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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)

ANNOUNCEMENT ON REPLY TO THE SHANGHAI STOCK EXCHANGE IN RESPECT OF THE LETTER OF ENQUIRY IN RELATION TO THE TERMINATION OF MATERIAL ASSETS REORGANISATION OF CHONGQING IRON & STEEL COMPANY LIMITED

This announcement is made by the board of directors (the “**Board**”) of Chongqing Iron & Steel Company Limited (the “**Company**”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

On 2 May 2017, the Company received from the Shanghai Stock Exchange the *Letter of Enquiry in relation to the Termination of Material Assets Reorganisation of Chongqing Iron & Steel Company Limited* (Shang Zheng Gong Han [2017] No. 0496) (the “**Enquiry Letter**”). The Company would like to reply to the questions raised in the Enquiry Letter as follows:

I. REASONS FOR TERMINATION OF THE REORGANISATION AND TIMELINESS OF INFORMATION DISCLOSURE

As stated in the announcement of the Company, the main reasons for termination of the reorganisation include the failure of the Company and the major creditors to reach an agreement and the difficulties in meeting relevant regulatory requirements in respect of the main assets of Yufu Group intended to be acquired. Please disclose the following matters in details:

- (1) when and on which matters the Company and the creditors failed to reach an agreement, and when the Company decided to terminate the reorganisation;

Reply:

With sluggish global economic recovery and increasing downward pressure on domestic economy as well as the severe overcapacity of the steel industry, steel prices have been hitting record lows in recent years. The Company has been confronted with an austere situation in both production and operation, facing severe financial strain, insufficient utilisation of steel production capacity, plunging profitability and an increasing gearing ratio. As at 31 December 2016, the equity attributable to the owners of the Company was RMB-107 million, and the debt to assets ratio was 100.29% with current liabilities exceeding current assets by RMB23,684 million. The scale of the debts is huge and as the majority of the debts are interest-bearing, the Company has been incurring significant financial expenses and under heavy debt burden. Furthermore, the Company's debt structure was complicated with numerous of creditors. As the Company has been struggling with its operations with limited solvency, as at 31 December 2016 135 general trade creditors have initiated 219 judicial proceedings at courts, requesting the Company to settle overdue payments and assume default liabilities, and have applied for orders of attachment or compulsory execution against the relevant assets of the Company, including bank accounts.

For the purposes of effectively safeguarding the interests of the creditors and promoting the material assets reorganisation, the Company, Chongqing Iron & Steel (Group) Co., Ltd. ("**Chongqing Iron & Steel Group**") and relevant intermediaries had in-depth communications with major creditors in respect of the debt repayment scheme, the reorganisation plan and other issues. Pursuant to the framework agreement previously entered into between the Company and Chongqing Yufu Holding Group Co., Ltd.* (重慶渝富控股集團有限公司) ("**Yufu Holding**"), the Company would dispose all its current assets, liabilities available for disposal, personnel and businesses to Chongqing Iron & Steel Group, the controlling shareholder of the Company, to achieve complete stripping of iron and steel businesses., i.e. the relevant liabilities of the Company would be transferred to and assumed by Chongqing Iron & Steel Group. However, the Company and the relevant parties failed to reach an agreement on the arrangement.

On 2 May 2017, the Proposal on Termination of the Material Assets Reorganisation of Chongqing Iron & Steel Company Limited was considered and approved by the seventh session of the board of directors of the Company with its 92th written resolution. On the same day, the proposal on entering into of the Termination Agreement in relation to the Framework Agreement for Material Assets Reorganisation was considered and approved at the meeting of the board of directors of each of Chongqing Iron & Steel Group and Yufu Holding held. Thus, the Company formally decided to terminate the material assets reorganisation.

- (2) The scope of assets purchased by the Company from Yufu Group, the specific meaning of relevant regulatory requirements, reasons for and impediments leading to the failure of the compliance of the regulatory requirements by the assets acquisition and whether the Company has taken responsive measures;

Reply:

According to the Announcement on Delay in Resumption of Trading of Chongqing Iron & Steel Company Limited (Announcement No.: 2016-063) published by the Company on 1 November 2016, in this material assets reorganisation, the listed company proposed to purchase 100% equity interests in Chongqing Yufu Assets Management Group Co., Ltd.* (重慶渝富資產經營管理集團有限公司) (the “**Yufu Group**”) upon complete stripping from counterparties including Yufu Holding. In consideration of the large scale of the main assets of Yufu Group and involvement of requirements of relevant regulatory policies thereof, Yufu Group carried out work relating to the stripping of assets and debts following the trading suspension of the Company in coordination with the material assets reorganisation undertaken by the Company. It has arranged the land with an area of 30,500 mu (畝) thereunder to Chongqing Land Reserve Centre for reserve purposes; transferred equity assets of RMB19,275 million and creditor’s assets of RMB77,462 million in aggregate as well as other assets of 43 subsidiaries to Yufu Holding at nil consideration, resulting in the assumption of debts of RMB49,787 million by Yufu Holding. On 16 October 2016, Yufu Group held the bondholders’ meeting with regard to the stripping of assets and debts, at which the Resolution in Relation to the Assets Transfer of Yufu Group and the Resolution in Relation to the Debts Transfer of Yufu Group were approved. On 23 December 2016, Chongqing SASAC issued the Letter of Reply from Chongqing State-owned Assets Supervision and Administration Commission on the Stripping of Assets and Debts of Chongqing Yufu Assets Management Group Co., Ltd.* (Yu Guo Zi [2016] No. 762) (《重慶市國有資產監督管理委員會關於重慶渝富資產經營管理集團有限公司資產負債剝離的批覆》(渝國資[2016]762號)), which approved the transfer of assets of RMB77,484 million, debts of RMB49,802 million and contingent events such as external guarantee and repurchase obligations of Yufu Group to Yufu Holding. As of 24 April 2017, Yufu Holding has completed the procedures for inheritance of debts including “13 Yufu MTN001” (13渝富MTN001), “14 Yufu MTN001” (14渝富MTN001), “15 Yufu MTN001” (15渝富MTN001), “15 Yufu MTN002” (15渝富MTN002), “16 Yufu PPN001” (16渝富PPN001) and “16 Yufu PPN002” (16渝富PPN002).

- (3) Please verify and illustrate whether the progress of the Reorganisation and the exposure of major difficulties thereof have been disclosed in a timely and accurate manner and whether the uncertainties and the risk of possible termination of this Reorganisation have been fully indicated in the light of each part of the Reorganisation and the concrete work conducted by the Company.

Reply:

Since the suspension of trading regarding the plan for significant matter, the Company has engaged CITIC Securities Co., Ltd., Zhong Lun Law Firm, Pan-China Certified Public Accountants and Chongqing Huakang Asset & Land & Real Estate Valuation Co., Ltd., as well as other intermediaries, with which the Company did not enter into any official agreement). Relevant matters have been proactively pushed forward to conduct sufficient due diligence on the underlying transaction targets, to carry out repeated planning and demonstration for the underlying reorganisation plan and to consult the regulatory authorised on relevant matters time after time. As the iron and steel assets intended to be disposed in this Reorganisation involve large scale of debt with numerous creditors and complex liabilities associated with litigations, in a bid to advance matters regarding the Reorganisation, the Company, Chongqing Iron & Steel Group and each of the intermediaries have also communicated with the creditors time and again.

Since the suspension of trading, the progress of the Reorganisation is as follows:

On 4 August 2016, the Company published the Announcement on Continuing Suspension of Trading for Material Assets Reorganisation (Announcement No.: 2016-038), pursuant to which, as the material assets reorganisation involves many matters, and upon approval by the 59th written resolution of the seventh session of the Board of the Company and application to the Shanghai Stock Exchange, the continuing suspension of trading of A shares and related derivative products of the Company would not be more than one month commencing from the market opening on 4 August 2016. On 23 August 2016, the Company published the Announcement of Written Resolution regarding Continuing Suspension of Trading of A Shares for Material Assets Reorganisation (Announcement No.: 2016-043).

On 31 August 2016, the Company entered into the Framework Agreement for Material Assets Reorganisation with Chongqing Iron & Steel (Group) Co., Ltd and Chongqing Yufu Holding Group Co., Ltd. For details of major terms, please refer to the Announcement on Signing of Framework Agreement for Material Assets Reorganisation (Announcement No.: 2016-046).

On 8 September 2016, the Company convened an investor briefing session to communicate and discuss with investors with regard to matters regarding the material assets reorganisation. On 9 September 2016, the Company published the Announcement on the Convening of an Investor Briefing Session regarding Continuing Suspension of Trading for Material Assets Reorganisation (Announcement No.: 2016-051).

On 12 October 2016, the Company published the Announcement on Results of 2016 Second Extraordinary General Meeting (Announcement No.: 2016-057). At the meeting, the resolution regarding the continuing suspension of Trading of A shares for material assets reorganisation was considered and approved, pursuant to which continuing suspension of trading of A shares and related derivative products would not be more than two months commencing from 2 September 2016.

On 1 November 2016, the Company issued the Announcement on Delay in Resumption of Trading regarding the Plan for Material Assets Reorganisation (Announcement No.: 2016-063). Given that the Reorganisation planned by the Company is an unprecedented significant event, the trading would be further suspended from the market opening on 2 November 2016 upon application to the Shanghai Stock Exchange.

On 21 April 2017, the Company published the Announcement regarding the Progress for Material Assets Reorganisation (Announcement No.: 2017-036), which indicated such risk warning as: “The plan of the material assets reorganisation is relatively complicated. The main assets of Yufu Group which are intended to be acquired are subject to the requirements of the relevant regulatory policies. There is fairly great uncertainty in whether the intended assets acquisition plan can satisfy the regulatory requirements of both the overseas and domestic shares markets. 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. There is also fairly great uncertainty in whether agreement can be reached with the main creditors on the intended disposal plan. In view of the above reasons, it is expected that the risks of whether the transactions can continue to proceed is relatively great and investors are advised to pay attention to the above risks.”

Since the suspension of trading, the Company has made the following risk warnings:

On 14 June 2016, the Company published the Announcement regarding the Progress for Material Assets Reorganisation (Announcement No.: 2016-029), which indicated that “In light of the relatively great uncertainty in the material assets reorganisation and in order to ensure fair disclosure of information and to safeguard the interests of the investors, the Company will fulfill the obligations of information disclosure in a timely manner in accordance with relevant regulations. Investors are advised to pay attention to subsequent announcements and be aware of the investment risks involved.” Such indication has been repeated time after time in relevant announcements regarding the progress for material assets reorganisation thereafter.

On 1 September 2016, the Company published the Announcement on Signing of Framework Agreement for Material Assets Reorganisation (Announcement No.: 2016-046), which included the following risk warning: “The Framework Agreement is only a framework agreement for reorganisation reached by the parties concerned, providing the contents of the primary principles for the reorganisation. The specific matters in relation to the reorganisation shall be subject to the relevant official agreements for the reorganisation to be entered into by the parties concerned. The Framework Agreement reflects the intention of the parties concerned to cooperate, which specifies terms for the cooperation principle and serves as a basis for the following works of the Company. The final plan and specific matters of the transaction shall be subject to the formal transaction documents signed separately upon further negotiation among the parties concerned. Meanwhile, the parties concerned shall perform their respective internal and external procedures for decision-making, consideration and approval. Therefore, there are still uncertainties involved in the relevant matters of the material assets reorganisation. Investors are advised to be aware of the investment risks. The Company will fulfill the information disclosure obligation in a timely manner with respect to the progress of the material assets reorganisation.”

On 1 November 2016, the Company issued the Announcement on Delay in Resumption of Trading regarding the Plan for Material Assets Reorganisation (Announcement No.: 2016-063), which indicated that “The material assets reorganisation involves a relatively large scale of assets and the demonstration of the plan is complicated; and the material assets reorganisation is a significant unprecedented matter and the specific issues involved therein are under consultation by the Company with the relevant regulatory authorities. In addition, the implementation of the plan is subject to approval and ratification by a number of regulatory authorities. Therefore, the Company estimates that it is not possible to resume trading on 2 November 2016. To prevent unusual fluctuation in the stock price of the Company, safeguard the interests of investors and ensure further refinement of the reorganisation plan, further work out relevant issues by the Company, thus to smoothly advance the material assets reorganisation, upon application to the Shanghai Stock Exchange by the Company, the trading will be further suspended for not more than six months from the market opening on 2 November 2016. Pursuant to the Administrative Measures on Significant Asset Restructuring of Listed Companies (《上市公司重大資產重組管理辦法》) and the Business Guide of Suspension and Resumption of Trading for Planning of Material Matters of Listed Companies (《上市公司籌劃重大事項停復牌業務指引》), during the suspension of trading, the Company will fulfill the obligations of information disclosure in a timely manner with respect to the progress of the material assets reorganisation and will announce the progress of the matter at the interval of five trading days.”

The Company published the Announcement regarding the Progress for Material Assets Reorganisation (Announcement No.: 2017-034) on 21 April 2016 and the Announcement regarding the Progress for Material Assets Reorganisation and Risk Warning (Announcement No.: 2017-040) on 28 April 2017, both of which included the risk warning that: “The plan of the material assets reorganisation is relatively complicated. The main assets of Yufu Group which are intended to be acquired are subject to the requirements of the relevant regulatory policies. There is fairly great uncertainty in whether the intended assets acquisition plan can satisfy the regulatory requirements of both the overseas and domestic shares markets. 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. There is also fairly great uncertainty in whether agreement can be reached with the main creditors on the intended disposal plan. In view of the above reasons, it is expected that the risks of whether the transactions can continue to proceed is relatively great and investors are advised to pay attention to the above risks.”

In view of the foregoing, during the suspension of trading, the Company has always been advancing the relevant work and has fulfilled the obligations of information disclosure in accordance with the regulatory requirements. The Company made information disclosure on the progress of the reorganisation and the major difficulties faced in a timely manner and fully indicated the uncertainties and the risk of possible termination of the reorganisation.

II. PRUDENCE IN RESPECT OF PROCEEDING WITH SUSPENSION OF TRADING OF SHARES

As disclosed in the Announcement on Delay in Resumption of Trading of Shares of the Company dated 1 November 2016, it was proposed to purchase the equity interests in Yufu Group, a state-owned capital operation company established with the approval of Chongqing Municipal Government, under the reorganisation and, so far, there is no similar listed company in the PRC. As the reorganisation is a significant unprecedented matter, the Company applied for further suspension of trading of shares for not more than 6 months on 2 November 2016 based on this ground. In this case, at the early stage, the Company and financial adviser shall conduct reasonable analysis and sufficient demonstration on the complexity of issues involved in the reorganisation and the time required for planning, and perform prudent assessment on the feasibility of the reorganisation plan. Based on the aforementioned analysis and assessment, please explain whether it was prudent and whether sufficient considerations have been made by the Company in respect of the application for the delay in resumption of trading of A shares upon the expiry of the five months of suspension of trading of A shares.

Reply:

On 2 June 2016, in light of the operation difficulty and heavy losses of the Company and the fact that the iron and steel industry in which the Company operated focused on “de-capacity”, the trading of shares of the Company was suspended for the purpose of material assets reorganisation in order to safeguard the immediate interests of investors and enhance the Company’s intrinsic value. It was proposed to dispose the iron and steel assets, liabilities, businesses and personnel of the Company and acquire all the assets of Yufu Group which have good economic efficiency, market credit and influence in recent years as well as market value and share price matching those of the Company. Meanwhile, the material assets reorganisation aimed at achieving a number of objectives including promotion of supply side reform, construction of a market-oriented operation platform for state-owned capital operation companies, improvement of the quality of capital market development quality and enhancement of the investment value of investors.

Yufu Group is a wholly state-owned company established with the approval of Chongqing Municipal Government on 27 February 2004 and mainly engaged in land acquisition and development, financial assets management, disposal of non-performing assets and promotion of reorganisation of municipal state-owned assets with capital operation. It is an operation platform for state-owned capital operation companies. As Yufu Group has a relatively large scale of assets and liabilities and is engaged in a relatively wide scope of businesses and the demonstration of the original reorganisation plan is complicated, the following material matters involved in the original reorganisation plan have not been solved and are subject to further communication with regulators after nearly 5 months of streamlining, due diligence by intermediaries and communication with transaction counterparties and relevant regulators:

1. Communication between the Company and creditors. Pursuant to the original reorganisation plan, the disposal of all the existing assets, liabilities, businesses and personnel of the Company shall be subject to consent of creditors. The results of communication with creditors will directly affect the time and progress and success of reorganisation. As the reorganisation involves a large scale of liabilities, a large number of creditors and the debts involved in litigations are complex, the Company failed to complete communication with creditors within 5 months.
2. Guarantee for the debt securities of Chonggang. In 2010, the Company issued “10 Chonggang Zhai” with a size of RMB2 billion for which Yufu Group assumed joint and several responsibility of guarantee. As all the assets of the Yufu Group will be purchased by the Company under the original transaction plan, it is not suitable for Yufu Group to continue to serve as the guarantor. However, the change of guarantor is subject to consent of creditors and such change for the guarantee has not been completed within 5 months.
3. Treatment of personnel of the Company. In accordance with the principle of “personnel move with assets”, at the disposal of assets, the exiting staff of the Company (including on-the-job, post-waiting and early retired staff) shall be transferred accordingly. As the Company has a large number of staff, the transfer involves a lot of aspects and the Company, as a listed company, is attached with relatively great attention, a prudent and proper plan for arrangement and treatment of staff has not been formulated within 5 months.
4. Relatively complicated internal integration of Yufu Group. Ever since the suspension of trading of shares of the Company on 2 June 2016, Yufu Group has proactively conducted assets integration. However, due to the involvement of disposal of land assets, assets divestiture, debt transfer, etc., the process was complex with a heavy workload and great difficulty in coordination which involved a lot of matters and procedures, and the transfer of certain assets is subject to administrative approval, resulting in the failure of completion of internal integration within 5 months.

5. The assets of Yufu Group are required to comply with the requirements of relevant regulatory policies, and communication with the regulators in both places is required. After rounds of communication, the reorganisation plan fails to satisfy the requirements of domestic and foreign regulatory policies.

Although continuous long-term suspension of trading of shares causes adverse impact on the trading rights of investors, in light of the aforementioned complex matters and the uncertainty of the time required to resolve the matters, as well as the need to carry out further communication with regulators, the Company, upon prudent consideration, decided to apply for delay in resumption of trading of shares upon expiry of 5 months of suspension of trading of shares since 2 November 2016 and for further suspension of trading of shares for not more than six months, so as to safeguard the immediate interests of investors, enhance the Company's intrinsic value and further promote the material assets reorganisation.

III. CONNECTION BETWEEN TERMINATION OF REORGANISATION AND BANKRUPTCY REORGANISATION

The Company recently announced that, due to the insolvency of the Company, Laiquyuan Company, a creditor of the Company, applied to the court for reorganisation of the Company. Please make supplementary disclosures in the following aspects:

- (1) Effects of termination of reorganisation on the progress of reorganisation of the Company and the way for orderly connection of relevant works;

Reply:

The court is currently reviewing the application for reorganisation of the Company by the creditor, and there is uncertainty as to whether or not the Company can enter into the reorganisation procedure. The Company is of the view that the creditor's application for reorganisation provides a good opportunity to properly solve the current crisis and risk, and the Company is cooperating with the court in the demonstration of the feasibility of reorganisation. If the court accepts the creditor's application for reorganisation of the Company, the Company will fully cooperate with the court and the works of the manager and discharge its obligations as a debtor to achieve the smooth advancement of the reorganisation. If the court rejects the application for reorganisation, the Company will also proactively communicate with the creditor on debt restructuring and adopt measures in terms of production and operation including cost reduction and efficiency enhancement, improvement of internal control, and reform of product structure to improve its operation and avoid suspension of listing of the Company.

- (2) Please describe the specific effects of the reorganisation on the assets structure and operating conditions of the Company based on the major financial information of the Company for 2016 and the first quarter of 2017, and fully disclose the relevant risks.

Reply:

In 2016, the total assets of the head office of the Company amounted to RMB36.438 billion, the owners' equity was RMB-107 million and the losses amounted to RMB4.686 billion; for the first quarter of 2017, the owners' equity of the Company was RMB-700 million and the losses amounted to RMB594 million. At present, the Company is in insolvency and its operating conditions are gradually deteriorating. Furthermore, the heavy debt burden seriously affects the Company's profitability. If the Company proceeds with the reorganisation procedure, the management of the Company will proactively cooperate with relevant parties in demonstration of the possibility of solving the problem of debts through delay in repayment, lowering of interest, exemption of debts, debt-to-equity swap, and other means, and, on the premise of safeguarding all parties' legitimate interests in a balanced way, assist the manager in preparation of the reorganisation plan draft, striving to improve the Company's structure of assets and liabilities and alleviate the debt burden through the execution of the reorganisation plan draft, thus improving the Company's operation capacity. However, the Company is still exposed to the risk of being declared bankruptcy by the court as a result of failure of reorganisation, resulting in delisting of the shares of the Company. Besides, even though the Company completes the reorganisation plan, the trading of shares of the Company is still subject to subsequent requirements of relevant regulatory regulations; otherwise, the Company will also be exposed to the risk of suspension of listing or delisting.

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

Chongqing, the PRC, 26 May 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).