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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)

FURTHER ANNOUNCEMENT ON THE ESTABLISHMENT OF THE PARTNERSHIP FOR ACQUISITION OF CHONGGANG GROUP THROUGH CAPITAL CONTRIBUTION

Reference is made to the announcement of Chongqing Iron & Steel Company Limited (the “**Company**”) dated 30 March 2020 regarding the related investment in relation to joint establishment of special fund for acquisition of Chonggang Group through capital contribution and the announcement dated 30 April 2020 regarding the mandate for possible major and connected transaction in relation to joint establishment of the special fund for acquisition of Chonggang Group through capital contribution (the “**Announcements**”). Unless otherwise stated, capitalised terms used herein shall have the same meaning as those defined in the Announcements.

The Company hereby announces the latest information about the Possible Acquisition.

1. Size of the transaction

As disclosed in the Announcements, both Siyuanhe and Desheng Group are connected persons of the Company, and the transaction contemplated under the Partnership Agreement will constitute a connected transaction for the Company under Chapter 14A of the Listing Rules. Upon further calculation, certain applicable percentages of the Partnership Agreement in fact exceed 5% but all are below 25%, hence the transaction contemplated under the Partnership Agreement also constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules, and is subject to the reporting, announcement, circular and independent shareholders’ approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

2. Details of the Target Assets

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

Assets Type	Name of assets	Description of assets	Main financial indicators of assets	
Equity assets	100% equity of Electronics Company	Providing system services for the Company, and the business income related to the Company accounts for approximately 85% of its total revenue in 2019	Book value of net assets: approximately RMB80 million	The total assets of the four companies as at 31 December 2019 were approximately RMB1.4 billion. In 2019, the total revenue was approximately RMB1.5 billion and the total net profit (attributable to owners of parent company) was approximately RMB100 million. (Notes 1 and 2)
	100% equity of Transportation Company	Providing transportation services for the Company, and the business income related to the Company accounts for approximately 60% of its total revenue in 2019	Book value of net assets: approximately RMB80 million	
	100% equity of Industry Company	Providing processing services for the Company, and the business income related to the Company accounts for approximately 80% of its total revenue in 2019	Book value of net assets: approximately RMB100 million	
	100% equity of Zhaoyang Company	Providing gas products for the Company, and the business income related to the Company accounts for approximately 80% of its total revenue in 2019	Book value of net assets: approximately RMB0 million	
			Appraised value of net assets: approximately RMB100 million (Note 1)	
			Appraised value of net assets: approximately RMB200 million (Note 1)	
			Appraised value of net assets: approximately RMB500 million (Note 1)	

Assets Type	Name of assets	Description of assets	Main financial indicators of assets
Leased assets	Steel Production Equipment	Being the equipment necessary for the production of the Company, which is currently leased by Chonggang Group to the Company for use, with an annual rent of RMB165 million. The appraised value of this asset accounts for more than half of the assets intended to be acquired by the Company through the Partnership	The original costs of fixed asset (before deducting accumulated depreciation) of the asset is approximately RMB2.45 billion and its expected remaining economic service life is approximately more than 10 years. As disclosed in the 2019 annual report of the Company, the estimated useful life and annual depreciation rate of machinery and other equipment are 8–22 years and 4.32%–12.13%, respectively. <i>(Note 3)</i>
Land assets	178 mu of land for the use of Industry Company	Being the land held by Chonggang Group for industrial purpose and located in the factory area of the Company in Changshou District	The unaudited total book value of the three pieces of land as at 31 March 2019 is approximately RMB50 million. According to the data of the third quarter of 2019 of the Ministry of Land and Resources, the average land price for industrial use in Chongqing was RMB477/square meter (approximately RMB318,800/mu), and the average land price for commercial use was RMB5,275/square meter (approximately RMB3,516,670/mu). Based on the above market data, the value of land assets is approximately RMB100 million. <i>(Note 4)</i>
	122 mu of land for the use of Zhaoyang Company	Being the land held by Chonggang Group for industrial purpose and located in the factory area of the Company in Changshou District	
	3.3 mu of land for the use of gas station of Transportation Company	Being the land held by Chonggang Group for commercial purpose and located in Chonggang Gas Station at Yangxi River, Mawang village, Jiulongpo District	

Notes:

1. The above financial information of the Target Companies has not been audited, and was obtained from the Company's past investigations and calculations. The reference date of the book value of net assets and the appraised value is 31 March 2019. Although such data has not been audited by a third party intermediary, it helps Independent Shareholders to understand the general financial position of the Target Companies and understand the Target Companies' approximate value range, which is not misleading. Subject to the confidentiality requirements put forward by the Chongqing SASAC during the listing process, the Company is unable to publicly disclose the audited and evaluated financial information, but believes that the aforesaid information will help Independent Shareholders make an independent judgment on the reasonable value of the Target Companies. Please note that according to the online information on Chonggang Group on the Chongqing Assets and Equity Exchange, since the asset stripping of Chonggang Group has not been completed, there was no corresponding annual audit report of Chonggang Group available for the year ended 31 December 2019. For the avoidance of doubt, such assets stripping is not related to the Target Assets.
2. According to the letter from the Independent Financial Advisor, the price-to-earnings ("P/E(s)") of the Electronics Comparable Companies are more than 9 times, and the P/E of Electronics Company as implied by the valuation is near the low end of those of the Electronics Comparable Companies; the P/E of the Transportation Comparable Companies are more than 10 times, and the P/E of Transportation Company as implied by the valuation is lower than all the P/E of the Transportation Comparable Companies; the P/E of the Industrial Comparable Companies are more than 15 times, and the P/E of Industry Company as implied by the valuation is lower than all the P/E of the Industrial Comparable Companies; the P/E of the Zhaoyang Comparable Companies are more than 30 times, and the P/E of Zhaoyang Company as implied by the valuation is lower than all the P/E of the Zhaoyang Comparable Companies. The P/E of the Target Companies as implied by their respective valuation are either near the low end of those, or lower than all the P/E of the Comparable Companies, the consideration is fair and reasonable. Please refer to the letter from the Independent Financial Adviser annexed to the circular to be published on the same date as this announcement for the details of the Comparable Companies.
3. The original value of the assets is the initial carrying amount of fixed assets, also known as the "original cost of fixed assets". As the value does not deduct accumulated depreciation, it is different from the concept of the net book value and appraised value of the assets. The information was also obtained from the Company's past investigations and calculations. Subject to the confidentiality requirements put forward by the Chongqing SASAC during the listing process, the Company is unable to publicly disclose the audited and evaluated financial information, including the current asset book value and appraised value of the Steel Production Equipment. The aforesaid original value of the assets allows Independent Shareholders to understand the initial cost of acquiring assets, and with the remaining useful life of the asset, it will help Independent Shareholders to comprehensively make independent judgments on the reasonable asset value of the assets intended to be acquired.
4. The total book value of Land Assets was also obtained from the Company's past investigations and calculations. Since the fair value of the corresponding land has relatively high premium over the book value, the Company made an estimation on the value of the Land Assets comprising industrial transferred land and commercial land with reference to the public information available such as average land price, original land premium (土地位元值) and land area, which could better reflect the fair value of the Land Assets and is not misleading.

Electronics Company

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

Transportation Company

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

Industry Company

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

Zhaoyang Company

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

Steel Production Equipment

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

Land assets

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

3. Waiver from strict compliance with Listing Rules

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

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

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

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

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

- (a) Chongqing SASAC clearly requires all bidders to keep confidential the information of Chonggang Group obtained in the process of the due diligence. Siyuanhe has also paid a deposit of RMB1 million and signed a confidentiality agreement with Chongqing SASAC, Chonggang Group and Chongqing Assets and Equity Exchange prior to inspecting the information of Chonggang Group. As the Company obtains the information of Chonggang Group through Siyuanhe, it is also subject to the confidentiality obligations prescribed by Chongqing SASAC. If the Company discloses non-public information of Chonggang Group in the announcement and circular, it would mean violating the requirements of government authorities and the confidentiality obligations stipulated in the agreement, which will expose the Company to significant legal risks and materially prejudice the interests of the Company and its shareholders.
- (b) The Company has no authority to conduct a valuation of the Steel Production Equipment and the Land Assets. Under the “Supervision and Management Method for Transactions of State-owned Assets of Corporation 《(企業國有資產交易監督管理辦法)》” after a State-owned assets is listed for auction, no audit or valuation can be done to change the price. It is required under the same document that when a State-owned asset is listed for sale through public tender, the valuation should be conducted by the transferor.
- (c) In addition, if the specific financial information and valuation of the Target Assets are disclosed, it will enable potential competitors to readily obtain relevant information of Chonggang Group and easily calculate the actual bid of the Company, which will also have an adverse and negative impact on the completion of this transaction, thereby greatly increasing the Partnership’s risk of failing to win the bid at an appropriate price, and the Company will therefore lose the opportunity to acquire the Target Assets. This will have a serious negative impact on the Company’s operations and interests, and will also not be conducive to the ultimate interests of the Company’s shareholders.

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

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

- (a) In terms of the strategic significance of the acquisition, the assets intended to be acquired by the Company is closely related to the Company's business and is a necessary part for carrying out the Company's business. The income of the Target Assets is basically derived from the Company, and this acquisition is conducive to the Company's business integration and will enhance its independence. If the Company does not participate in the acquisition, its production and operation supporting facilities may be adversely affected to a large extent in the future. For example, there is uncertainty about whether it can continue to maintain stable transactions with the Target Companies in the future, there is uncertainty about the cost and consideration of transactions, and the absence of its own supporting facilities or services which are key to its business operation is also not conducive to the overall upgrade and transformation of the Company's business and equipment which will seriously affect the implementation of the 10-million-ton production line planned by the Company, etc.
- (b) In terms of the consideration of the acquisition, the Board of the Company analyzed the replacement cost of the Target Assets and the forecast of future economic benefits. On one hand, the analysis for asset replacement cost is mainly for the Steel Production Equipment, which is an indispensable asset in the Company's steel production and operation. The Company calculates the replacement cost of the corresponding assets through assuming the cost of repurchasing the corresponding steel production equipment assets times the estimated residue ratio of the Steel Production Equipment intended to be acquired. Since the replacement cost of the corresponding equipment involves commercial secrecy, the disclosure will lead to the disclosure of the Company's bidding bottom line, and hence the corresponding information and calculations are not disclosed in the announcement or circular.

- (c) In the second aspect, the Board has contemplated the cost analysis of leased assets. For the leased assets (the Steel Production Equipment), the Company calculates the cost necessary for continuing to lease in the future based on the rental fee paid each year and estimated the future useful life. The Board of the Company comprehensively takes into account the aforesaid factors and analysis the possible economic benefits, and opines that the economic benefits which may be generated are higher than the evaluation results as per the valuation report provided by Chongqing SASAC. In view of commercial secrecy, the specific calculation information is not disclosed, but the annual rental and estimated economic useful life of the corresponding assets have been disclosed, so that the Independent Shareholders can obtain a general understanding of the range of asset value.
- (d) Further, the Company has gathered information regarding the Target Assets from its past investigation and calculation. For example, it has assessed the value of the Target Companies with reference to the past transactions with them, assessed the value of the Steel Production Equipment with reference to the annual rental currently paid by the Company, the remaining economic service life and depreciation rate applicable, and also assessed the estimated value of the Land Assets based on the average land price of the same land use in the vicinity.

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

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

Alternative disclosure

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

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

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

- (a) the audited book value and appraised value of the Target Assets as per the valuation report provided by Chongqing SASAC as at 31 March 2019 and the unaudited book value of the Target Assets as at 31 December 2019;
- (b) audited net profits (before and after taxation) of the Target Companies as at 31 March 2019, 31 December 2018 and 31 December 2017 and the unaudited net profits (before and after taxation) of the Target Companies as at 31 December 2019);

- (c) the valuation of the Land Assets and the Steel Production Equipment in compliance with Rule 14A.70(7) and 14A.70(8) to be conducted after successful bidding of the 100% equity interest of Chonggang Group.

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

For further details of the transactions contemplated under the Partnership Agreement, please refer to the circular published on the same date as this announcement.

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

Chongqing, the PRC, 27 May 2020

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