable materials and services of the Company, with reference to the historical transaction figures of the continuing connected transactions under the Original Service and Supply Agreement and the Electronic Information and Automobile Transportation Service and Supply Agreement.

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## LETTER FROM HALCYON

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As stated in the Board Letter, the basis of price determination for the provision of production materials, services and lease of factory premises by the Group to the Chonggang Holding Group can be summarised in the following table:

| Basis of price determination   | Materials and services involved  |
|--|--|
| (i) Determined with reference to the State Price and the Guide Price   | 1. Production materials – water, electricity and natural gas   |
| (ii) Determined with reference to the Open Market Price  | 1. Production materials – steel billets and steel products   |
| (iii) Determined with reference to a mark-up above cost of providing the products or services of (i) margins set by the independent suppliers for similar production and raw materials and/or services on comparable scales and similar terms, which are in line with the normal commercial practise of the industry; or (ii) profit margin of 5% (Note) (whichever is higher) | 1. Production materials – ancillary products (such as cement, hardware and timber, etc.)<br>2. Lease of factory premises |

*Note:* The floor level of 5% profit margin is determined based on the trading practise of the industry and the historical profit margin of comparable materials and services of the Company, with reference to the historical transaction figures of the continuing connected transactions under the Original Service and Supply Agreement.

To assess the fairness and reasonableness of the basis of price determination as mentioned above, we have reviewed relevant documents provided to us by the management of the Group as summarised below:

- (i) Determined with reference to the State Price and the Guide Price

We have reviewed sample copies of the contracts entered into between Chonggang Holding Group and the Group, invoices issued by the relevant parties and relevant documents issued by the respective local governmental departments of Chongqing City. We noted that the prices and charges for relevant production materials were determined with reference to the State Price and the Guide Price.

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## LETTER FROM HALCYON

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Regarding the social welfare services, we have reviewed samples of the Group's payment records in respect of the social welfare payments made by the Group to the relevant social insurance authorities through Chonggang Holding Group. We noted that the social welfare payments made by the Group through Chonggang Holding Group were determined in accordance with the applicable rates as prescribed by the relevant Chongqing governmental departments.

- (ii) Determined with reference to the Open Market Price and price through tender

In relation to prices determined with reference to the Open Market Price, we have reviewed sample copies of (i) contracts for similar materials entered into between independent third parties and the Group; and (ii) invoices issued by the Group to Chonggang Holding Group and invoices issued by the Group to other independent customers for similar materials; and (iii) invoices issued by Chonggang Holding Group to the Group and invoices issued by other independent suppliers to the Group for similar materials. We have also reviewed the relevant invoices issued by other independent suppliers for materials that are similar but of different quality level, market data and transportation costs analysis provided and prepared by the management of the Group in respect of the historical transactions with no comparable transaction entered into between the Group and other independent third party. We noted that the prices of the relevant materials (i) purchased from Chonggang Holding Group are comparable to the prices charged by other independent third parties; and (ii) offered by the Group to Chonggang Holding Group are comparable to the prices offered by the Group to other independent third parties.

In addition, as advised by the Directors, the Group will invite several vendors to tender for the provision of certain production materials and construction services to the Group. In this connection, we have reviewed sample copies of (i) the relevant documents in relation to the tenders conducted in 2015 and 2016; (ii) the relevant agreements entered into between the Group and Chonggang Holding Group; (iii) the invoices issued by Chonggang Holding Group; and reviewed (iv) the Group's tendering policy which follows the Law of the PRC on Bid Invitation and Bidding (《中華人民共和國招標投標法》) and the Regulation on the Implementation of the Law of the PRC on Bid Invitation and Bidding (《中華人民共和國招標投標法實施條例》) (together, the "**Government Tender Policy**") requiring a minimum of three qualified bidders for a valid tender and noted that there were at least three vendors participated in the tenders and the prices charged by Chonggang Holding Group are comparable to those tendered by other independent vendors.

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## LETTER FROM HALCYON

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- (iii) Determined with reference to the actual or reasonable costs together with a reasonable profit as agreed between the Group and Chonggang Holding Group

In the event that there is no market price, the price to be charged will be based on the actual or reasonable costs (whichever is lower for the consideration to be received by Chonggang Holding Group from the Group and whichever is higher for the consideration to be received by the Group from Chonggang Holding Group) incurred by relevant parties in supplying and providing such materials and services (as the case may be) together with a reasonable profit (the “**Reasonable Profit**”) as agreed between the Group and Chonggang Holding Group. In respect of the consideration to be received by Chonggang Holding Group from the Group, the Reasonable Profit for Chonggang Holding Group is a profit that is agreed between the parties as being no more than (i) margins set by the independent suppliers for similar production and raw materials and/or services on comparable scales and similar terms, which are in line with the normal commercial practise of the industry; or (ii) profit margin of 5% (whichever is lower). In respect of the consideration to be received by the Group from Chonggang Holding Group, the Reasonable Profit for the Group is a profit that is agreed between the parties as being (i) margins set by the independent suppliers for similar production and raw materials and/or services on comparable scales and similar terms, which are in line with the normal commercial practise of the industry; or (ii) profit margin of 5% (whichever is higher). As confirmed by the Directors, the Reasonable Profit will be determined after arm’s length negotiation between the Group and Chonggang Holding Group and on normal commercial terms.

As stated in the section headed “Background and reasons for the Continuing Connected Transactions” above, given the close geographical proximity of operations of most of the member companies within Chonggang Holding Group and the Group and that the ownerships of the supply network of certain materials are vested in the Group at the Changshou New District, certain materials and services were only provided to the Group by Chonggang Holding Group or to Chonggang Holding Group by the Group (as the case may be), and not to other independent third parties, with a view to facilitating the operation of the Group and Chonggang Holding Group. In addition, certain factory premises of the Group are leased to Chonggang Holding Group as its service bases for Chonggang Holding Group to provide relevant services required by the Group. As advised by the Directors, it is not cost-effective (and not feasible for certain materials) for other independent suppliers to provide the Group and Chonggang Holding Group with similar required production materials and services in the production sites due to geographical reasons. In addition, by charging Chonggang Holding Group for the supply of relevant production materials will not only enable the Group to recover all relevant purchase costs and operating costs of such materials provided to Chonggang Holding Group, but also allows the Group to retain a certain amount of premium.

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## LETTER FROM HALCYON

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We have reviewed (i) sample copies of invoices issued by the Group to Chonggang Holding Group; (ii) sample copies of invoices issued by Chonggang Holding Group to the Group; (iii) the contracts entered into between the Group and Chonggang Holding Group; (iv) relevant cost sheets prepared by the management of the Group; (v) relevant analysis of costs and feasibility to source other independent suppliers to provide similar materials and services in the production site prepared by the management of the Group; and (vi) the market rental price of the area where the factory premises of the Group and Chonggang Holding Group located regarding the lease of the factory premises by the Group and Chonggang Holding Group. Based on the abovementioned documents and that the Reasonable Profit will be determined with reference to margins set by the independent suppliers for similar materials and/or services on comparable scales and similar terms, which are in line with the normal commercial practise of the industry and such pricing mechanism are more favorable to the Company, we are of the view that the Reasonable Profit and the pricing mechanism are acceptable.

After taking into account of (i) the nature of the Continuing Connected Transactions and our review as described above; (ii) the reasons for entering into the Continuing Connected Transactions as described in the paragraph headed “Background and reasons for the Continuing Connected Transactions” above; and (iii) the pricing mechanism of the Group in respect of the Continuing Connected Transactions has been and will continue to be on an arm’s length basis, we are of the view that the entering into of the New Service and Supply Agreement is on normal commercial terms and the terms of which are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

### III. Basis of the Annual Caps

As stated in the Board Letter, the Annual Caps in respect of the Continuing Connected Transactions are as follows:

|  | <b>Year ending<br/>31/12/2017<br/><i>RMB million</i></b> | <b>Year ending<br/>31/12/2018<br/><i>RMB million</i></b> | <b>Year ending<br/>31/12/2019<br/><i>RMB million</i></b> |
|--|--|--|--|
| Group’s production materials caps (such as water, electricity and gas used in Chonggang Holding Group’s production process, steel billets, steel products and ancillary products (including cement, hardware and timber etc.) to be provided to Chonggang Holding Group) | 437.92   | 542.26   | 674.63   |
| Group’s lease caps (lease of the Group’s factory premises to Chonggang Holding Group)  | 1.00   | 1.00   | 1.00   |

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## LETTER FROM HALCYON

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|  | Year ending<br>31/12/2017<br><i>RMB million</i> | Year ending<br>31/12/2018<br><i>RMB million</i> | Year ending<br>31/12/2019<br><i>RMB million</i> |
|--|---|---|---|
| Chonggang Holding Group's production and raw materials caps (production and raw materials such as iron ore, scrap steel, refractory materials, ancillary products (including dolomite and limestone, etc.), electricity, industrial gas, equipment and spare parts to be purchased from Chonggang Holding Group) | 3,665.32  | 4,406.36  | 5,080.48  |
| Chonggang Holding Group's services caps (water and road transportation, technical services (including construction and labour services, etc.) and information services (including provision of equipment and labour services incidental to information services) to be provided by Chonggang Holding Group)      | 483.00  | 653.30  | 790.45  |
| Chonggang Holding Group's lease caps (lease of Chonggang Holding Group's factory premises from Chonggang Holding Group)  | 1.40  | 1.40  | 1.40  |
| Welfare caps (social welfare services to be provided by Chonggang Holding Group)   | 106.30  | 117.00  | 117.00  |

As set out in the Board Letter, in determining the Annual Caps under the New Service and Supply Agreement, the Company has primarily adopted the following bases and assumptions:

- (i) the amount and value of previous transactions between the Group and Chonggang Holding Group for the three years ended 31 December 2016 under the Original Service and Supply Agreement and for the two years ended 31 December 2016 under the Electronic Information and Automobile Transportation Service and Supply Agreement as set out in the Board Letter;
- (ii) the production plan of the Group for the three years ending 31 December 2019;
- (iii) the expected rise in market price of materials to be provided by Chonggang Holding Group and the corresponding increase in cost of production and raw materials, services and lease of factory premises;
- (iv) the cost of providing the relevant production materials and lease of factory premises by the Group;

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## LETTER FROM HALCYON

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- (v) the prevailing market rates and state-prescribed rates applicable to the relevant materials and/or services; and
- (vi) due to the expected upturn of the market, the expected increase in the volume of services and/or materials required by the Group and Chonggang Holding Group in Changshou New District as determined by the availability of such services and/or materials in the local market and the size of population being served.

We noted that (i) the Group's proposed annual cap amounts for the total consideration to be received by the Group from the Chonggang Holding Group for materials supplied by the Group to the Chonggang Holding Group for each of the three years ending 31 December 2017, 2018 and 2019 of approximately RMB437.92 million, RMB542.26 million and RMB674.63 million respectively, represent a decrease of approximately 2.1% comparing to the actual historical transaction amount for the year ended 31 December 2016, an increase of approximately 23.8% comparing to the proposed cap amount for the year ending 31 December 2017, and an increase of approximately 24.4% comparing to the proposed cap amount for the year ending 31 December 2018 respectively; and (ii) the Group's proposed annual cap amounts for the total consideration to be paid by the Group to the Chonggang Holding Group for materials and services provided by the Chonggang Holding Group to the Group for each of the three years ending 31 December 2017, 2018 and 2019 of approximately RMB4,148.32 million, RMB5,059.66 million and RMB5,870.93 million respectively, represent an increase of approximately 180.3% comparing to the actual historical transaction amount for the year ended 31 December 2016, approximately 22.0% comparing to the proposed cap amount for the year ending 31 December 2017, and approximately 16.0% comparing to the proposed cap amount for the year ending 31 December 2018 respectively.

As advised by the management of the Group and as stated in the annual reports of the Company for each of the three years ended 31 December 2014, 2015 and 2016, the overall operating environment of the steel industry remained difficult for the past years due to sluggish global economic recovery and increasing downward pressure on domestic economy as well as the overcapacity of the steel industry. In 2016, the steel industry deeply promoted the supply side structure reform and the market demand picked up slowly. With the reduction in overcapacity and the introduction of various policies and measures, the market had shown an active change with steady growth in the steel industry in 2016. According to annual report of the Company for the year ended 31 December 2016 (the **"2016 Annual Report"**), with a slight increase in the production of crude steel for the year ended 31 December 2016 compared to that of last year, significant rise at the price of steel, slight decline of steel export, the operating efficiency of the steel industry has been improved. However, the fundamental factor regarding overcapacity remained unchanged, the foundation for rising price and improving the operating efficiency of the steel industry was not completely established, and the steel industry was still bound by the crisis. In future, the management of the Group expects that the resolving of excess production capacity will carry on more intensely, the standard of effective supply will continue to be raised, merger and reorganisation within the iron and steel industry will be further advanced and the demand for steel products will remain stable.

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## LETTER FROM HALCYON

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As stated in the 2016 Annual Report, in light of such difficulties and pressure, the Group adopted the measures of “scale control, cost reduction, structure adjustment, loss control” in production and operation. Meanwhile, by advancing the strategy of low costs, raising the competitiveness of products, adjusting the product mix, expanding the regional markets and strengthening the systematic development, the Group endeavoured to make up deficits and overcome difficulties. As stated in the 2016 Annual Report, the Group has set up two joint ventures with POSCO Corporation and according to the management of the Group, the building of cold-rolled and galvanised steel projects in relation to the production plans of the joint ventures are still under construction. It is expected that the production and sale of iron and steel products and their by-products will increase upon the commencement of the production. Furthermore, as referred to in the announcements of the Company dated 4 January 2017 and 5 January 2017, the Company and Chongqing Qianxin International Trade Co., Ltd. (“**Qianxin Company**”), an independent third party, agreed to cooperate in respect of the purchase of major materials and the sale of steel products required for the production of the Company in the mode of purchase-and-sale, where Qianxin Company supplies goods and raw materials to the Company in accordance with the procurement plans of the Company, and Qianxin Company shall have the priority to be supplied with steel products by the Company in accordance with the order plan. In addition, as disclosed in the 2016 Annual Report, the Group had to process with materials supplied by Panhua Group Co., Ltd. (“**Panhua**”) from June 2016 to December 2016 pursuant to a cooperation agreement entered by the Company and Panhua, resulting in a substantial decline in sales income arising from the sale of rolled steel billet for the year ended 31 December 2016. According to the announcements dated 4 January 2017 and 5 January 2017 and as elaborated by the management of the Group, given both the Company and Panhua agreed to terminate such cooperation arrangement by entering into a supplemental agreement on 31 December 2016, the Group is expected to change back into its previous operating model and therefore the production and sales of steel billets is expected to increase in 2017 as compared to those in 2016.

As advised by the Directors, the annual steel production of the Group is expected to gradually return to its historical level for the three years ending 31 December 2019 due to the various initiatives undertaken by the Group and possible opportunities brought about by the gradual turnaround of the steel market in the PRC. We have discussed with the management of the Group in respect of the rationale on the expected growth of steel production of the Group under the current operating environment of Group and the steel industry as stated above and have conducted independent research on the steel industry in the PRC. According to China Iron and Steel Association, a national wide industry organisation of Chinese steel industry in the PRC, in 2016, the PRC’s output for pig iron, crude steel and rolled steel were approximately 701 million tons, 808 million tons and 1,138 million tons respectively, representing a year-on-year increase of approximately 0.7%, 1.2% and 2.3% respectively; while the apparent consumption of crude steel was approximately 710 million tons for 2016, representing a year-on-year increase of approximately 2.03%. The recovery of market demand, historically low steel inventory and other factors stimulated the fluctuation and improvement of steel price in the domestic market. The consolidated steel price index increased by 43.14 points from 56.37 points at the end of year 2015 to 99.51 points at the end of year 2016, representing a year-on-year increase of approximately 76.5%.



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In addition to the aforesaid bases, we have also reviewed and considered, in particular, the information and factors in determining each of the Annual Caps as set out below.

*Group's production materials caps*

- (i) the historical transaction volumes and prices of production materials provided by the Group to Chonggang Holding Group;
- (ii) the estimated average transaction volumes and prices of production materials applied by the Directors in projecting the Annual Caps;
- (iii) the unit prices of water, electricity and gas as prescribed by the relevant Chongqing governmental departments; and
- (iv) the anticipated demands for steel billets, steel products and ancillary products by Chonggang Holding Group;

As advised by the Directors, the annual cap of the production materials provided by the Group to Chonggang Holding Group in 2017 is expected to decrease slightly as compared to the historical transaction amounts in 2016 due to the expected increase in the sales to independent customers that were previously sold to Chonggang Holding Group, mainly resulted from (i) the optimisation and adjustment of the Group's product lines and products to satisfy market demand; and (ii) the cooperation between the Group and Qianxin Company, where Qianxin Company shall have the priority to be supplied with steel products by the Group under the market pricing principals. Such decrease in provision of production materials by the Group to Chonggang Holding Group is partially offset by the increase in provision of electricity and gas to Chonggang Holding Group due to the expected increase in demand of such production materials from them. The prices of certain materials are expected to remain at similar price as their historical transaction prices. Furthermore, the Company also contemplated the historical transaction amounts and the historical production volumes of the Group in determining the estimated average transaction volumes of the production materials provided by the Group to Chonggang Holding Group in 2017. As advised by the management of the Group, the implied growth rates of the Group's production materials caps in 2018 and 2019 are also determined with reference to the estimated average transaction volumes based on the estimated increase in production volumes of the Group in 2018 to 2019 in accordance with the business plan provided and prepared by the management of the Group (the "**Business Plan**") and the demand of production materials by Chonggang Holding Group in 2018 to 2019 pursuant to their discussion with Chonggang Holding Group in addition to the factors as stated above. Furthermore, as advised by the management of the Group, given the steady growth in the steel industry in 2016, the production activities of Chonggang Holding Group are expected to increase, which will lead to higher demand of production materials from the Group in future.

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## LETTER FROM HALCYON

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***Chonggang Holding Group's production and raw materials caps and Chonggang Holding Group's services caps***

- (i) the historical transaction volumes and prices of materials and services provided by Chonggang Holding Group to the Group;
- (ii) the estimated average transaction volumes and prices of materials and services applied by the Directors in projecting the Annual Caps; and
- (iii) the pricing mechanism of social welfare services as prescribed by the relevant Chongqing governmental departments;

As advised by the Directors, the estimated transaction amounts of iron ore to be purchased from Chonggang Holding Group account for approximately 58.2% of the annual cap of the production and raw materials provided by Chonggang Holding Group to the Group for the year ending 31 December 2017, which is within the historical ratio of the transaction amount of iron ore to production and raw materials procured from Chonggang Holding Group by the Group, of which was ranged from approximately 40.2% to 68.6% in 2014 to 2016. As mentioned above, the Group focused on processing and producing hot-rolled coil for Panhua with iron ore and coal, being the main raw materials as needed in such production, supplied by Panhua in June 2016 to December 2016, which led to lower amount of iron ore being procured from Chonggang Holding Group in 2016. Since such arrangement has been terminated by the entering into of supplemental agreement between Panhua and the Company on 31 December 2016, the Group intends to increase its purchase of iron ore from Chonggang Holding Group in 2017 to 2019 that were previously supplied by Chonggang Holding Group prior to the arrangement with Panhua. Coupled with the anticipation that the demand for the steel products of the Group will increase in 2017 to 2019 as stated above, the average transaction volume of production and raw materials is expected to increase in 2017 to 2019. While it is anticipated that the transaction price of the majority of the production and raw materials will not increase materially (in the range of not more than 10%), the estimated increase in transaction volume in 2017 leads to the significant increase of Chonggang Holding Group's production and raw materials caps for the year ending 31 December 2017 compared to the historical transaction amounts in 2016. As advised by the management of the Group, the implied growth rates of the Chonggang Holding Group's production and raw materials caps in 2018 and 2019 are also determined with reference to the estimated average transaction volume based on the estimated increase in production volume of the Group in accordance with the Business Plan and the estimated increase in the transaction price of the production and raw materials (in the range of not more than 10%) in 2018 and 2019 in addition to the factors as stated above. Furthermore, we have discussed with the management of the Group in respect of the rationale on the expected growth of steel production of the Group and noted that given the steel industry experienced steady growth in 2016 and that the Group is expected to change back into its previous operating model, the production and sales of steel billets of the Group is expected to increase, hence the demand of production materials from the Chonggang Holding Group is also expected to increase.

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## LETTER FROM HALCYON

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In addition, based on our review of the Business Plan, we noted that while there is an increase in Chonggang Holding Group's production and raw materials caps, such caps as percentages to the Group's estimated total operating costs for the three years ending 31 December 2019 are expected to decrease. Therefore, as advised by the Directors, they consider there will not be an increasing reliance on Chonggang Holding Group with respect to the procurement of production and raw materials from Chonggang Holding Group pursuant to the New Service and Supply Agreement.

As advised by the Directors, the annual cap of services provided by Chonggang Holding Group to the Group is expected to increase compared to the historical transaction amounts in 2016 mainly due to supporting of the construction plan in relation to the optimisation and upgrading of products and industry structure under the current production mode. Such increase in provision of services by Chonggang Holding Group to the Group is partially offset by the decrease in provision of labour services by Chonggang Holding Group due to the expected enhancement on labour productivity and efficiency of the employees of both the Group and Chonggang Holding Group resulting from the enhancements of the information technology and manufacturing technology. Both the increase in estimated average transaction volume and prices lead to the increase in Chonggang Holding Group's services caps for the year ending 31 December 2017 compared to the historical transaction amounts in 2016. As advised by the management of the Group, the implied growth rates of the Chonggang Holding Group's services caps in 2018 and 2019 are also determined with reference to the estimated increase in costs (including the labour costs) and the estimated increase in production volume of the Group in 2018 to 2019 in accordance to the Business Plan. Furthermore, based on our review of the Business Plan, we noted that the Group has planned for various construction projects to be carried out in the coming years including the building of cold-rolled and galvanised steel projects and the renovation and improvement projects for its existing production equipment which, as advised by the management of the Group, will lead to higher demand of the construction services by the Group in future.

### ***Chonggang Holding Group's welfare caps***

- (i) the standard rates of social welfare contribution currently applied on the Group as prescribed by the relevant Chongqing governmental departments; and
- (ii) the historical average wages of the workers for urban non-private entities in Chongqing City for 2014 and 2015 published by Chongqing Municipal Bureau of Statistics;

As advised by the Directors, the implied growth rates of the Chonggang Holding Group's welfare caps in 2017 and 2019 are also determined with reference to the estimated increase in the labour costs in 2017 to 2019. We have reviewed the historical average wages of the workers for urban non-private entities in Chongqing City for 2014 and 2015 published by Chongqing Municipal Bureau of Statistics and noted an increase of approximately 8.9% of average wages in 2015 as compared to 2014.

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## LETTER FROM HALCYON

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### *Group's lease caps and Chonggang Holding Group's lease caps*

- (i) the anticipated factory premises to be leased between the Group and Chonggang Holding Group; and
- (ii) the factory premises to be leased between the Group and Chonggang Holding Group and the maximum annual consideration involved are considered to be immaterial as compared to the scale of operation of the Group.

As advised by the Directors, the Group's lease caps and Chonggang Holding Group's lease caps in 2018 and 2019 are expected to remain the same as such caps in 2017.

Based on the foregoing review and analyses and after taking into account the recurring nature of the Continuing Connected Transactions and that the terms of the New Service and Supply Agreement are determined between the Company and Chonggang Holding after arm's length negotiation, we consider that each of the Annual Caps was made by the Directors after due and careful consideration and therefore, we concur with the view of the Directors that the basis for determining each of the Annual Caps is fair and reasonable so far as the Independent Shareholders are concerned.

#### **IV. Internal Control and Reporting Requirements and Conditions of the Continuing Connected Transactions**

As stated in the Board Letter, the Company has set up the CCT Management Committee which directly reports to the Board. The CCT Management Committee, comprising personnel from various operational departments was chaired by a Director and is responsible for the on-going monitoring of all connected transactions of the Company. The main responsibilities of the CCT Management Committee include, among other things, (i) matters involving approval and monitoring of the continuing connected transactions and the proposed annual caps; (ii) gathering information for disclosure of the continuing connected transactions pursuant to the Listing Rules; and (iii) monitoring of pricing procedures for the continuing connected transactions to ensure prices to be determined are on normal commercial terms. The finance department of the Company reported on quarterly basis to the CCT Management Committee regarding the actual monetary amount of the continuing connected transactions conducted during the quarter and the estimated amount in the following quarter so as to facilitate the CCT Management Committee to (i) monitor the actual amount of the continuing connected transactions carried out; and (ii) assess whether the proposed annual caps were exceeded. The secretary office to the Board also reported on quarterly basis to the CCT Management Committee regarding the carrying out of the continuing connected transactions. Please refer to the section headed "Internal Control" in the Board Letter for details.

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## LETTER FROM HALCYON

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The finance department of the Company will carry out the pricing management and will lead the relevant managing department of each profession to conduct research on market prices and the appropriate markup margin for the Continuing Connected Transactions involving provision of materials and services both by the Group to Chonggang Holding Group and by Chonggang Holding Group to the Group. Open Market Prices will be obtained through, among other things, quotations from independent third party suppliers and service providers, recent transaction prices of the Group with independent third parties, enquiry with industry players, researches on industry websites, and attending events and gatherings organised by industrial associations. The Company will procure to obtain at least two quotations from independent third party suppliers or service providers. The markup margin will be determined based on the trading practise of the industry through enquiry with industry players, researches on industry websites, and attending events and gatherings organised by industrial associations and also the historical profit margin of comparable materials and services of the Company. The market price information will be circulated by the finance department to other departments and companies of the Group to facilitate the determination of prices for the continuing connected transactions.

For the Continuing Connected Transactions involving provision of materials and services by Chonggang Holding Group to the Group, it is the Group's policy to request suppliers and service providers, including Chonggang Holding Group and other independent suppliers and service providers, to provide quotations in respect of the requested services and products. Following the receipt of quotations from Chonggang Holding Group and other independent suppliers and service providers, the Group will compare and negotiate the terms of quotations with suppliers and service providers, and determine the selection of suppliers and service providers by taking into account factors such as price quotations, quality of the products and services, ability of the suppliers and service providers in meeting technical specifications and delivery schedules, and qualification and relevant experiences of the suppliers and service providers. The contract will be awarded to the supplier and service provider who offers the best commercial terms and technical terms to the Group. Other than obtaining of quotations, the Group may award a contract through a tender process. The contract will be awarded to the supplier and service provider after assessment based on the criteria as set out above. As stated in the Board Letter, the Company will try to obtain as many quotations and/or tenders as possible for the Company's interest. Accordingly, Chonggang Holding Group may or may not be awarded the contracts.

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## LETTER FROM HALCYON

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In addition, pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the Continuing Connected Transactions are subject to the following annual review requirements:

- (a) the independent non-executive Directors must review the Continuing Connected Transactions every year and confirm in the annual report whether the Continuing Connected Transactions have been entered into:
  - (i) in the ordinary and usual course of business of the Group;
  - (ii) on normal commercial terms or better; and
  - (iii) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (b) the Company must engage its auditors to report on the Continuing Connected Transactions every year. The auditors of the Company must provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that the Continuing Connected Transactions:
  - (i) have not been approved by the Board;
  - (ii) were not, in all material respects, in accordance with the pricing policies of the Group if the Continuing Connected Transactions involve the provision of goods or services by the Group;
  - (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the Continuing Connected Transactions; and
  - (iv) have exceeded the caps.
- (c) the Company must provide a copy of the auditors' letter to the Stock Exchange at least 10 business days before the bulk printing of its annual report;
- (d) the Company must allow, and ensure that the counterparties to the Continuing Connected Transactions allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the Continuing Connected Transactions; and
- (e) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or the Company's auditors cannot confirm the matters as required. The Stock Exchange may require the Company to re-comply with the announcement and the Shareholders' approval requirement and may impose additional conditions.

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## LETTER FROM HALCYON

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Taking into account the internal control measures as stated above, in particular, the on-going monitoring of the Continuing Connected Transactions by the CCT Management Committee, the regular reporting mechanism and the price management procedures, we concur with the Directors' view that the internal control procedures are sufficient and effective to ensure the Continuing Connected Transactions would not exceed the Annual Caps and are conducted in accordance with the approved pricing policies. In addition to the internal control measures, in light of the abovementioned reporting requirements attached to the Continuing Connected Transactions, in particular, (i) the restriction of the value of the Continuing Connected Transactions by way of the Annual Caps; and (ii) the on-going review by the independent non-executive Directors and auditors of the Company of the Continuing Connected Transactions, we are of the view that appropriate measures will be in place to monitor the conduct of the Continuing Connected Transactions and assist to safeguard the interests of the Independent Shareholders.

### RECOMMENDATION

Having considered the above principal factors and reasons, we consider (i) the Continuing Connected Transactions under the New Service and Supply Agreement are on normal commercial terms, in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole; and (ii) each of the Annual Caps is fair and reasonable so far as the Company and the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the AGM to approve the New Service and Supply Agreement and the transactions contemplated thereunder and each of the Annual Caps.

Yours faithfully,  
For and on behalf of  
**Halcyon Capital Limited**  
**Terry Chu**  
*Managing Director*

*Mr. Terry Chu is a person licenced under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and regarded as a responsible officer of Halcyon Capital Limited and has over 16 years of experience in 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 31 December 2016, 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:

Interests in Chongqing Iron & Steel Group Doorlead Realty Co., Ltd. (重慶鋼鐵集團朵力房地產股份有限公司) (originally named Chongqing Hengda Steel Industrial Co., Ltd.), a state-owned and non-listed limited company which is a subsidiary under the control of Chonggang Holding

| Name          | Interest type | No. of<br>(shares) |
|---------------|---------------|--------------------|
| Liu Da Wei    | Individual    | 800                |
| Tu De Ling    | Individual    | 800                |
| Xie Chuan Xin | Individual    | 5,600              |
| Chen Hong     | Individual    | 1,600              |

*Note:* The above information indicates that the interests of the Directors and supervisors in Chongqing Hengda Steel Industrial Co., Ltd. were transferred from the Company to Chonggang Holding in December 2002.



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 (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 and Divisions 7 and 8 of Part XV of the SFO, to be notified to the Company and the Stock Exchange.

None of the Directors is also a director or employee of a company which has an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

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

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2016, 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 position | Capacity         | No. of Shares | Percentage of A share capital | Percentage of H share capital | Percentage of total issued share capital |
|--|---------------------|------------------|---------------|-------------------------------|-------------------------------|--|
| Chongqing Iron & Steel (Group) Company Limited | Long                | Beneficial owner | 2,096,981,600 | 53.80%<br>(A Shares)          | –                             | 47.27%                                   |

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

On 24 April 2017, the Company received a notice (the “**Notice**”) from Chongqing Laiquyuan Trading Co., Ltd., a creditor of the Company, (“**Laiquyuan Company**”). The Notice sets out the application by Laiquyuan Company to Chongqing Municipal First Intermediate People’s Court (the “**Court**”) for reorganisation of the Company on the ground that the Company is unable to repay the due debts and its assets are insufficient for the repayment of all its debts. There is great uncertainty as to whether the application will be accepted by the Court and whether the Company will proceed with the reorganisation procedures.

If the Court formally accepts the application for reorganisation of the Company, the Company will be exposed to the risk of declaration of bankruptcy due to the failure of reorganisation. The implementation and completion of the reorganisation plan of the Company will be beneficial to the improvement of the asset-liability structure of the Company and will prevent continuous losses, but the trading of shares of the Company is still required to be in line with the subsequent requirements under relevant regulatory provisions; otherwise, the A shares of the Company will be exposed to the risk of suspension of listing or delisting.

The Company published the announcement on suspension of trading of A shares regarding the plan for significant matter on 2 June 2016 and announcement regarding the plan for material assets reorganisation on 4 June 2016. Upon repeated demonstration and communication among the parties concerned, the plan for proposed acquisition of assets is difficult to satisfy the regulatory requirements of Hong Kong and mainland. The approval and operation procedures involved in the assets stripping are relatively complicated and subject to regulatory approvals by the department of state-owned assets supervision and administration, supervisory department of the finance and securities industries, etc. and involve coordination in respect of information disclosure of the Company. In addition, the iron and steel assets intended to be disposed involve large scale of debt with numerous creditors and complex liabilities associated with litigations. Upon communication with creditors, the Company has not reached an agreement on the reorganisation plan with major creditors. In accordance with relevant regulatory provisions and requirements of material assets reorganisation, it is expected that it is difficult to reach an agreement on the reorganisation plan with relevant counterparties and disclose the preliminary plan on material assets reorganisation in the specified period. Based on the above reasons, upon sufficient investigation and demonstration, hearing the opinions of all parties and full communication, in order to safeguard the interests of the Company and all of its shareholders, the Company made a prudent decision to terminate the material assets reorganization on 2 May 2017.

Save as disclosed, 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 2016, 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, save as disclosed below, 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.

In or around November 2016, the Company received the “Notice of Appearance” (Yu Min Zhong [2016] No. 591) served by the Chongqing Higher People’s Court and became aware that the case in relation to the power supply contract dispute between Chongqing CECEP Sanfeng Energy Company Limited (重慶中節能三峰能源有限公司) as the plaintiff, and the Company and Chonggang Holding as the defendants, had been accepted by such court. For details, please refer to the announcement of the Company dated 29 November 2016, in which other material litigations or arbitrations are also disclosed.

In or around April 2017, the Company received the “Notice of Appearance” (Yu 0115 Min Chu [2017] No. 3109) served by the People’s Court of Changshou District, Chongqing and became aware that the case in relation to the sale and purchase contract dispute between Taiyuan Heavy Industry Co., Ltd. (太原重工股份有限公司) as the plaintiff and Zoomlion Material Handling Equipment Co., Ltd. (中聯重科物料輸送設備有限公司) and the Company as the defendants, had been accepted by such court. For details, please refer to the announcement of the Company dated 21 April 2017.

In or around May 2017, the Company received the “Notice of Appearance, Adducing Evidence and Summons” ((2017) Yu 01 Min Chu No. 608) served by the First Intermediate People’s Court of Chongqing and became aware that the case in relation to the sale and purchase contract dispute between Chongqing USUM Recycling Resources Development Co., Ltd. (重慶渝商再生資源開發有限公司) as the plaintiff, and the Company as the defendant, had been accepted by such court. For details, please refer to the announcement of the Company dated 10 May 2017.

In or around May 2017, the Company received the Notice of Attending the Arbitration ((2017) Yu Zhong Zi No. 706) served by China Chongqing Arbitration Commission and became aware that the case in relation to the construction engineering contract dispute between Chongqing Blasting Engineering Construction Co., Ltd. (重慶市爆破工程建設有限責任公司) as the applicant, and the Company as the respondent, had been accepted by the arbitration commission. For details, please refer to the announcement of the Company dated 11 May 2017.

## 8. 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   |
|-------------------------|--|
| Halcyon Capital Limited | a corporation licensed under the SFO (Chapter 571 of the Laws of Hong Kong) to conduct type 6 (advising on corporate finance) regulated activity |

- (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 2016 (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.

## **9. 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 secretary to the Board is You Xiao An.
- (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.

## **10. 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 502, China Building, No. 29 Queen’s 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 memorandum and Articles of Association of the Company;
- (b) New Service and Supply Agreement;
- (c) the letter from the Board, the text of which is set out on pages 1 to 25 of this circular;

- (d) the letter from the Independent Board Committee, the text of which is set out on page 26 of this circular;
- (e) the letter from Halcyon to the Independent Board Committee, the text of which is set out on pages 27 to 50 of this circular; and
- (f) the written consent referred to in the sub-section above headed “Expert”.

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## NOTICE OF ANNUAL GENERAL MEETING

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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)

## **NOTICE OF 2016 ANNUAL GENERAL MEETING**

**NOTICE IS HEREBY GIVEN THAT** the 2016 annual general meeting of Chongqing Iron & Steel Company Limited (the “**Company**”) will be held at 2:30 p.m. on Thursday, 15 June 2017 at the No. 2 Conference Room, 3/F., the Management Building, 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.

### **ORDINARY RESOLUTIONS**

Resolutions adopting non-cumulative voting

1. The report of the supervisory committee of the Company for the year 2016
2. The report of the board of directors of the Company for the year 2016
3. The audited financial report of the Company for the year 2016
4. The 2016 annual report of the Company
5. The profit distribution proposal of the Company for the year 2016
6. The performance report of the independent directors of the Company for the year 2016
7. Proposal for the re-appointment of Pan-China Certified Public Accountants LLP (Special General Partnership) as the financial and internal control auditor of the Company for the year 2017
8. Proposal for the amendment to the Rules of Procedure for the Board of Directors of Chongqing Iron & Steel Company Limited
9. Proposal for the amendment to the Articles of Association of Chongqing Iron & Steel Company Limited

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## NOTICE OF ANNUAL GENERAL MEETING

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10. Proposal for the consideration of the continuing connected transactions of the Company as well as the consent and approval of the Service and Supply Agreement for 2017 to 2019 entered into between the Company and Chongqing Iron & Steel Company (Group) Limited, and the relevant transactions and the annual caps contemplated thereunder

By order of the Board  
**Chongqing Iron & Steel Company Limited**  
**You Xiao An**  
*Secretary to the Board*

Chongqing, the PRC, 28 April 2017

*As at the date of this announcement, the Directors of the Company are: Mr. Liu Da Wei (Non-executive Director), Mr. Zhou Hong (Non-executive Director), Mr. Tu De Ling (Executive Director), Mr. Li Ren Sheng (Executive Director), Mr. Zhang Li Quan (Executive Director), Mr. Yao Xiao Hu (Executive Director), Mr. Xu Yi Xiang (Independent Non-executive Director), Mr. Xin Qing Quan (Independent Non-executive Director) and Mr. Wong Chun Wa (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 15 May 2017 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 26 May 2017.
2. Register of members of the Company will be closed from 16 May 2017 to 15 June 2017 (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 15 May 2017.



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## NOTICE OF ANNUAL GENERAL MEETING

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### 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 the 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 2:30 p.m. on 14 June 2017.
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: Room 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:        | Management Building, No.1 of Gangcheng Avenue,<br>Economic & Technological Development Zone,<br>Changshou District, Chongqing, the PRC |
| Postal Code:    | 401258   |
| Tel:            | (86)23 6898 3482   |
| Fax:            | (86)23 6887 3189   |
| Contact Person: | Peng Guoju/Ji Hong   |