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

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

(Stock Code: 1053)

CONTINUING CONNECTED TRANSACTIONS **NEW SERVICE AND SUPPLY AGREEMENT**

The Original Service and Supply Agreement entered into between the Company and Chonggang Holding on 19 March 2014 and the Electronic Information and Automobile Transportation Service and Supply Agreement entered into between the Company and Chonggang Holding on 4 February 2015 had expired on 31 December 2016, respectively. In order to ensure the continuous provision and receipt of services, production and raw materials, lease of factory premises and welfare services, the Company and Chonggang Holding entered into the New Service and Supply Agreement on 13 January 2017.

As at the date of this announcement, 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.

A circular including, among other things, details of the New Service and Supply Agreement (including the Annual Caps) and the transactions contemplated thereunder, the recommendation letter from the Independent Board Committee, the letter of advice from the independent financial advisor to the Independent Board Committee and the Independent Shareholders and, a notice convening the EGM to approve, among other things, the New Service and Supply Agreement (including the Annual Caps) and the transactions contemplated thereunder, is expected to be dispatched to the Shareholders on or before 7 February 2017 pursuant to Chapter 14A of the Listing Rules.

BACKGROUND

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 in Changshou New District after the relocation of the steel production of the Company from Dadukou District, Chongqing City to Changshou New District, 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.

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

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;
 - (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 EGM to be convened.

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 or 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 or 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).

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	<p>Set by the governmental departments of Chongqing City and the Ministry of Construction of the PRC</p> <p>Set by the governmental departments of Chongqing City</p>
(ii) Determined with reference to prices through tender and the Group will invite a minimum of 3 tenders in accordance with 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》)	<p>1. Production materials – electricity</p> <p>2. Social welfare services</p> <p>1. Production materials – equipment and spare parts</p> <p>2. Technical services – construction services</p>
(iii) Determined with reference to the Open Market Prices	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)	<p>1. Production materials – industrial gas</p> <p>2. Water and road transportation services</p> <p>3. Technical services – labour services</p> <p>4. Lease of factory premises</p> <p>5. Information services</p>
(b) <i>Provision of production materials and lease of factory premises by the Group to Chonggang Holding Group</i>	
(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 or 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 Prices or 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:

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	1. Production materials – water, electricity and gas
(ii) Determined with reference to the Open Market Prices	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)	1. Production materials – ancillary products (such as cement, hardware and timber etc) 2. Lease of factory premises

The price for the provision of 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.

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:

	Year ending 31/12/2017 <i>RMB million</i>	Year ending 31/12/2018 <i>RMB million</i>	Year ending 31/12/2019 <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	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
Welfare caps	106.30	117.00	117.00

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:

	Year ending 31/12/2017 <i>RMB million</i>	Year ending 31/12/2018 <i>RMB million</i>	Year ending 31/12/2019 <i>RMB million</i>
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 years ended 31 December 2014, 31 December 2015 and 31 December 2016 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.

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 caps (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	1,171.66
Chonggang Holding Group's services caps (water and road transportation and technical services (including construction, design and supervision and labour services etc.)) and electronic information service	1,092.20	496.97	1,198.70	311.71	1,291.00	231.18
Chonggang Holding Group's lease caps (lease of Chonggang Holding Group's factory premises)	4.00	0.35	2.00	0.57	2.00	1.33
Welfare caps	126.40	34.51	132.70	43.29	139.30	79.77

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 caps (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	314.76
Group's lease caps (lease of the Group's factory premises)	3.00	0.94	3.00	0.85	3.00	0.20

The historical figures of the total amount paid by the Company to Chongqing 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 transaction figures		Historical transaction 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	60.34

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. At the same time, there is uncertainty in the material assets reorganisation being advanced by the Company. 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.

The Directors (including the independent non-executive Directors whose opinion will be provided after taking into account of the advice of the independent financial advisor) 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 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.

INTERNAL CONTROL

The Company has set up the continuous connected transactions management committee which directly reports to the Board. The continuous connected transactions 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 continuous connected transactions 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 continuous connected transactions 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 continuous connected transactions 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 continuous connected transactions management committee regarding the carrying out of the continuing connected transactions and the continuous connected transactions 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. 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 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 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 date of this announcement, 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.

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.

An EGM will be convened at which resolution(s) will be proposed to seek the approval of the Independent Shareholders by way of poll for the 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.

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 advisor. An independent financial advisor will be appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in this respect.

A circular including, among other things, details of the New Service and Supply Agreement (including the Annual Caps) and the transactions contemplated thereunder, the recommendation letter from the Independent Board Committee, the letter of advice from the independent financial advisor to the Independent Board Committee and the Independent Shareholders and, a notice convening the EGM to approve the New Service and Supply Agreement (including the Annual Caps) and the transactions contemplated thereunder, is expected to be dispatched to the Shareholders on or before 7 February 2017 pursuant to Chapter 14A of the Listing Rules.

DEFINITIONS

The following defined terms are used in this announcement:

“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 welfare caps for the financial years ending 31 December 2017, 2018 and 2019 respectively;
“Board”	the board of Directors;
“Changshou New District”	the production base in Jiangnan Town, Changshou District, Chongqing, the PRC;
“Chonggang Holding”	Chongqing Iron and Steel (Group) Company Limited (重慶鋼鐵(集團)有限責任公司), 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;
“Director(s)”	the director(s) of the Company;
“EGM”	the extraordinary general meeting of the Company to be convened for purpose of approving, among other things, the New Service and Supply Agreement (including the Annual Caps) and the transactions contemplated thereunder;
“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 Shareholders”	Shareholders other than Chonggang Holding and its associate(s);
“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;
“PRC”	the People’s Republic of China;
“RMB”	Renminbi, the lawful currency of the PRC;
“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.

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

Chongqing, the PRC, 14 January 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).