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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) DISCLOSEABLE AND CONNECTED TRANSACTIONS – ASSET
PURCHASE AGREEMENT;
(2) PROPOSED APPOINTMENT OF DIRECTORS;
(3) PROPOSED APPOINTMENT OF SUPERVISORS; AND
(4) NOTICE OF 2021 SECOND EXTRAORDINARY GENERAL MEETING**

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



A letter from the Board is set out from pages 1 to 7 of this circular.

A notice convening the EGM to be held at 2:00 p.m. on Thursday, 12 August 2021 at Chongqing Iron & Steel Conference Center, No. 2 Jiangnan Avenue, Jiangnan Street, Changshou District, Chongqing, the PRC, is set out on pages 47 to 49 of this circular. The proxy form for use at the EGM are enclosed with this circular.

Shareholders are advised to read the notice. Whether or not you are able to attend the EGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's registered office (in the case of proxy form by holders of domestic shares) at No. 2 Jiangnan Avenue, Jiangnan Street, Changshou District, Chongqing, the PRC (Postal Code: 401258) or at the Company's H share registrar and transfer office, Hong Kong Registrars Limited at Shops 1712–1716, 17th 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 EGM, or any adjournment thereof, if you so wish.

26 July 2021

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DEFINITIONS

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

“A Share(s)”	the domestic share(s) in the ordinary share capital of the Company with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange
“Articles of Association”	the articles of association of the Company
“Asset Lease Agreement”	the lease agreement in respect of the Pre-ironmaking Assets entered into between the Company and Changshou Iron & Steel on 16 November 2020
“Asset Purchase Agreement”	the asset purchase agreement entered into between the Company and Changshou Iron & Steel on 23 June 2021, pursuant to which, the Company agreed to purchase the Pre-ironmaking Assets of Changshou Iron & Steel
“Board”	the board of Directors
“Changshou Iron & Steel”	Chongqing Changshou Iron & Steel Company Limited (重慶長壽鋼鐵有限公司), a limited liability company established in the PRC and a substantial shareholder (as defined in the Listing Rules) of the Company, which is interested in approximately 23.51 % of the issued share capital of the Company as at the Latest Practicable Date
“Company”	Chongqing Iron & Steel Company Limited, a company incorporated in PRC with limited liability and the shares of which are listed on Stock Exchange
“connected person”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company

DEFINITIONS

“EGM”	the 2021 second extraordinary general meeting (or any adjournment thereof) of the Company to be convened at Chongqing Iron & Steel Conference Centre, No. 2 Jiangnan Avenue, Jiangnan Street, Changshou District, Chongqing, the PRC, at 2:00 p.m. on Thursday, 12 August 2021, for purpose of approving, among other things, (i) the Asset Purchase Agreement and the transactions contemplated thereunder; (ii) proposed appointment of Directors and (iii) proposed appointment of supervisors
“Group”	the Company and its subsidiaries
“H Share(s)”	the foreign invested share(s) in the Company’s share capital, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee comprising all independent non-executive Directors, being formed for the purpose of advising the Independent Shareholders in respect of the entering into of the Asset Purchase Agreement
“Independent Financial Adviser” or “Rainbow Capital”	Rainbow Capital (HK) Limited, a licensed corporation under the SFO, licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities, which was appointed as the Independent Financial Adviser by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the entering into of the Asset Purchase Agreement
“Independent Shareholder(s)”	Shareholders other than Changshou Iron & Steel and its associates
“Latest Practicable Date”	21 July 2021
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China

DEFINITIONS

“Pre-ironmaking Assets”	the assets leased under the Asset Lease Agreement between the Company and Changshou Iron & Steel on 16 November 2020, i.e. the blast furnace, sintering machine, coke oven and other pre-ironmaking machinery and equipment
“RMB”	renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Valuation Report”	the valuation report conducted by China Enterprise Appraisals Co., Ltd in relation to the valuation of the Pre-ironmaking Assets as at 31 August 2020
“%”	percent

LETTER FROM THE BOARD

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

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

(Stock Code: 1053)

Executive Directors:

Mr. Liu Jianrong
Mr. Zhang Wenxue
Mr. Tu De Ling
Mr. Zou An

Registered office:

No.2 Jiangnan Avenue
Jiangnan Street
Changshou District
Chongqing, the PRC
(Postal Code:401258)

Non-executive Directors:

Mr. Song De An
Mr. Zhou Ping

Independent Non-executive Directors:

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

26 July 2021

To the Shareholders

Dear Sir or Madam,

- (1) DISCLOSEABLE AND CONNECTED TRANSACTIONS – ASSET
PURCHASE AGREEMENT;
(2) PROPOSED APPOINTMENT OF DIRECTORS;
(3) PROPOSED APPOINTMENT OF SUPERVISORS; AND
(4) NOTICE OF 2021 SECOND EXTRAORDINARY GENERAL MEETING**

I. INTRODUCTION

Reference is made to the announcement of the Company dated 24 June 2021 in relation to the discloseable and connected transactions – Asset Purchase Agreement.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with the relevant information regarding (i) the Asset Purchase Agreement and the transactions contemplated thereunder; (ii) proposed appointment of Directors; and (iii) proposed appointment of supervisors, and to give you notice of EGM at which resolution(s) will be proposed for the Shareholders to consider and, if thought fit, approve, the aforesaid matters.

II. DISCLOSEABLE AND CONNECTED TRANSACTIONS – ASSET PURCHASE AGREEMENT

Asset Purchase Agreement

On 23 June 2021, the Company entered into the Asset Purchase Agreement with Changshou Iron & Steel, whereby the Company agreed to purchase Pre-ironmaking Assets from Changshou Iron & Steel. Principal terms of the Asset Purchase Agreement are set out below:

Date:

23 June 2021

Parties:

The Company (as purchaser) and Changshou Iron & Steel (as vendor)

Transaction price:

According to the Valuation Report, as at 31 August 2020, the appraised value of the Pre-ironmaking Assets was RMB3.447 billion (tax exclusive).

Both parties agree that the transaction price of the Pre-ironmaking Assets is determined to be RMB3.551 billion (tax exclusive) after negotiation between the parties based on the appraised value as set out in the Valuation Report, and taking into consideration comprehensively the impact of the time period for payment of the transaction price by instalments.

The Directors are of the view that the transaction price of RMB3.551 billion (tax exclusive), which is based on the appraised value of the Pre-ironmaking Assets conducted on 31 August 2020, is fair and reasonable because:

- (i) as provided in the Valuation Report, the conclusion of the Valuation Report is valid for one year;

LETTER FROM THE BOARD

- (ii) during the period between the date of the valuation of the Pre-ironmaking Assets in the Valuation Report (i.e. 31 August 2020) and the Latest Practicable Date, the Pre-ironmaking Assets had been leased to the Company. The Company is fully aware of the condition of the Pre-ironmaking Assets and there is no event which had a material impact on the value of the Pre-ironmaking Assets after the Valuation Report was compiled. As such, the Directors are of the view that the appraised value as at 31 August 2020 is still an appropriate indication of the fair value of the Pre-ironmaking Assets.

Consideration payment:

Payment of the first installment: within 5 working days after the date on which the agreement becomes effective, Changshou Iron & Steel shall issue to the Company value-added tax special invoice (at a tax rate of 13%) in full amount; the Company shall pay RMB1.062 billion to Changshou Iron & Steel as the first installment of the acquisition consideration.

Payment of the second installment: on the expiry date of one year after the payment of the first installment, the Company shall pay the remaining balance of the consideration amounting to RMB2.489 billion to Changshou Iron & Steel as the second installment of the acquisition consideration.

Early payment of the acquisition consideration: if the Company pays the acquisition consideration prior to the deadline for the payment of the second installment, it shall be deemed as early payment and the above-mentioned tax-exclusive consideration determined shall be reduced correspondingly with reference to the preferential price which is actually paid and calculated at the LPR of 3.85% for one-year loan from banks based on the amount which has been early paid, and the specific calculation formula is as follows:

$$\text{Preferential price for early payment} = \text{tax-exclusive consideration early paid} \times (1+13\%) \times 3.85\% \times \text{days of early payment} \div 360.$$

Delivery date:

Both parties agree to jointly determine the delivery date and the delivery completion date in writing after the date on which the agreement becomes effective. Both parties shall fully cooperate to deal with matters on ownership changes for the Pre-ironmaking Assets and the delivery of the assets from the delivery date and Changshou Iron & Steel shall ensure that the delivery completion date shall not be later than three (3) months from the date on which the agreement becomes effective.

LETTER FROM THE BOARD

Attribution of profit or loss during the transitional period:

Given that the Pre-ironmaking Assets have been leased to the Company for use as agreed in the Asset Lease Agreement signed by both parties on 16 November 2020, during the period from the transaction benchmark date to the delivery date, the Company shall pay rental to Changshou Iron & Steel in accordance with the Asset Lease Agreement; from the delivery date, the Asset Lease Agreement shall terminate at the same time and neither party is obligated to pay any expenses in relation to the termination of lease of the Pre-ironmaking Assets.

Effectiveness of the agreement:

Both parties agree that the agreement shall be formed upon the signature by the legal representatives of both parties or their respective duly authorized representatives and affixation of their respective official seals, and become effective on the date on which all the following conditions are satisfied:

1. The Board of the Company has passed the resolution to approve the implementation of the assets purchase;
2. The resolution to approve the implementation of the assets purchase has been passed at the general meeting of the Company in accordance with the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange and the Listing Rules.

Information on the Pre-ironmaking Assets

The Pre-ironmaking Assets are production facilities which have been leased to the Company during the past 2 years at an annual rent of RMB214.5 million (tax inclusive); the book value of the Pre-ironmaking Assets was RMB2,781 million as at 31 August 2020. The Pre-ironmaking Assets were acquired by Changshou Iron & Steel at a consideration of RMB3,900 million (tax inclusive) in the course of the judicial reorganisation of the Company in 2017.

Reasons for and benefits of the entering into of the Asset Purchase Agreement

The Pre-ironmaking Assets which the Company may purchase from Changshou Iron & Steel will be used for the Company's own production and operation, which is necessary for the Company's normal production and operation and can ensure the consistent and stable production of the Company. Based on the development needs of the Company, in order to level up and update the processing equipment in the whole process and build the Company into a 10-million-tonne-level iron and steel enterprise, the transaction has a positive impact on the Company.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Asset Purchase Agreement are on normal commercial terms which are fair and reasonable and in the interests of the Shareholders as a whole.

LETTER FROM THE BOARD

Information on the Parties

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

Changshou Iron & Steel is principally engaged in the technology development, technology transfer, technical services and technical management consultancy in the fields of steel, metallurgy and mining, coal, chemical industry, electric power and transportation; sale of steel raw materials; operation of dock; warehousing service (excluding storage of dangerous goods); leasing of self-owned property and equipment; import and export of goods and technology; corporate management and consultancy service. The ultimate beneficial owner of Changshou Iron & Steel is China Baowu Steel Group Corporation Limited, a limited liability company incorporated in the PRC and a state-owned capital investment company owned by the State-owned Assets Supervision and Administration Commission of the State Council.

Board approval

To the best of the Directors' information, knowledge and belief, and after making all reasonable enquiries, other than Mr. Liu Jianrong, Mr. Song De An and Mr. Zhou Ping, the connected Directors, who have abstained from voting on the relevant Board's resolutions for the approval of the Asset Purchase Agreement and the transactions contemplated thereunder, none of the Directors has interests in such transactions.

Listing Rules Implications

Pursuant to the Asset Purchase Agreement, the Asset Lease Agreement dated 16 November 2020 will be terminated immediately upon the delivery of the Pre-ironmaking Assets. It is expected that the Company's right-of-use assets will decrease by approximately RMB3,291 million upon the termination of the aforesaid lease. Accordingly, the termination of the lease of Pre-ironmaking Assets in accordance with the Asset Purchase Agreement will also be deemed as the disposal of assets by the Company. Pursuant to Rule 14.24 of the Listing Rules, if a transaction involves both an acquisition and a disposal, the Stock Exchange will apply the percentage ratios to both the acquisition and the disposal. The relevant transaction will be classified by reference to the larger of the amount of the acquisition and the disposal, and subject to the reporting, disclosure and/or Shareholders' approval requirements applicable to that classification. As the percentage ratios applicable to the acquisition of the Pre-ironmaking Assets are larger than that of the disposal, this transaction is classified as an acquisition. As one or more applicable percentage ratios of the acquisition are more than 5% but all less than 25%, pursuant to Chapter 14 of the Listing Rules, the Asset Purchase Agreement and the transactions contemplated thereunder constitute discloseable transactions of the Company and are subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

LETTER FROM THE BOARD

As at the Latest Practicable Date, Changshou Iron & Steel is interested in approximately 23.51% of the issued share capital of the Company and is a substantial Shareholder of the Company. Accordingly, Changshou Iron & Steel is a connected person of the Company, and the transactions contemplated under the Asset Purchase Agreement also constitute connected transactions of the Company under the Listing Rules, and are subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee will advise the Independent Shareholders in respect of the relevant terms of the Asset Purchase Agreement. Rainbow Capital has been appointed as the Independent Financial Adviser by the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

III. PROPOSED APPOINTMENT OF DIRECTORS

As the term of office of existing Directors of the Company is about to expire, Mr. Zhang Wenxue (張文學), Mr. Song De An (宋德安), Mr. Xie Zhixiong (謝志雄), Mr. Lai Xiaomin (賴曉敏), Mr. Zou An (鄒安) and Mr. Zhou Ping (周平) are nominated as candidates for non-independent Directors of the ninth session of the Board of the Company; and Mr. Sheng Xuejun (盛學軍), Mr. Zhang Jinruo (張金若) and Mr. Guo Jiebin (郭傑斌) are nominated as candidates for independent non-executive Directors for the ninth session of the Board of the Company. The nomination of Director candidates was considered and approved at the Board meeting held in writing on 20 July 2021. The term of office of the above Director candidates shall be three years from the date of approval of their election at the EGM.

Biographical details of the above candidates for Directors are set out in Appendix II to this circular.

IV. PROPOSED APPOINTMENT OF SUPERVISORS

As the term of office of existing supervisors of the Company is about to expire, Mr. Wu Xiao Ping (吳小平), Mr. Li Huaidong (李懷東) and Mr. Zhu Xing'an (朱興安) are nominated as candidates for non-employee representative supervisors of the ninth session of the Company's supervisory committee. The nomination of supervisor candidates was considered and approved at the supervisory committee meeting held in writing on 20 July 2021. The term of office of the above supervisor candidates shall be three years from the date of approval of their election at the EGM.

Biographical details of the above candidates for supervisors are set out in Appendix III to this circular.

LETTER FROM THE BOARD

V. EGM

The EGM will be held at 2:00 p.m. on Thursday, 12 August 2021 at the Chongqing Iron & Steel Conference Centre, No. 2 Jiangnan Avenue, Jiangnan Street, Changzhou District, Changshou District, Chongqing, the PRC, at which relevant resolutions will be proposed to approve, among others, (i) the Asset Purchase Agreement; (ii) proposed appointment of Directors; and (iii) proposed appointment of supervisors. Notice of the EGM is set out on page 47 to 49 of this circular.

Changshou Iron & Steel, holding 2,096,981,600 shares (approximately 23.51% of the issued share capital) of the Company, will be required to abstain from voting at the EGM with respect to the ordinary resolution in connection with the Asset Purchase Agreement. Save as aforesaid, no other shareholder of the Company has a material interest in the transactions under the Asset Purchase Agreement and is required to abstain from voting at the EGM.

The proxy form for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, 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 Shops 1712–1716, 17th Floor, 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 EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so desire.

VI. RECOMMENDATION

The Board considers that the transactions under the Asset Purchase Agreement are in the best interests of the Company and its Shareholders as a whole. Accordingly, the Board recommends that the Shareholders vote in favour of the relevant resolutions to be proposed at the EGM.

VII. ADDITIONAL INFORMATION

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

By Order of the Board
Chongqing Iron & Steel Company Limited
Zou An
Secretary to the Board

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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

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

(Stock Code: 1053)

26 July 2021

To the Independent Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTIONS – ASSET PURCHASE AGREEMENT

We refer to the circular dated 26 July 2021 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 entering into by the Company of the Asset Purchase Agreement, their terms and transaction contemplated thereunder are fair and reasonable and in the interests of the Company and Shareholders as a whole. Rainbow Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

RECOMMENDATION

Having taken into account the advice of Rainbow Capital, we are of the opinion that (i) the Asset Purchase Agreement are on normal commercial terms which are fair and reasonable; (ii) the entering into of the Asset Purchase Agreement, while not in the ordinary and usual course of business of the Group, is nevertheless in the interest of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to approve the Asset Purchase Agreement and the transactions contemplated thereunder at the EGM.

Yours faithfully,

Independent Board Committee

Independent Non-executive Director

Xu Yixiang, Xin Qingquan, Wong Chun Wa

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of a letter of advice from Rainbow Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Asset Purchase Agreement and the transactions contemplated thereunder, which has been prepared for the purpose of incorporation in this circular.

Rainbow Capital (HK) Limited

26 July 2021

To the Independent Board Committee and the Independent Shareholders

Chongqing Iron & Steel Company Limited
No. 2 Jiangnan Avenue
Jiangnan Street
Changshou District
Chongqing, the PRC

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTIONS ASSET PURCHASE AGREEMENT

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Asset Purchase Agreement and the transactions contemplated thereunder (the “**Acquisition**”), details of which are set out in the “Letter from the Board” (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 26 July 2021 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 23 June 2021, the Company entered into the Asset Purchase Agreement with Changshou Iron & Steel, pursuant to which the Company agreed to purchase the Pre-ironmaking Assets from Changshou Iron & Steel at a consideration of RMB3.551 billion (tax exclusive). The Pre-ironmaking Assets mainly consist of pre-ironmaking assets including the machinery and equipment at the coking plant, sintering plant and smelting plant, which are being leased to the Company under the Asset Lease Agreement dated 16 November 2020 at a monthly rent of RMB17,875,000 (tax inclusive). The Asset Lease Agreement shall be terminated immediately upon the delivery of the Pre-ironmaking Assets.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As the percentage ratios applicable to the acquisition of the Pre-ironmaking Assets are larger than those of the deemed disposal arising from the termination of the Asset Lease Agreement and are more than 5% but less than 25%, the Acquisition will constitute a discloseable transaction for the Company. As at the Latest Practicable Date, Changshou Iron & Steel held approximately 23.51% of the issued share capital of the Company and is a substantial shareholder of the Company. Accordingly, Changshou Iron & Steel is a connected person of the Company and the transactions contemplated under the Asset Purchase Agreement will also constitute a connected transaction for the Company, which is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will seek approval from the Independent Shareholders in respect of the Acquisition by way of a poll at the EGM. In view of the interest above, Changshou Iron & Steel is required to abstain from voting in respect of the ordinary resolution approving the Acquisition at the EGM.

The Independent Board Committee, comprising all the three independent non-executive Directors, namely Mr. Xin Qing Quan, Mr. Xu Yi Xiang and Mr. Wong Chun Wa, has been formed to advise the Independent Shareholders on whether (i) the Asset Purchase Agreement are normal commercial terms which are fair and reasonable; and (ii) the entering into of the Asset Purchase Agreement is in the interest of the Company and the shareholders as a whole, and advise the Independent Shareholders as to voting. We, Rainbow Capital, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

As at the Latest Practicable Date, we did not have any relationships or interests with the Group and Changshou Iron & Steel that could reasonably be regarded as relevant to our independence. We have acted as the independent financial adviser to the independent board committee and the independent shareholders of the Company in relation to (i) the establishment of partnership for acquisition of Chongqing Iron & Steel Company (Group) Limited through capital contribution, details of which are set out in the circular of the Company dated 27 May 2020; (ii) the major and connected transaction in relation to the lease agreement entered into with Changshou Iron & Steel in relation to certain production facilities, details of which are set out in the circular of the Company dated 14 December 2020; (iii) the continuing connected transactions between China Baowu Steel Group Corporation Limited and its subsidiaries (“**China Baowu Group**”) and the Group in relation to the service and supply agreement and supplemental agreement, details of which are set out in the circular of the Company dated 19 February 2021; and (iv) the continuing connected transactions between China Baowu Group and the Group in relation to the service and supply agreement and the financial service agreement, details of which are set out in the circular of the Company dated 28 May 2021 (collectively, the “**Previous Engagements**”). Other than that, there was no engagement or connection between the Group or Changshou Iron & Steel and us in the last two years. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received any fees or benefits from the Group or Changshou Iron & Steel. Given (i) none of the circumstances as set out in Rule 13.84 of the Listing Rules exists regarding our appointment as the Independent Financial Adviser; and (ii) the total service fee received by us in relation to the Previous Engagements and the total service fee payable to us in relation to this appointment accounted for an immaterial part of our total revenue for the year ended 31 March 2021, we are qualified to give independent advice in respect of the Acquisition.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BASIS OF OUR OPINION

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

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering the fairness and reasonableness of the Acquisition, we have taken into account the principal factors and reasons set out below:

1. Background to, reasons for, and benefits of, the Acquisition

(i) The Group

The Company was established in 1997 and its Shares have been listed on the Main Board of the Stock Exchange since 1997 and on the Shanghai Stock Exchange since 2007. The Group is principally engaged in the production, processing and sale of steel products including steel plates, steel sections, wire rods, bar materials, billets, and thin plates as well as production and sale of coking and coal chemical products, pig iron and grain slag, steel slag and steel

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

scrap. The Group has the following main production lines: 4,100mm wide and thick plate, 2,700mm medium plate, 1,780mm hot rolled sheet, high speed wire rods and bar materials. The Group's products are applied in various industries such as machinery, architecture, engineering, automobile, motorbike, shipbuilding, offshore oil, gas cylinder, boiler and oil and gas pipelines.

As at the Latest Practicable Date, the Group carried out its steel production business through certain Pre-ironmaking Assets rented from Changshou Iron & Steel, with a lease period of one year from 1 January 2021 to 31 December 2021, pursuant to the Asset Lease Agreement.

(ii) The Pre-ironmaking Assets

The Pre-ironmaking Assets was acquired by Changshou Iron & Steel through a public auction at a consideration of RMB3,900 million (tax inclusive) in the course of the judicial reorganisation of the Company in 2017 (the "**Public Auction**"). The Pre-ironmaking Assets mainly consist of the machinery and equipment at the coking plant, sintering plant and smelting plant. Given the Pre-ironmaking Assets are necessary for the normal production and operation of the Company, the Company has rented the Pre-ironmaking Assets from Changshou Iron & Steel since completion of the Public Auction. Details of which are set out in the announcements of the Company dated 28 February 2018, 20 December 2018, 28 December 2019 and 17 November 2020.

Pursuant to the Asset Lease Agreement, the Company shall purchase the Pre-ironmaking Assets during the lease period, and Changshou Iron & Steel undertook to sell the Pre-ironmaking Assets to the Company. In other words, the acquisition of the Pre-ironmaking Assets is an obligation incorporated in the Asset Lease Agreement.

(iii) Reasons for and benefits of the entering into of the Asset Purchase Agreement

As disclosed in the Letter from the Board, the Pre-ironmaking Assets are used for the Company's own production and operation, which are necessary for the Company's normal production and operation and can ensure the consistent and stable production of the Company.

As disclosed in the annual report of the Company for the year ended 31 December 2020 (the "**2020 Annual Report**"), the Company's production remained stable with an annual production capacity of steel exceeding 7 million tonnes for the first time. As the Company has integrated into China Baowu Group, the Company begins the layout of green manufacturing and smart manufacturing and launches a new round of development planning to create a high-quality green and smart steel manufacturing enterprise with the capacity of over 10 million tonnes (the "**Target Capacity**"). In order to achieve the Target Capacity,

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the Company will level up and upgrade the processing equipment in the whole process, as disclosed in the Letter from the Board. In the first quarter of 2021, the Company produced 2,264,900 tonnes of iron, 2,419,200 tonnes of steel and 2,329,900 tonnes of commodity billet, representing an increase of approximately 50.17%, 47.43% and 47.39% as compared with the same period of the previous year, respectively.

After taking into account (a) the Pre-ironmaking Assets are necessary for the Company's normal production and operation and can ensure the consistent and stable production of the Company; and (b) the Acquisition allows the Group to take control of the complete production lines and consolidate the Group's position in the domestic steel industry through enhancement of asset base, which is in line with the Group's goal to upgrade its production machinery and equipment with the view to attaining the Target Capacity, we consider that the Acquisition is in the interests of the Company and the Shareholders as a whole.

2. The Asset Purchase Agreement

Set out below is a summary of the principal terms of the Asset Purchase Agreement. Independent Shareholders are advised to read further details of the Asset Purchase Agreement as disclosed in the Letter from the Board:

Date: 23 June 2021

Parties: (i) The Company (as purchaser); and
(ii) Changshou Iron & Steel (as vendor)

Transaction price: The consideration for the Acquisition (the "**Consideration**") shall be RMB3.551 billion (tax exclusive), which is determined after negotiation between the parties based on the appraised value of the Pre-ironmaking Assets of RMB3.447 billion (tax exclusive) as at 31 August 2020 conducted by China Enterprise Appraisals Co., Ltd. (the "**Valuer**"), an independent firm of qualified PRC valuers, and the payment terms of the Consideration.

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Payment term: Changshou Iron & Steel shall issue to the Company value-added tax special invoices (at a tax rate of 13%).

The Company shall pay:

- (i) RMB1.062 billion to Changshou Iron & Steel as the first installment (the “**First Installment**”) within 5 working days after the date on which the agreement becomes effective; and
- (ii) the remaining balance of RMB2.489 billion (the “**Final Payment**”) to Changshou Iron & Steel as the second installment on the expiry date of one year after the payment of the First Installment.

If the Company pays the consideration prior to the deadline for the payment of the second installment, it shall be deemed as early payment and the above-mentioned tax-exclusive consideration determined shall be reduced correspondingly with reference to the preferential price which is actually paid and calculated at the loan prime rate (“**LPR**”) of 3.85% for one-year loan from banks based on the amount which has been early paid, and the specific calculation formula is as follows:

Preferential price for early payment = tax-exclusive consideration early
paid $\times (1+13\%) \times 3.85\% \times$
days of early payment $\div 360$.

3. Assessment of the principal terms of the Asset Purchase Agreement

(i) *The Valuation*

The Valuer has been appointed to form an independent opinion on the market value of the Pre-ironmaking Assets as at 31 August 2020 (the “**Valuation Date**”). The appraised value of the Pre-ironmaking Assets using the cost approach was approximately RMB3,447.31 million as at 31 August 2020 (the “**Valuation**”), details of which are set out in the Appendix I to the Circular.

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In assessing the fairness and reasonableness of the Valuation, we have performed the following due diligence:

(a) *Qualification, experience and scope of work of the Valuer*

We have reviewed and discussed with the Valuer their qualification and experience in conducting valuation on production facilities of iron and steel companies in the PRC. We noted that (1) the Valuer is one of the largest asset appraisal institutions in the PRC; (2) the Valuer is a qualified valuer designated by Beijing Municipal Finance Bureau; and (3) the Valuer has provided valuation services to many other iron and steel companies including Pangang Group Co., Ltd., Shangdong Iron & Steel Group Co., Ltd., Rizhao Steel Holding Group, Wuhan Iron and Steel (Group) Company, Citic Pacific Special Steel Group Co., Ltd. and HBIS Co., Ltd. The Valuer confirmed that it is a third party independent of the Company and its connected persons. As such, we are of the view that the Valuer has the required skills and experience to undertake the valuation of the Pre-ironmaking Assets competently. We therefore consider it appropriate to rely on their work and opinion.

We have reviewed the terms of engagement of the Valuer, in particular its scope of work. We noted that its scope of work is appropriate to form the opinion required to be given and there are no limitations on the scope of work which might adversely impact on the degree of assurance given by the Valuer on the Valuation. We have performed the work as required under note (1) (d) to Rule 13.80 of the Listing Rules in relation to the Valuer and its work as regards the Valuation.

(b) *Valuation methodology*

We have reviewed and discussed with the Valuer the methodologies, bases and assumptions adopted for the Valuation and adjustments made to arrive at the Valuation. The Valuer has also carried out physical inspections and made relevant enquiries for the purpose of estimating the market values of the Pre-ironmaking Assets.

The Valuer has adopted the cost approach (or depreciated replacement cost approach) in valuing the Pre-ironmaking Assets due to the complexity and specialised nature of the Pre-ironmaking Assets where no active and efficient secondhand market exists. As advised by the Valuer, it is impossible to identify past transactions which involved sales and purchase of assets comparable to the Pre-ironmaking Assets in terms of nature and production scale. In the absence of a known market on comparable sales, the market approach cannot be used for the valuation.

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Under the income approach, the market value of the Pre-ironmaking Assets is arrived at by reference to the expected rental income derived from comparable assets in the open and fair lease market. Taking into account the size and specialised nature of the Pre-ironmaking Assets and the limited number of lessees who are capable of taking up the assets comparable to the Pre-ironmaking Assets, the Valuer considers the cost approach is more appropriate than the income approach.

Related cost data in relation to the Pre-ironmaking Assets are easily available in the public domain which provides a reliable basis for the adoption of the cost approach. As at 31 August 2020, the market value of the Pre-ironmaking Assets is estimated by the Valuer to be approximately RMB3,447.31 million.

(c) *Factors to be considered in valuing the Pre-ironmaking Assets*

In using the cost approach to value machinery and equipment comprised in the Pre-ironmaking Assets, the Valuer has taken into account the cost of reproduction or replacement of the subject assets (which is the estimated amount of money needed to acquire, in like kind and in new condition, an asset or group of assets) less deductions for physical deterioration and all relevant forms of obsolescence by reference to past and present maintenance policy and rebuilding history. The Valuer has determined the replacement costs based on supplier contracts, market inquiry on prevailing construction costs of assets with similar production scale of the Pre-ironmaking Assets and local pricing standards on upfront and project costs (including direct and indirect materials and labour costs), incurred in bringing the subject assets to usable conditions.

(d) *Conclusion*

In light of the above, we consider that the methodology, bases and assumptions adopted by the Valuer in assessing the market value of the Pre-ironmaking Assets are appropriate and the Valuation is fair and reasonable so far as the Independent Shareholders are concerned. Besides, as stated in the Valuation Report issued by the Valuer, the Valuation is valid until one year after the Valuation Date, indicating that the Valuation is valid as at the Latest Practicable Date.

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(ii) The Consideration

In assessing the fairness and reasonableness of the Consideration, we have considered (a) the Valuation; (b) the payment term of the Consideration; and (c) the reasons and benefits of acquiring the Pre-ironmaking Assets.

As stated in the Letter from the Board, the Consideration is determined with reference to the valid Valuation which we consider fair and reasonable, as stated in the sub-section headed “(i) The Valuation” above. Given there is not material adverse change on the condition of the Pre-ironmaking Assets during the period from the Valuation Date to the date of the Asset Purchase Agreement as advised by the management of the Group, we consider it acceptable to determine the Consideration based on the Valuation.

The Consideration is RMB3.551 billion (tax exclusive), representing a slight premium of approximately 3.0% (the “**Premium**”) over the Valuation of approximately RMB3.447 billion (tax exclusive). Such premium merely reflects the time value of money arising from the settlement of the Final Payment (i.e. RMB2.489 billion, exclusive of tax), being approximately 70.1% of the Consideration, on the expiry date of one year after payment of the First Installment. The difference between the Consideration and the Valuation (i.e. RMB0.104 billion) represents approximately 3.0% of the Valuation (the “**Implied Interest Rate**”). Given the Implied Interest Rate is lower than (a) the one-year LPR of 3.85% published by National Interbank Funding Center, a branch of China’s central bank; and (b) the annual interest rates of the Group’s short-term borrowings in the range of 3.80% to 5.22% as at 31 December 2020 (the “**Internal Borrowing Rates**”) as disclosed in the 2020 Annual Report, we consider the Premium to be fair and reasonable.

Taking into account that (a) the Consideration is determined with reference to the Valuation which we consider fair and reasonable based on the methodology, bases and assumptions adopted by the Valuer, details of which are set out in the sub-section headed “(i) The Valuation” above; (b) the Premium merely reflects the time value of money arising from the settlement of the Final Settlement on the expiry date of one year after payment of the First Installment, which we consider fair and reasonable as the Implied Interest Rate is lower than the one-year LPR published by National Interbank Funding Center and the Internal Borrowing Rates; and (c) in case of early settlement of the Final Payment, the Consideration shall be adjusted downwards accordingly based on the amount of the early repayment, the number of days of early repayment and the one-year LPR published by National Interbank Funding Center which is higher than the Implied Interest Rate, we consider the Consideration to be fair and reasonable.

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4. Financial effect on the Group

As stated in the Letter from the Board, pursuant to the Asset Purchase Agreement, the Asset Lease Agreement shall be terminated immediately upon the delivery of the Pre-ironmaking Assets. It is expected that the Company's right-of-use assets and the corresponding lease liabilities will decrease upon termination of the aforesaid lease.

As at 31 March 2021, the Group had cash and bank balance of approximately RMB3.7 billion. Completion of the Acquisition will result in an increase in the Company's machineries and other equipment due to the transfer of the Pre-ironmaking Assets, a decrease in the Company's cash balance for the settlement of the First Installment and an increase in the Company's current liabilities due to the subsequent settlement of the Final Payment. It is expected that the Acquisition will not have a material impact on the net asset value of the Group.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the Asset Purchase Agreement are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. We further consider that the entering into of the Asset Purchase Agreement, while not in the ordinary and usual course of business of the Group, is nevertheless in the interests of the Company and the Shareholders as a whole. We therefore advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Acquisition.

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

Mr. Larry Choi is a licensed person and a responsible officer of Rainbow Capital (HK) Limited registered with the Securities and Futures Commission to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO. He has over ten years of experience in the corporate finance industry.

The following is the valuation report received from China Enterprise Appraisals Co., Ltd. in relation to the valuation of the Assets as at 31 August 2020.

**TEXT OF ASSETS VALUATION REPORT ON
THE PROJECT OF PRE-IRONMAKING ASSETS TO BE TRANSFERRED
BY CHONGQING CHANGSHOU IRON & STEEL COMPANY LIMITED TO
CHONGQING IRON & STEEL COMPANY LIMITED**

To: Chongqing Changshou Iron & Steel Company Limited

As engaged by Chongqing Changshou Iron & Steel Company Limited, China Enterprise Appraisals Co., Ltd. has, pursuant to the requirements of relevant laws, administrative regulations and assets valuation standards on the principle of independence, objectivity and fairness and by adopting the cost approach in compliance with the required valuation procedures, conducted a valuation on the market value of some equipment assets to be transferred by Chongqing Changshou Iron & Steel Company Limited as at the valuation reference date. Details of the assets valuation are reported as follows:

I. THE PRINCIPAL, THE PROPERTY RIGHT OWNER AND OTHER USERS OF THE ASSETS VALUATION REPORT AS AGREED IN THE ASSETS VALUATION ENTRUSTMENT CONTRACT

The principal and the property right owner of this valuation is Chongqing Changshou Iron & Steel Company Limited.

(I) Overview of the principal and the property right owner

Company name:	Chongqing Changshou Iron & Steel Company Limited (“ Changshou Iron & Steel ”)
Unified social credit code:	91500115MA5XE5K89F
Registered address:	Room 1-1, No. 20 Qixin Avenue, Yanjia Street, Changshou District, Chongqing
Legal representative:	Zhou Zhuping
Registered capital:	RMB4.0 billion
Date of establishment:	12 October 2017

Operation period:	12 October 2017 to 11 October 2037
Nature of company:	limited liability company
Main scope of business:	engaged in technology development, technology transfer, technical services and technical management consultation in the fields of steel, metallurgical mineral, coal, chemical engineering, electric power and transportation; sale of steel raw materials; terminal operation; warehousing service (excluding storage of hazardous articles); leasing of proprietary property and equipment; import and export of goods and technology; and corporate management and consulting services. (The business activities subject to approval according to the laws in the above scope can be carried out only after being approved by relevant departments)

- (II) The Assets Valuation Report shall only be used by the principal and the users of the Assets Valuation Report as stipulated under the national laws and regulations, and shall not be used or relied upon by any other third party.

II. PURPOSE OF VALUATION

Chongqing Changshou Iron & Steel Company Limited proposed to transfer the pre-ironmaking assets to Chongqing Iron & Steel Company Limited. In this regard, it is required to conduct a valuation on the market value of the pre-ironmaking assets involved in such economic activity as at the valuation reference date to provide valuable and professional advice on the above economic activity.

Chongqing Changshou Iron & Steel Company Limited issued the Letter on Valuation of the Assets under the Engagement on 22 September 2020 in relation to this matter.

III. VALUATION TARGET AND SCOPE

(I) Valuation target

The valuation target includes the market value of some machinery and equipment to be transferred by Chongqing Changshou Iron & Steel Company Limited as at the valuation reference date.

(II) Valuation scope

The valuation scope includes the machinery and equipment to be transferred by Chongqing Changshou Iron & Steel Company Limited, which is subject to the detailed breakdown provide by the principal.

The valuation target and scope are in line with those involved in the economic activity.

(III) Information of major assets within the valuation scope is as follows:

The major assets reported by the company for inclusion in the valuation scope are equipment assets. Types and features of the major assets are as follows:

The machinery and equipment assets included in the valuation scope are all located within the plant area in Jiangnan Street, Changshou District, covering the equipment used in three processes, i.e. coking, sintering and smelting. The overview of the processes and the equipment is illustrated as follows: the equipment mainly includes main equipment such as blast furnaces, sintering machines and coke ovens, and supporting equipment such as ladle cranes, hot metal vehicles, hot metal ladles, rotary kilns, dedusting equipment and fire-fighting devices. The processes of coking, iron-making and sintering were completed, accepted and put into operation in 2012, 2012–2014 and 2011, respectively. Each process is specific to production system equipment, whose appearance, varying slightly with the useful life, is in good condition in general. Save for the idle pellet production line in the process of sintering, all the other equipment is in normal operation.

1. Information of other off-balance sheet assets reported by the company

The company has no off-balance sheet assets.

2. Relevant assets involved in the conclusions of reports by other institutions quoted herein

This valuation report does not quote any reports issued by other institutions.

IV. TYPE OF VALUE

According to the purpose of this valuation, the type of value of the valuation target is determined to be the market value.

Market value refers to the estimated value of the valuation target between a willing buyer and a willing seller acting reasonably, neither being under any compulsion to buy or sell in a normal and fair transaction as at the valuation reference date.

V. VALUATION REFERENCE DATE

The valuation reference date of this report is 31 August 2020.

The main factor considered for determination of the valuation reference date is the realization of the economic activity.

VI. VALUATION BASES**(I) Economic activity basis**

1. Chongqing Changshou Iron & Steel Company Limited issued the Letter on Valuation of the Assets under the Engagement on 22 September 2020;
2. Assets Valuation Entrustment Contract.

(II) Law and regulation basis

1. The Laws on Assets Valuation of the People's Republic of China (adopted at the 21st meeting of the Standing Committee of the twelfth National People's Congress on 2 July 2016);
2. The Securities Laws of the People's Republic of China (amended for the second time at the 15th meeting of the Standing Committee of the thirteenth National People's Congress on 28 December 2019);
3. The Measures for Financial Supervision and Control in the Assets Valuation Industry (Order No. 86 issued by the Ministry of Finance of the People's Republic of China);
4. The Laws on the State-Owned Assets of Enterprises of the People's Republic of China (adopted at the 5th meeting of the Standing Committee of the eleventh National People's Congress on 28 October 2008);
5. The Provisional Regulations on Supervision and Administration of State-owned Assets of Enterprises (Order No. 378 issued by the State Council, revised by Order No. 588 issued by the State Council);
6. The Measures for Supervision and Administration of Transactions of State-Owned Assets of Enterprises (Order No. 32 issued by State-owned Assets Supervision and Administration Commission of the State Council, the Ministry of Finance);

7. The Measures for the Administration of Assessment of State-owned Assets (Order No. 91 issued by the State Council);
8. The Notice on the Issuance of the Rules for Implementation of Measures for the Administration of Assessment of State-owned Assets (Guo Zi Ban Fa [1992] No. 36);
9. The Provisional Measures for the Administration of Assessment of State-owned Assets of Enterprises (Order No. 12 issued by the State-owned Assets Supervision and Administration Commission of the State Council);
10. The Notice on Matters related to the Enhancement of the Administration of Assessment of State-owned Assets of Enterprises (Guo Zi Wei Chan Quan [2006] No. 274);
11. The Notice on Matters related to the Audit of the Valuation Report on State-owned Assets of Enterprises (Guo Zi Chan Quan [2009] No. 941);
12. The Guideline on Registration of Projects on Valuation of State-owned Assets of Enterprises (Guo Zi Fa Chan Quan [2013] No. 64);
13. The Provisional Regulation on Value-added Tax of the People's Republic of China (Order No. 691 issued by the State Council);
14. The Rules for Implementation of the Provisional Regulation on Value-added Tax of the People's Republic of China (Order No. 50 issued by the Ministry of Finance, State Taxation Administration);
15. The Notice on the Adjustment of the Value-added Tax Rate issued by the Ministry of Finance, State Taxation Administration (Cai Shui [2018] No. 32);
16. The Notice on Relevant Policies for the Deepening of the Reform on the Value added Tax (Notice No. 39 of 2019 issued by the Ministry of Finance, State Taxation Administration, General Administration of Customs);
17. Other related laws, regulations, notices and documents, etc.

(III) Valuation standard basis

1. The Basic Standard for Assets Valuation (Cai Zi [2017] No. 43);
2. The Profession Ethics Standard for Assets Valuation (Zhong Ping Xie [2017] No. 30);

3. The Practice Standards for Assets Valuation – Assets Valuation Report (Zhong Ping Xie [2018] No. 35);
4. The Practice Standards for Assets Valuation – Assets Valuation Procedures (Zhong Ping Xie [2018] No. 36);
5. The Practice Standards for Assets Valuation – Assets Valuation Entrustment Contract (Zhong Ping Xie [2017] No. 33);
6. The Practice Standards for Assets Valuation – Assets Valuation Records (Zhong Ping Xie [2018] No. 37);
7. The Practice Standards for Assets Valuation – Machinery and Equipment (Zhong Ping Xie [2017] No. 39);
8. The Practice Standards for Assets Valuation – Assets Valuation Methodology (Zhong Ping Xie [2019] No. 35);
9. The Guidelines for Valuation Report of State-owned Assets of Enterprises (Zhong Ping Xie [2017] No. 42);
10. The Quality Control Guidance on the Business of Assets Valuation Agency (Zhong Ping Xie [2017] No. 46);
11. The Guiding Opinions on Types of Value under Assets Valuation (Zhong Ping Xie [2017] No. 47);
12. The Guiding Opinions on Legal Ownership of the Assets Valuation Target (Zhong Ping Xie [2017] No. 48).

(IV) Ownership Basis

1. Relevant title transfer contract;
2. Letter on confirmation of the completion of the transfer of the equipment.

(V) Pricing basis

1. Construction entity management expenses (Cai Jian [2016] No. 504);

2. Construction and project supervision service fee (Fa Gai Jia Ge (2007) No. 670);
3. Fees for consulting on impact on environment (Ji Wei Huang Bao Zong Ju Ji Jia Ge (2002) No. 125);
4. Engineering design fee (Ji Wei Jian She Bu Ji Jia (2002) No. 10);
5. Tendering and bidding service fee (Ji Jia Ge (2002) No. 1980);
6. Consulting fee for preliminary work of construction project (Ji Jia Ge [1999] No. 1283);
7. Electromechanical Products Quotation Manual (2020);
8. Relevant final accounts of project provided by the enterprise;
9. On-site survey records from the valuers and other relevant price evaluation information gathered;
10. Wind Financial Terminal;
11. Other information related to the assets valuation.

(VI) Other reference basis

1. Detailed list of assets and evaluation reporting form provided by the property right owner;
2. Information base of China Enterprise Appraisals Co., Ltd.

VII. VALUATION APPROACHES

According to the purpose and target of this valuation, type of value, information collection and other relevant conditions, and pursuant to the conditions applicable to the three basic valuation approaches, the cost approach has been adopted for this valuation due to its applicability. The valuation approach is set out as follows:

Verification was carried out based on the breakdown list of the machinery and equipment provided by the company to ensure the consistency between the accounts and the forms. Meanwhile, review and verification were performed over the relevant contracts and certificates of legal ownership to confirm the ownership of the machinery and equipment. On this basis, the engineering and technical professionals were organized to conduct necessary on-site survey and verification of the main assets.

According to the purpose of this valuation and on the principle of continuous use, based on the market price and in combination with the features of the equipment for this valuation and the status of information collection, the cost approach has been adopted as the main approach for this valuation.

Appraised value = full replacement price × integrated residue ratio

1. Determination of the full replacement price

For equipment that required installation, the full replacement price generally included equipment purchase price, freight and miscellaneous charges, foundation fees, load and joint test run fees, upfront construction and other costs as well as cost of capital; for equipment that did not require installation, it generally included equipment purchase price and freight and miscellaneous charges.

Full replacement price = equipment purchase price + freight and miscellaneous charges + foundation fees + load and joint test run fees + upfront construction and other costs + cost of capital – deductible value-added tax (VAT)

(1) *Equipment purchase price, freight and miscellaneous charges and foundation fees*

Such costs of machinery and equipment were adjusted and determined mainly through enquiries to manufacturers or agencies, or with reference to price materials (such as 2012 Quotation Handbook of Mechanical and Electronic Applications), recent contract prices of similar equipment, project final accounting and other materials.

(2) *Load and joint test run fees*

The load and joint test run fees were determined with reference to the project final accounting and other materials provided by the principal and based on type of equipment and actual conditions.

(3) *Upfront construction and other costs*

The upfront construction and other costs, including construction unit administration fees, project supervision fees, environmental evaluation fees, survey and design fees, bidding or tendering agency fees, feasibility research fees and load and joint test run fees, were charged based on investment scale of fixed assets of the property right owner according to the charging standards as stipulated by the industry, the state or the local governments.

(4) *Cost of capital*

The cost of capital was determined according to the reasonable construction period for the project and the loan prime rate (LPR) for the corresponding term as of the valuation reference date and on the basis of equipment purchase cost, freight and miscellaneous charges, foundation fees, upfront construction and other costs.

(5) *Deductible VAT in the equipment purchase price*

If the conditions of VAT deduction were met, the deductible VAT was calculated and deducted.

2. Determination of the integrated residue ratio

The integrated residue ratio was corrected and determined through on-site survey of equipment service conditions (engineering environment, maintenance, appearance, operation rate and perfectness ratio), and review of the operation, incidents, repairs, performance appraisal and other necessary records of the equipment.

The remaining usage life was determined mainly based on the economic useful life of the equipment and the years for which the equipment has been used through on-site survey of the service and technical conditions of the equipment. The integrated residue ratio was then determined by the following formula.

Integrated residue ratio = remaining usage life / (remaining usage life + years for which the equipment has been used) × 100%

3. Determination of the appraised value

Appraised value of the equipment = full replacement price × integrated residue ratio

VIII. PROCESS AND CONDITION OF THE IMPLEMENTATION OF VALUATION PROCEDURES

The valuers have conducted valuation on the assets relating to the valuation target from 23 September 2020 to 16 November 2020. The process and condition of the implementation of main valuation procedures are as follows:

(I) **Accepting the engagement**

On 23 September 2020, our company and the principal reached agreement on the basic matters related to the valuation engagement such as valuation purpose, valuation target and valuation scope and valuation reference date, as well as the rights and obligations of the parties, and prepared corresponding valuation plan through negotiation with the principal.

(II) **Preliminary preparation**

1. Developing the valuation plan
2. Forming a valuation team
3. Carrying out project training

(1) Training personnel of property right owner

In order to give the financial and asset management personnel of the property right owner an all-round understanding of assets valuation related materials and facilitate them to conduct the filling in of forms and submission of such materials so as to guarantee the quality of reporting materials for the valuation, our company has prepared enterprise training materials, provided trainings to the relevant personnel of the property right owner and assigned special personnel to answer the questions arisen from filling and submitting assets valuation related materials.

(2) Training the valuers

In order to guarantee the quality of the valuation project and improve work efficiency and thoroughly implement the proposed assets valuation plan, our company has explained to the members of the project team the background on the economic activity of the project, the characteristics of the assets relating to the valuation target, the technical approach to the valuation and the specific implementation requirements, etc.

(III) On-site survey

From 23 September 2020 to 30 September 2020, the valuers conducted necessary inspection and verification for the assets involved in to the valuation target, and performed necessary due diligence on the operation and management position of the property right owner.

1. Assets verification

(1) Providing guidance for the property right owner in filling in forms and preparing information which shall be provided to valuation agency

The valuers provided guidance for the financial and asset management staff of the property right owner to accurately fill in forms and report the assets that fell within the valuation scope as per the “Assets Valuation Breakdown Form” provided by the valuation agency and the requirements for filling in such form and the List of Materials, on a self-checking basis. Meanwhile, the valuers collected and prepared documents evidencing the title of the assets as well as documents and information showing the performance, status, economic and technical indicators of the assets, etc.

(2) Preliminary review and improvement of Assets Valuation Breakdown Form completed by the property right owner

Through inspecting relevant information, the valuers understood the details of the specific assets that fell within the valuation scope. Then, the valuers carefully reviewed the Assets Valuation Breakdown Form to check whether the forms were complete and correct and whether there was any ambiguity in the assets items. Also, they checked if there was any omission in the Assets Valuation Breakdown Form based on their experience and the relevant information available, and asked the property right owner to rectify if any.

(3) On-site survey

Based on the type, quantity and distribution of the assets included in the valuation scope, the valuers carried out on-site survey on various assets with the cooperation of the relevant personnel of the property right owner in accordance with the relevant requirements of the assets valuation standards. Given the different nature and characteristics of assets, various investigation methods were adopted accordingly.

(4) *Supplementation, revision and improvement of the Assets Valuation Breakdown Form*

Based on the on-site survey results, the valuers further improved the Assets Valuation Breakdown Form after proper communication with the relevant personnel of the property right owner in order to ensure the consistency between the accounts and the actual circumstances.

(5) *Verification of property title certificates*

The valuers verified the property title certificates of machinery and equipment included in the valuation scope. Any incomplete and ambiguous information on property title was drawn to the attention of the enterprise for verification or provision of relevant explanatory documents of title.

(IV) Collection of information

The valuers collected information for valuation based on the specific conditions of the valuation project, including information obtained independently and directly from the market and other channels, information obtained from the principal and other relevant parties concerned and information obtained from government authorities, various professional institutions and other relevant departments. They also performed the necessary analysis, induction and collation on the collected information to develop basis for valuation and estimate.

(V) Valuation and estimate

The valuers adopted, in light of the specific situations of various assets, the corresponding formulae and parameters to make analysis, calculation and judgment on the assets by using the selected valuation method to reach a preliminary conclusion of valuation. The project leader summarized the preliminary conclusion of valuation concerning various assets, and prepared and formulated the preliminary assets valuation report.

(VI) Internal review

According to the requirements of the Administrative Measures for Valuation Procedures of our company, upon completion of the preliminary valuation report, the project leader submitted it to our company for internal review. Upon completion of the internal review, the project leader communicated with the principal or other relevant parties concerned as agreed by the principal on the relevant contents of the Assets Valuation Report, and issued and submitted the Assets Valuation Report after making reasonable modifications based on the feedback and opinions.

IX. VALUATION ASSUMPTIONS

The following assumptions were used for the analysis and estimate in the Assets Valuation Report:

1. It was assumed that there would be no material changes in the political, economic and social environment of the country or region subsequent to the valuation reference date;
2. It was assumed that there would be no material changes in the national macroeconomic policies, industry policies and regional development policies subsequent to the valuation reference date;
3. It was assumed that other than known issues, there would be no material changes in interest rates, exchange rates, tax bases, tax rates and policy-based levies related to the valuation target subsequent to the valuation reference date;
4. It was assumed that there would be no force majeure which may cause material adverse impact on the valuation target subsequent to the valuation reference date;
5. It was assumed that the assets within the valuation scope would be used continuously for their original purposes and in their original locations.

The conclusion of valuation of the Assets Valuation Report was established on the valuation reference date based on the above assumptions. In the event of any material changes to the above assumptions, the undersigned valuers and the valuation agency shall not be responsible for deducing different conclusions of valuation due to any changes of the assumptions.

X. CONCLUSION OF VALUATION

Valuation conclusion from the aforementioned valuation is as follows:

As of the valuation reference date, the carrying value of the assets included in the valuation scope of Chongqing Changshou Iron & Steel Company Limited was RMB2,780,784,400 and the appraised value was RMB3,447,313,500. The appreciation amount was RMB666,529,100 and the increment rate was 23.97%.

The results of valuation are detailed in the following summary of valuation results:

Summary of valuation results by using the asset-based approach

Unit: RMB0'000

Item		Carrying	Appraised	Increase/	Increment
		value	value	decrease	rate (%)
		A	B	C=B-A	D=C/A × 100
I. Current assets	1	0.00	0.00	0.00	0.00
II. Non-current assets	2	278,078.44	344,731.35	66,652.91	23.97
Including: Long-term equity investments	3	0.00	0.00	0.00	0.00
Investment properties	4	0.00	0.00	0.00	0.00
Fixed assets	5	278,078.44	344,731.35	66,652.91	23.97
Construction in progress	6	0.00	0.00	0.00	0.00
Oil and gas assets	7	0.00	0.00	0.00	0.00
Intangible assets	8	0.00	0.00	0.00	0.00
Including: land use rights	9	0.00	0.00	0.00	0.00
Other non-current assets	10	0.00	0.00	0.00	0.00
Total assets	11	<u>278,078.44</u>	<u>344,731.35</u>	<u>66,652.91</u>	<u>23.97</u>

XI. EXPLANATORY NOTES ON SPECIAL MATTERS

It was discovered in the course of valuation that the following matters may affect the conclusion of valuation; however, they are beyond the valuation and estimate of the valuers by virtue of the standard of valuation practice and professional competence:

- (I) In the Assets Valuation Report, all tables or textual expressions are denominated in RMB ten thousands, and any difference between the total amount and the sum of the individual subvalues is due to rounding off.
- (II) According to the Guiding Opinions on Asset Valuers Concerning Legal Ownership of the Valuation Target, the property right owner and relevant parties concerned shall provide the legal ownership of the valuation target and other information, and take responsibility for the truthfulness, legitimacy and integrity thereof. It is the responsibility of the asset valuers to make the necessary inspection and disclosure of such information and its sources, which does not represent any guarantee of the ownership of the valuation target, and it is beyond the scope of practice of the asset valuers to confirm or express an opinion on the legal ownership of the valuation target.

- (III) The pellet production line in the process of sintering had been idle for many years before the property right owner acquired the asset. However, the property right owner started to carry out the functional restoration and transformation of 2 million tons pellet in October 2020, which would come into service after the restoration and transformation. The valuers have considered the impact of the idle condition on the appraised value, without taking into account the impact on the appraised value from the costs of subsequent restoration, transformation and debugging.
- (IV) Specific notes relating to pending legal and economic matter on the valuation reference date and its possible impact on the valuation conclusion;

The property right owner has entered into the RMB Loan Mortgage Contract with the China Development Bank. The loan contract is No. 5000201701100000640 with the loan amount of RMB2,400,000,000, for a term from 30 November 2017 to 29 November 2024. The mortgaged assets are all the machinery and equipment within the scope of the valuation for a term of seven years, which have not been released as at the valuation reference date.

- (V) Since the valuation conclusion has not taken into account the possible impact of relevant taxes during the assets transaction process, the valuation conclusion has not included the VAT.

The users of the Assets Valuation Report shall pay attention to the impact of the aforesaid special matters on the valuation conclusion.

XII. RESTRICTIONS ON THE USE OF THE ASSETS VALUATION REPORT

- (I) The scope of the use of the Assets Valuation Report
1. The Assets Valuation Report shall only be used by Chongqing Changshou Iron & Steel Company Limited and other users of the Assets Valuation Report as required in the national laws and administrative regulations.
 2. The valuation conclusion revealed in the Assets Valuation Report is only valid for the corresponding economic activity in relation to this project.
 3. The validity period of the valuation conclusion in the Assets Valuation Report is one year from the valuation reference date. The principal or other users of the Assets Valuation Report shall use the Assets Valuation Report within the validity period of valuation conclusion as specified.

4. Without the written permission of the principal, the assets valuation agency and its professional asset valuers shall not provide or disclose the content of the Assets Valuation Report to any third party, unless otherwise required by laws and administrative regulations.
 5. Unless otherwise required by laws and regulations or agreed among relevant parties concerned, the content of the Assets Valuation Report shall not be extracted, quoted or disclosed in any public media without prior consent of the assets valuation agency.
- (II) The assets valuation agency and its professional asset valuers shall take no responsibility if the principal or other users of the Assets Valuation Report fail to use the Assets Valuation Report in accordance with the provisions of laws and administrative regulations and the scope of use set out in the Assets Valuation Report.
- (III) Except for the principal, the other users of the Assets Valuation Report as agreed in the Assets Valuation Entrustment Contract and the users of the Assets Valuation Report as stipulated in the laws and administrative regulations, no other institutions or individuals shall be the users of the Assets Valuation Report.
- (IV) Users of the Assets Valuation Report shall correctly understand and use the valuation conclusion, which is not equivalent to the realizable price of the valuation target and should not be considered as a guarantee for the realizable price of the valuation target.
- (V) The Assets Valuation Report is a professional report issued by the assets valuation agency and its valuers in compliance with laws, administrative regulations and assets valuation standards through necessary assets valuation procedures based on the engagement. This report can be used officially only after being signed by the asset valuers undertaking this valuation and affixed with the common seal of the valuation agency, and filed with the state-owned assets supervision and administration authority or the funded enterprise.

XIII. DATE OF THE ASSETS VALUATION REPORT

The date of issuance of the Assets Valuation Report is 16 November 2020.

Legal representative: Quan Zhongguang (signed)

Asset valuer: Zhang Xiaohui (signed and sealed)

Asset valuer: Mu Jigang (signed and sealed)

China Enterprise Appraisals Co., Ltd. (sealed)

16 November 2020

Mr. Zhang Wenxue (張文學), born in May 1963, is a senior engineer. He currently serves as the chairman and secretary to the party committee of the Company, and a director and the general manager of Chongqing Changshou Iron & Steel Company Limited (重慶長壽鋼鐵有限公司). Mr. Zhang was the director of the hot pressing plant and the concurrent system reformation project manager of the hot pressing production line of Baogang Branch under Baoshan Iron & Steel Co., Ltd. (寶山鋼鐵股份有限公司), the deputy general manager of Baogang Zhanjiang Iron and Steel Company (寶鋼湛江鋼鐵有限公司), the director of hot pressing plant, the assistant to the general manager and concurrently the chief of the business promotion department of Baoshan Iron & Steel Co., Ltd., the chairman of the supervisory committee, the president and the deputy secretary to the party committee of the Company. Mr. Zhang has extensive experience in production, operation, management innovation and intelligent manufacturing. Mr. Zhang graduated from Central South Institute of Mining and Metallurgy (中南礦冶學院) majoring in pressure processing in 1984, and obtained a master degree in industrial relations from West Virginia University of the USA.

Mr. Song De An (宋德安), born in February 1965, is a senior economist. He obtained an EMBA degree from PBC School of Finance, Tsinghua University. He currently serves as the vice chairman of the Company and the chairman of the board of directors of Sichuan Desheng Group (四川德勝集團). The Sichuan Desheng Group, which was founded in 1997 by Mr. Song, has been developed into a Top 500 Global Enterprises in China with the comprehensive utilisation of vanadium and titanium resources as its principal business and engaging in business covering vanadium, titanium, iron and steel, and investment and other diversified industries. Mr. Song had served as a deputy to the People’s Congress of Sichuan, a standing member of the 10th session of the executive committee of Sichuan Federation of Industry and Commerce, a standing member of the 6th and 7th session of Leshan Municipal Committee of the CPPCC, a standing member of the 6th session of Leshan Federation of Industry and Commerce, the vice chairman of the Chamber of Commerce and the vice-chairman of Leshan Charity Federation. He had been granted the titles of “Outstanding Entrepreneur of Yunnan Province”, “Outstanding Private Entrepreneurs of Leshan City”, “Outstanding Private Entrepreneurs of Sichuan Province”, “Builder of the 2nd Session of Sichuan Outstanding Builders of Socialism with Chinese Characteristics” and many other awards.

Mr. Xie Zhixiong (謝志雄), born in April 1972, is a senior engineer. He currently serves as the president and deputy secretary to the party committee of the Company. Mr. Xie has successively served as the head of the technical department and the head of the production and technical division of the Sixth Rolling Mill, the head of the steel rolling division and the chief engineer of steel rolling of the Smelting and Rolling Mill, the deputy head of the special steel business department, the deputy head and deputy general manager of the product sales department of the marketing center, the deputy head and head of the manufacturing management department, the officer of the technical research center, the vice president, the senior vice president (in charge), a director, the president and the deputy secretary to the party committee of SGIS Songshan Co., Ltd. (廣東韶鋼松山股份有限公司). Mr. Xie graduated from Central South University of Technology (中南工業大學) in 1993 with a major in metal materials engineering.

Mr. Lai Xiaomin (賴曉敏), born in October 1972, is a senior accountant. He currently serves as the senior vice president of Baowu Group Zhongnan Steel Co., Ltd. (寶武集團中南鋼鐵有限公司). Mr. Lai has successively served as the deputy chief accountant, head of the finance department, financial controller, chief accountant and director of Guangdong Shaoguan Iron and Steel Co., Ltd. (廣東韶關鋼鐵有限公司), and the senior vice president (in charge), president, director and deputy secretary to the party committee of Baowu Group Echeng Iron and Steel Co., Ltd. (寶武集團鄂城鋼鐵有限公司). Mr. Lai graduated from Changchun Institute of Technology (長春工業高等專科學校) in 1993 with a major in computerised accounting, and later obtained a master's degree in business administration from Jinan University (暨南大學).

Mr. Zou An (鄒安), born in November 1974, is a senior accountant. He currently serves as a director, senior vice president, chief financial officer, secretary to the Board and a member of the party committee of the Company. Mr. Zou successively served as the director of accounting and taxation of the Finance Department, director of budget management, senior manager of performance evaluation of Baosteel Group, the director of the development, operation and finance department, assistant to president (acting), vice president and director of the operation and finance department of Baosteel Group, and the deputy general manager of Baowu Group Environmental Resources Technology Co., Ltd. (寶武集團環境資源科技有限公司). Mr. Zou graduated from the East China University of Metallurgy (華東冶金學院) in 1996, majoring in accounting, and then obtained a master's degree in finance from Fudan University.

Mr. Zhou Ping (周平), born in December 1974, is a senior engineer. He currently serves as a director of the Company, a director and deputy general manager of Chongqing Changshou Iron & Steel Company Limited (重慶長壽鋼鐵有限公司), and the chairman of Sichuan Desheng Group Vanadium and Titanium Co., Ltd. (四川德勝集團鈮鈦有限公司). Mr. Zhou has extensive experience in engineering management, management and operation of steel enterprises (including mines) and successively served as assistant to general manager and technical transformation commander of Yunnan Chuxiong Desheng Iron and Steel Company (雲南楚雄德勝鋼鐵公司); technical transformation commander, general manager and chairman of Tengchong Mining Co., Ltd. (騰沖礦業有限公司) and technical transformation commander and general manager of Qinggangping Mining Co., Ltd. (青杠坪礦業有限公司); assistant to general manager and technical transformation commander of Sichuan Desheng Group Iron and Steel Co., Ltd. (四川德勝集團鋼鐵有限公司), general manager and executive director of Sichuan Desheng Machinery Manufacturing Co., Ltd. (四川德勝機械製造有限公司), general manager of Sichuan Desheng Group Iron and Steel Co., Ltd. and general manager of Sichuan Desheng Group Vanadium and Titanium Co., Ltd. (四川德勝集團鈮鈦有限公司). Mr. Zhou graduated from Leshan Industrial School (樂山市工業學校) as a machinery manufacturing and processing major in July 1994, and he holds a master's degree in business administration from Southwestern University of Finance and Economics and is currently studying an EMBA degree in Cheung Kong Graduate School of Business (長江商學院).

Mr. Sheng Xuejun (盛學軍), born in August 1969, is a professor and PhD supervisor of Southwest University of Political Science & Law, and the dean of the Financial Technology and Rule of Law Institute of Southwest University of Political Science & Law. Mr. Sheng was the vice chairman of the Degree Committee and the Dean of the School of Economic Law of Southwest University of Political Science & Law, and the deputy chief judge and judge of the Second Court of Civil Trial of the Supreme People's Court. Mr. Sheng has made a series of academic achievements in the fields of economic law, financial law, and securities law. He has published more than 30 papers in authoritative journals at home and abroad, published several books and textbooks, presided over and led many research projects at the provincial and ministerial levels or above, and received more than 10 provincial and ministerial awards for his teaching and research achievements. Mr. Sheng obtained his master's degree in law from Southwest University of Political Science & Law in 1995 and his Ph.D. in law from Southwest University of Political Science & Law in 2002. He was a post-doctoral researcher at the Université Paul Cézanne Aix-Marseille 3 in France, a visiting fellow at the Oxford Law School in England, and a senior research scholar at the University of New South Wales in Australia.

Mr. Zhang Jinruo (張金若), born in August 1980, is a certified public accountant (non-practising member), and a professor, the head of the accounting department, and secretary to the party branch of Chongqing University, as well as an external supervisor of Chongqing Rural Commercial Bank, and an adjunct professor of the Accounting Development Research Center of Xiamen University. Mr. Zhang was a lecturer and associate professor at Chongqing University. Mr. Zhang mainly concentrates on research on financial accounting standards, corporate finance, and taxation. Mr. Zhang has published more than forty papers in well-known academic journals both at home and abroad, and has published several academic books. He was selected into the National High-end Accounting Talent Training Project (academic) project, and served in the first batch of accounting consulting experts of Chongqing Finance Bureau. Mr. Zhang obtained his master's degree in accounting from Xiamen University in 2005 and his doctorate in accounting from Xiamen University in 2008.

Mr. Guo Jiebin (郭傑斌), born in July 1980, is a member of the Hong Kong Institute of Certified Public Accountants, a director, deputy general manager and chief financial officer of Jiaozuo Wanfang Aluminum Company Limited(焦作萬方鋁業股份有限公司), and a director of Jiaozuo Coal Group ZhaoGu (Xinxiang) Energy Company Limited(焦作煤業集團趙固新鄉能源有限責任公司). Mr. Guo was an audit manager, senior audit manager and partner of KPMG and KPMG Huazhen LLP. Mr. Guo has extensive experience in accounting theory and practice, and corporate management. Mr. Guo obtained a Bachelor's degree in Business Administration with honours from the Chinese University of Hong Kong in 2002.

Save as disclosed above, candidates mentioned above have not held any directorship in public companies, the securities of which are listed on any securities market in Hong Kong or overseas, or taken up a position in any affiliated companies of the Company over the past three years, nor do they have any relationship with any other directors, senior management, substantial or controlling shareholders of the Company.

Save as disclosed above, as at the Latest Practicable Date, candidates mentioned above do not have any interest in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance. The corresponding service contracts will be entered into between the candidates mentioned above and the Company upon the approval at the EGM.

Mr. Zhang Wenxue, Mr. Song De An, Mr. Xie Zhixiong, Mr. Lai Xiaomin, Mr. Zou An and Mr. Zhou Ping do not receive remuneration for their directorships, but receive remuneration according to their positions and job duties in the Company, and their annual remuneration is comprised of base salary, performance remuneration and subsidies and allowances, details of which are as follows:

1. Base salary: RMB600,000–800,000 per year (before tax).
2. Performance remuneration: The performance remuneration is not fixed, which is determined on the basis of the completion of annual performance indicators and other factors.
3. Subsidies and allowances: The subsidies and allowances are implemented in accordance with the relevant system of the Company.

The annual fixed allowance of Mr. Sheng Xuejun, Mr. Zhang Jinruo and Mr. Guo Jiebin as independent non-executive Directors is RMB180,000 (before tax).

The corresponding service contracts will be entered into between the candidates mentioned above and the Company upon the approval at the EGM. All relevant remunerations stated above will be included in their service contracts.

No other information relating to the appointment of the candidates mentioned above is required to be disclosed pursuant to Rules 13.51(2) (h) to (v) of the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited. Save as disclosed herein, there are no other matters that need to be brought to the attention of the shareholders of the Company.

Mr. Wu Xiao Ping (吳小平), born in May 1975, is a certified public accountant, currently serves as the chairperson of the supervisory committee of the Company, a supervisor of Chongqing Changshou Iron & Steel Company Limited, as well as the chief financial officer of Sichuan Desheng Group Vanadium & Titanium Co., Ltd. (四川德勝集團鈮鈦有限公司). Mr. Wu has extensive experience in financial management, auditing and operation of iron and steel enterprises. He successively served as the chief financial officer of the finance department of Yibin Dongsheng Real Estate Development Company (宜賓東升房地產開發公司), the project manager of the project department of Sichuan Huaqiang Certified Public Accountants (四川華強會計師事務所), head of audit department, the deputy head and head of finance department of Sichuan Desheng Group Vanadium & Titanium Co., Ltd. Mr. Wu graduated from Sichuan Grain Economics School (四川省糧食經濟學校) in July 1995 majoring in marketing. He also obtained a college degree in accounting from Southwest University of Finance and Economics and subsequently obtained a master's degree in business administration from Hong Kong Finance and Economics College.

Mr. Li Huaidong (李懷東), born in September 1973, is a senior economist and policy advisor. Mr. Li is the vice president, secretary to the board of directors and head of the management innovation department of Baowu Group Zhongnan Steel Co., Ltd. (寶武集團中南鋼鐵有限公司), and the chairman of Guangdong Baoliandi International Operation Management Co., Ltd.(廣東寶聯迪國際運營管理有限公司). Mr. Li successively served as the head of the office secretary section of Shaoguan Iron and Steel Company(韶關鋼鐵公司), the deputy director of the secretary office of the board of directors of Shaogang Songshan(韶鋼松山), the deputy director of the human resources department, the deputy director (in charge), director of the human resources department (party committee organization department), the deputy dean of the human resources development and management institute (in charge), a member of the disciplinary committee, an employee supervisor, the director of the operation improvement department of Shaoguan Iron and Steel(韶關鋼鐵) and the director of the general management department of Baote Shaoguan(寶特韶關), the director of the operation improvement department of Shaogang Songshan(韶鋼松山), and the vice president and secretary to the board of directors of Shaoguan Iron and Steel(韶關鋼鐵). Mr. Li graduated from Department of Iron and Steel Metallurgy, Northeastern University in 1995 with a major in steel metallurgy.

Mr. Zhu Xing'an (朱興安), born in July 1974, is a senior engineer. He currently serves as the deputy officer of Technology Innovation Center and deputy officer of Technology Research Center of Baowu Group Zhongnan Steel Co., Ltd. (寶武集團中南鋼鐵有限公司). Mr. Zhu successively served as the head of the quality inspection station and secretary to party branch of the Bar Steel Mill, the secretary to party general branch and deputy plant manager of the wire mill of the bar steel product operation department of the steel pipe and bar steel business unit, the officer of the production technology room, assistant to the director and deputy director of the bar steel product operation department of the steel pipe and bar steel business unit of Baoshan Iron & Steel Co., Ltd., and the person in charge of the long material project of the command in Yancheng. He was the deputy plant manager of the Smelting and Rolling Mill of Guangdong Shaogang Songshan Co., Ltd.(廣東韶鋼松山股份有限公司). Mr. Zhu graduated from Northeastern University in 1997 with a major in thermal engineering and later obtained a master's degree in materials engineering from Northeastern University.

Save as disclosed above, candidates mentioned above have not held any directorship in public companies, the securities of which are listed on any securities market in Hong Kong or overseas, or taken up a position in any affiliated companies of the Company over the past three years, nor do they have any relationship with any other directors, senior management, substantial or controlling shareholders of the Company.

Save as disclosed above, as at the Latest Practicable Date, candidates mentioned above do not have any interest in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance. The corresponding service contracts will be entered into between the candidates mentioned above and the Company upon the approval at the EGM, among them, supervisors representing the staff are elected through democratic election by the staff and workers of the Company.

The candidates mentioned above do not receive remuneration for holding supervisory positions, but receive remuneration based on their positions in the Company. The above candidates currently do not take up any position in the Company.

No other information relating to the appointment of the candidates mentioned above is required to be disclosed pursuant to Rules 13.51(2) (h) to (v) of the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited. Save as disclosed herein, there are no other matters that need to be brought to the attention of the shareholders of the Company.

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 the Latest Practicable Date, the interests and short positions (including interests or short positions which they were taken or deemed to have under relevant provisions of the Securities and Futures Ordinance (“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 Rules Governing the Listing of Securities on the Stock Exchange and the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange, were as follows:

Name	The Company/ associated company	Capacity	Nature of interests	Total number of interested shares held <i>(share)</i>	Percentage	Percentage in	Class of shares
					A shares of the Company <i>(%)</i>	the total share capital of the Company <i>(%)</i>	
Tu De Ling	The Company	Director	Beneficial interest	1,148,000	0.01	0.01	A share

As at the Latest Practicable Date, 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 the 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 2020, 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
China Baowu	Long	Interest of corporation controlled by it	2,096,981,600	25.02%	–	23.51%
Chongqing Changshou Iron & Steel Company Limited	Long	Beneficial owner	2,096,981,600	25.02%	–	23.51%

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

4. DIRECTORS' SERVICE CONTRACTS

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

5. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associates were considered to have any interest in a business which competes or may compete with the business of the Group.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2020, being the date to which the latest published audited consolidated financial statements of the Company were prepared.

7. LITIGATION

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

8. MATERIAL CONTRACT

During the two years immediately prior to the Latest Practicable Date, the members of the Group have entered into the following material contract(s) (i.e. contracts that were not entered into in the ordinary course of business):

- (i) On 15 July 2020, the Company and Chongqing Qianxin Group Co., Ltd. ("**Qianxin Group**") entered into the equity transaction contract, pursuant to which the Company agreed to acquire and Qianxin Group agreed to sell 100% equity interest in Chongqing Qianxin Energy Environmental Protection Company Limited ("**Qianxin Energy**") at the consideration of RMB836,623,600, which was funded through the Company's internal resources. Qianxin Energy is a self-generation power plant established as a part of "Energy Conservation, Emission Reduction and Environment-friendly Relocation Project of CIS". The fuels used by Qianxin Energy are wholly the blast furnace gas and converter gas from the Company, and the electricity produced by Qianxin Energy is all for the need of the Company. The aggregate of the remuneration payable to and benefits in kind receivable by the directors of Qianxin Energy will not be varied in consequence of the said acquisition.

- (ii) On 16 November 2020, the Company and Changshou Iron & Steel entered into the lease agreement, pursuant to which Changshou Iron & Steel would lease the blast furnace, sintering machine, coke oven and other pre-ironmaking machinery and equipment to the Company for the lease term from 1 January 2021 to 31 December 2021, at the monthly rental of RMB17,875,000.

9. EXPERT

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

Name	Qualifications
Rainbow Capital (HK) Limited	a corporation licensed under the SFO (Chapter 571 of the Laws of Hong Kong) to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities

- (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 2020 (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 had given and had not withdrawn its respective written consent to the issue of this circular with the inclusion of its respective advice, letters, reports and/or summary of its opinions (as the case may be) and references to their names and logos in the form and context in which they respectively appear.

10. MISCELLANEOUS

- (a) The registered office of the Company is at No.2 Jiangnan Avenue, Jiangnan Street, Changshou District, Chongqing, the PRC.
- (b) The Company secretary of the Company is Ms. Chiu Hoi Shan.
- (c) The share registrar and transfer office of the Company in Hong Kong is Hong Kong Registrars Limited at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.
- (d) The circular has been prepared in both English and Chinese. In the case of any discrepancies, the English text shall prevail over the Chinese text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the registered office of the Company at Management Building, No.2 Jiangnan Avenue, Jiangnan Street, Changshou District, Chongqing, the PRC and/or Room 1202, 1204–16, The Chinese Bank Building, 61–65 Des Voeux Road, Central, Hong Kong during 9 a.m. to 5 p.m. (Monday to Friday) from the date of this circular up to and including the date of the EGM:

- (a) the Articles of Association of the Company;
- (b) the letter from the Independent Board Committee;
- (c) the letter from the Independent Financial Adviser;
- (d) the Asset Purchase Agreement;
- (e) the written consent of the expert referred to in the section headed “Experts” in this appendix;
- (f) the material contracts referred to in the paragraph headed “Material Contracts” in this appendix;
- (g) the Valuation Report; and
- (h) this circular.

NOTICE OF EGM

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 2021 SECOND EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 2021 second extraordinary general meeting (the “EGM”) of Chongqing Iron & Steel Company Limited (the “Company”) will be held at 2:00 p.m. on Thursday, 12 August 2021 at Chongqing Iron & Steel Conference Center, No.2 Jiangnan Avenue, Jiangnan Street, 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. Resolution on the connected transactions in relation to the purchase of assets from Changshou Iron & Steel
2. Resolution on the remuneration of the members of the ninth session of the Board and the supervisory committee

RESOLUTIONS ADOPTING CUMULATIVE VOTING

3. Resolution on the election of non-independent Directors of the ninth session of the Board
 - 3.01 To elect Mr. Zhang Wenxue as a non-independent Director of the ninth session of the Board
 - 3.02 To elect Mr. Song De An as a non-independent Director of the ninth session of the Board
 - 3.03 To elect Mr. Xie Zhixiong as a non-independent Director of the ninth session of the Board
 - 3.04 To elect Mr. Lai Xiaomin as a non-independent Director of the ninth session of the Board
 - 3.05 To elect Mr. Zou An as a non-independent Director of the ninth session of the Board
 - 3.06 To elect Mr. Zhou Ping as a non-independent Director of the ninth session of the Board

NOTICE OF EGM

4. Resolution on the election of the independent Directors of the ninth session of the Board
 - 4.01 To elect Mr. Sheng Xuejun as an independent Director of the ninth session of the Board
 - 4.02 To elect Mr. Zhang Jinruo as an independent Director of the ninth session of the Board
 - 4.03 To elect Mr. Guo Jiebin as an independent Director of the ninth session of the Board
5. Resolution on the election of the non-employee representative supervisors of the ninth session of the supervisory committee
 - 5.01 To elect Mr. Wu Xiaoping as a non-employee representative supervisor of the ninth session of the supervisory committee
 - 5.02 To elect Mr. Li Huaidong as a non-employee representative supervisor of the ninth session of the supervisory committee
 - 5.03 To elect Mr. Zhu Xing'an as a non-employee representative supervisor of the ninth session of the supervisory committee

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

Chongqing, the PRC, 23 July 2021

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

NOTICE OF EGM

Notes:

I. ELIGIBILITY FOR ATTENDING THE EGM

Shareholders whose names appear on the register of members of the Company at the close of business on 6 August 2021 are entitled to attend the EGM upon completion of the necessary registration procedures (holders of A shares will be otherwise notified).

II. REGISTRATION PROCEDURES FOR ATTENDING THE EGM

The register of members of the Company will be closed from 9 August 2021 to 12 August 2021 (both days inclusive), during which no transfer of shares will be effected. Holders of H shares of the Company intending to attend the EGM are required to lodge their respective instrument of transfer and the relevant share certificates to Hong Kong Registrars Limited, the Registrars of the Company, at or before 4:30 p.m. on 6 August 2021.

III. PROXIES

1. Any shareholder entitled to attend and vote at the EGM is entitled to appoint one or more proxies (whether he/she is a shareholder or not) to attend and vote at the meeting on his/her behalf. Each shareholder (or his/her proxy) shall have one vote for each share held.
2. To be valid, the instrument appointing a proxy shall be in writing under the hand of the appointer or his/her attorney duly authorised in writing. If the proxy form is signed by a person authorized by the appointer, the power of attorney or other authorization documents shall be notarized. The notarized power of attorney or other authorization documents together with the proxy form must be lodged with Hong Kong Registrars Limited, the Registrars of the Company, no less than 24 hours before the time appointed for the holding of the EGM (or appointed for voting) i.e. by no later than 2:00 p.m. on 11 August 2021.
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 EGM shall be responsible for their own travel and accommodation expenses.
2. Information may be dispatched by hand or registered post.
3. Address of Hong Kong Registrars Limited: Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
4. Office of Secretary to the Board of Chongqing Iron & Steel Company Limited

Address: Room 312, Management Building of the Company, No. 2 Jiangnan Avenue, Jiangnan Street,
Changshou District, Chongqing, the PRC

Postal Code: 401258

Tel: (86) 23 6898 3482

Fax: (86) 23 6887 3189

Contact Person: Peng Guoju/Ji Hong