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If you have sold or transferred all your shares in Chongqing Iron & Steel Company Limited, you should at once hand this circular and the accompanying proxy forms and reply slips to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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

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

(Stock Code: 1053)

(1) CONTINUING CONNECTED TRANSACTIONS – SUPPLY AND SERVICE AGREEMENT AND FINANCIAL SERVICE AGREEMENT; AND (2) NOTICE OF ANNUAL 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 19 of this circular.

A notice convening the AGM to be held at 2 p.m. on Tuesday, 29 June 2021 at Chongqing Iron & Steel Conference Center, No. 2 Jiangnan Avenue, Jiangnan Street, Changshou District, Chongqing, the PRC, is set out on pages 61 to 63 of this circular. The proxy form for use at the AGM are enclosed with this circular.

Shareholders are advised to read the notice. Whether or not you are able to attend the AGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return them to the Company's registered office (in the case of proxy form by holders of domestic shares) at No. 2 Jiangnan Avenue, Jiangnan Street, Changzhou 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 AGM, or any adjournment thereof, if you so wish.

28 May 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
“AGM”	the annual general meeting (or any adjournment thereof) of the Company to be convened at Chongqing Iron & Steel Conference Centre, No. 2 Jiangnan Avenue, Jiangnan Street, Changzhou District, Chongqing, the PRC, at 2 p.m. on Tuesday, 29 June 2021, for purpose of approving, among other things, the Service and Supply Agreement (including the annual caps) and the Financial Service Agreement (including the annual caps) and the transactions contemplated thereunder
“Agreements”	Service and Supply Agreement and Financial Service Agreement
“Articles of Association”	the articles of association of the Company
“Baowu Finance Company”	Baowu Group Finance Co., Ltd., a limited liability company established in the PRC
“Board”	the board of Directors
“CCT Management Committee”	continuing connected transaction management committee set up by the Company for managing the connected transactions of the Company
“Changshou 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
“China Baowu”	China Baowu Steel Group Corporation Limited, a limited liability company incorporated in the PRC and a pilot enterprise of state-owned capital investment company wholly owned by the State-owned Assets Supervision and Administration Commission of the State Council

DEFINITIONS

“China Baowu Group”	China Baowu and its subsidiaries (excluding the Group)
“Company” or “Chongqing Iron & Steel”	Chongqing Iron & Steel Company Limited, a company incorporated in PRC with limited liability and the shares of which are listed on Stock Exchange
“Director(s)”	the director(s) of the Company
“Financial Service Agreement”	the financial service agreement dated 1 April 2021 entered into between the Company and Baowu Finance Company
“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 three independent non-executive Directors, namely Mr. Xin Qingquan, Mr. Xu Yixiang and Mr. Wong Chunwa
“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 to the Independent Board Committee and the Independent Shareholders in relation to the transactions contemplated under the Agreements
“Independent Shareholder(s)”	Shareholders other than China Baowu and its associates
“Latest Practicable Date”	24 May 2021
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Original Service and Supply Agreement”	the service and supply agreement dated 20 November 2020 entered into between the Company and China Baowu

DEFINITIONS

“PRC”	the People’s Republic of China
“RMB”	renminbi, the lawful currency of the PRC
“Service and Supply Agreement” or the “Agreement”	the service and supply agreement dated 1 April 2021 entered into between the Company and China Baowu
“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
“Strategic Emerging Fund”	Chongqing Strategic Emerging Equity Investment Fund Partnership (Limited Partnership), a limited partnership incorporated under the laws of the PRC
“%”	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

28 May 2021

To the Shareholders

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTIONS – SERVICE AND SUPPLY
AGREEMENT AND FINANCIAL SERVICE AGREEMENT;
AND
(2) NOTICE OF ANNUAL GENERAL MEETING**

I. INTRODUCTION

Reference is made to the announcement of the Company dated 2 April 2021 in relation to the continuing connected transactions – Service and Supply Agreement and Financial Service Agreement.

The purpose of this circular is to provide you with the relevant information regarding the Service and Supply Agreement (including the annual caps) and the Financial Service Agreement (including the annual caps) and the transactions contemplated thereunder, and to give you notice of AGM at which resolution(s) will be proposed for the Shareholders to consider and, if thought fit, approve, the aforesaid matters.

LETTER FROM THE BOARD

II. CONTINUING CONNECTED TRANSACTIONS – SERVICE AND SUPPLY AGREEMENT AND FINANCIAL SERVICE AGREEMENT

Service and Supply Agreement

Background

Reference is made to the circular of the Company dated 19 February 2021. The Original Service and Supply Agreement has expired on 31 March 2021.

In order to ensure stable production operation and in order to ensure the continuous provision and receipt of services as well as production and raw materials, on 1 April 2021, the Company entered into the Service and Supply Agreement with China Baowu, whereby the Group agreed to provide products to China Baowu Group, and China Baowu Group agreed to provide products, materials and services to the Group.

The principal terms of the Service and Supply Agreement are set out below:

Date:

1 April 2021

Parties:

- (i) China Baowu; and
- (ii) the Company

Term

From 1 April 2021 to 31 December 2023

LETTER FROM THE BOARD

Subject Matter

- (i) China Baowu agreed to (by itself and/or China Baowu Group) provide the Group with the products, materials and services as follows:
 - (a) raw materials such as iron ore, scrap steel, refractory materials, accessories (including dolomite, limestone, etc), coal, etc;
 - (b) production materials such as chemical materials, equipment and spare parts, water, etc.; and
 - (c) technical services (including construction, software development and labour services, etc), road transportation services and sanitation and greening services, etc.
- (ii) The Company agreed to (by itself and/or the Group) provide China Baowu Group with the products as follows:
 - (a) production materials such as water, electricity, natural gas, steel billets, steel products, pig iron, etc.

Condition Precedent

The Service and Supply Agreement is conditional upon the passing of the resolution(s) approving the Service and Supply Agreement and the transactions contemplated thereunder (including the annual caps) by the Independent Shareholders at the general meeting to be convened.

Price

The terms of the Service and Supply Agreement were entered into with negotiation on an arm's length basis and on normal commercial terms. The price or consideration of the Service and Supply Agreement will be determined with reference to the following:

The price shall be based on the state-prescribed price. In the absence of the state-prescribed price, the price shall be based on the market price, which shall be determined with negotiation on an arm's length between the parties, on normal commercial terms and with reference to the comparable transaction market price.

Meanwhile, the price regarding the products provided by the Group to China Baowu Group shall not be lower than the price of the same type of products provided by the Group to independent third parties. The price regarding the products and services to be sold or provided by China Baowu Group to the Group shall not be higher than the price of the same type of products and services purchased or received by the Group to independent third parties.

LETTER FROM THE BOARD

In accordance with the prevailing pricing standards, the basis of price for each of the transactions under the Service and Supply Agreement is as follows:

Type	Pricing principle	Items
Products and materials provided by China Baowu Group to the Group	Market pricing	Raw materials such as iron ore, scrap steel, refractory materials, accessories (including dolomite, limestone, etc), coal, etc. Production materials such as chemical materials, equipment and spare parts, etc.
	State pricing (the price is determined by the Development and Reform Commission of Changshou District, Chongqing City by public notice from time to time (please refer to fzggw.cq.gov.cn for details); the current price of water was published in 2016)	Water
Services provided by China Baowu Group to the Group	Market pricing	Technical services (including construction, software development and labour services, etc), road transportation services and sanitation and greening services, etc.

LETTER FROM THE BOARD

Type	Pricing principle	Items
Products provided by the Group to China Baowu Group	State pricing (the price is determined by the Development and Reform Commission of Changshou District, Chongqing City by public notice from time to time (please refer to fzggw.cq.gov.cn for details); the current price of water was published in 2016 and the current price of electricity and natural gas was published in 2020)	Water, electricity, natural gas etc.
	Market pricing	Steel billets, steel products, pig iron etc.

Payment

The price for the provision of services or materials may be settled by one-off payment or installments. The time of payment shall be determined by the parties based on the nature of the services or materials and the usual business practice of the provision of the services or materials.

LETTER FROM THE BOARD

Proposed annual caps under the Service and Supply Agreement

The proposed annual caps (tax exclusive) in respect of the products, materials and services provided to the Group by China Baowu Group under the Service and Supply Agreement for the three financial years from 1 April 2021 to 31 December 2023 are shown in the table below:

	From 1 April 2021 to 31 December 2021 (RMB0'000)	From 1 January 2022 to 31 December 2022 (RMB0'000)	From 1 January 2023 to 31 December 2023 (RMB0'000)
Raw materials such as iron ore, scrap steel, refractory materials, accessories (including dolomite, limestone, etc), coal, etc	1,881,000	2,838,200	3,045,800
Production materials such as chemical materials, equipment and spare parts, water, etc	80,500	95,700	100,100
Technical services (including construction, software development and labour services, etc), road transportation services and sanitation and greening services, etc	203,700	294,300	259,700

The proposed annual caps (tax exclusive) in respect of the products provided to China Baowu Group by the Group under the Service and Supply Agreement for the three financial years from 1 April 2021 to 31 December 2023 are shown in the table below:

	From 1 April 2021 to 31 December 2021 (RMB0'000)	From 1 January 2022 to 31 December 2022 (RMB0'000)	From 1 January 2023 to 31 December 2023 (RMB0'000)
Production materials such as water, electricity, natural gas, steel billets, steel products, pig iron, etc	1,298,400	1,670,600	2,005,100

LETTER FROM THE BOARD

The proposed caps of transaction amount are determined by reference to:

- (i) the recent market prices or state-prescribed prices applicable to the relevant materials and/or services;
- (ii) the Group's anticipated capacity in providing products to China Baowu Group, and the Group's anticipated demand for China Baowu Group's products and services to meet its production plans; and
- (iii) China Baowu Group's anticipated demand for the products from the Group and anticipated capacity in providing products and services to the Group.

The historical transaction figures (tax exclusive) in respect of the products, materials and services provided to the Group by China Baowu Group under the Original Service and Supply Agreement are shown in the table below:

**From 16 September 2020
to 31 March 2021**
(RMB0'000)

Raw materials such as iron ore, scrap steel, coal, etc	387,565.37
Production materials such as chemical materials, equipment and spare parts, etc	2,631.65
Technical services (including construction, software development and labour services, etc), road transportation services and sanitation and greening services, etc	59,836.63

The historical transaction figures (tax exclusive) in respect of the products provided to China Baowu Group by the Group under the Original Service and Supply Agreement are shown in the table below:

**From 16 September 2020
to 31 March 2021**
(RMB0'000)

Production materials such as water, electricity, natural gas, steel billets, steel products, pig iron, etc	243,464.39
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LETTER FROM THE BOARD

In determining the proposed annual caps, the Company has estimated (a) the potential demand on the relevant products, materials and services from China Baowu Group; (b) the potential sales amount of materials to China Baowu Group; and (c) the future prices of relevant products, materials and services, after taking into account (i) the production plan of the Group for the three years ending 31 December 2023 (the “**Production Plan**”); (ii) the historical average purchase prices of the Group for similar products or services in the domestic market; and (iii) the Platts Iron Ore Index.

The difference between the proposed annual caps and the historical transaction figures is mainly due to the following reasons:

Purchase of raw materials from China Baowu Group

Among the annual cap for raw materials such as iron ore, coal, scrap steel, etc., the transaction amount of iron ore is expected to account for approximately or more than 70% of the annual cap. According to the Production Plan, the Group plans to produce pig iron of approximately 6.21 million tonnes, 10.00 million tonnes and 10.00 million tonnes for the nine months ending 31 December 2021, the year ending 31 December 2022 and 2023 respectively. Iron ore is one of the major raw materials for the production of pig iron. For the year ended 31 December 2020, approximately 1.60 tonnes of iron ore were required for producing one tonne of pig iron. As such, it is estimated that the Group is required to procure iron ore of approximately 9.936 million tonnes, 16.00 million tonnes and 16.00 million tonnes to fulfill the Production Plan for the nine months ending 31 December 2021, the year ending 31 December 2022 and 2023 respectively. The quantity to be purchased is expected to increase significantly as compared with the 5 to 6 months ending 31 March 2021 in which the Group is only required to procure iron ore of approximately 5.43 million tonnes.

Purchase of production materials from China Baowu Group

The proposed annual caps for the procurement of equipment and spare parts account for more than 90% of the proposed annual caps for the procurement of production materials. The proposed annual caps for the procurement of production materials are determined with reference to historical transaction amounts. The historical transaction amount in relation to the Group’s procurement of equipment and spare parts amounted to approximately RMB968 million and RMB1,089 million for the two years ended 31 December 2020 respectively. As such, the proposed annual caps for the three financial years from 1 April 2021 to 31 December 2023 regarding the purchase of production materials from China Baowu Group are consistent with the historical figures.

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Acceptance of services from China Baowu Group

The significant increase in the annual caps for technical services is mainly attributed to the expected increase in the transaction amount of construction services. Construction services are required for (1) daily maintenance of the Group's production facilities (the "**Maintenance Projects**"); and (2) upgrading the Group's current facilities (the "**Upgrading Projects**"). The amount of construction services required for the Maintenance Projects is related to the production volume of the steel whereas that required for the Upgrading Projects is associated with the increase in the production capacity of the Group. It is expected that the transaction amount of construction service will be increased from approximately RMB780 million for the 5 to 6 months ending 31 March 2021 to RMB1,234 million, RMB1,878 million and RMB1,510 million for the nine months ending 31 December 2021, the year ending 31 December 2022 and 2023 respectively given the rapid increase of production volume of steel.

Sale of production materials to China Baowu Group

The proposed annual caps for sales of products mainly consist of sales of steel products and pig iron.

According to the Production Plan, the Group plans to produce steel products of approximately 7.96 million tonnes, 11.62 million tonnes and 12.58 million tonnes for the nine months ending 31 December 2021, the year ending 31 December 2022 and 2023 respectively. Given that (a) the production volumes of steels products for the three years ending 31 December 2023 are expected to increase significantly as compared to that for the year ended 31 December 2020 as a result of the upgrade of production facilities; (b) sales to China Baowu Group allow the Group to generate additional revenue from the Group's increasing production capacity; the amounts of steel products sold to China Baowu Group is expected to significantly increase in the three financial years ending 31 December 2023.

According to the Production Plan, the Group plans to produce pig iron of approximately 6.21 million tonnes for the nine months ending 31 December 2021 and approximately 8.50 million tonnes for the year ending 31 December 2021, representing an increase of approximately 33.2% as compared to that in 2020. Meanwhile, the Group is undergoing upgrading and renovation projects for certain steel rolling facilities which has limited the production volume of steel rolling in 2021, the Group plans to sell more pig iron (which is originally acquired for its own steel rolling purpose) to China Baowu Group for better utilisation of its resources.

LETTER FROM THE BOARD

Reasons for entering into the Service and Supply Agreement

The signing of the Service and Supply Agreement between the Company and China Baowu is conducive to the Company's use of China Baowu's brand, advantages, channels, and resources to ensure stable and reliable supply of products, materials and services at a reasonable price, which is crucial to the Company's production stability, cost reduction and efficiency enhancement. On the one hand, through entering into the Service and Supply Agreement with China Baowu, the Company could obtain the aforementioned products, materials and services, which will help ensure the stability and continuity of the Company's future production; on the other hand, based on the aforementioned transaction and pricing principle, the connected transaction will have a positive impact on the Company.

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

Financial Service Agreement

Background

On 1 April 2021, the Company entered into the Financial Service Agreement with Baowu Finance Company, whereby Baowu Finance Company and the Company agreed to cooperate in financial business based on the principles of legal compliance, equality and voluntariness, controllable risk and mutual benefit and Baowu Finance Company would provide relevant financial services to the Company.

The principal terms of the Financial Service Agreement are set out below:

Date:

1 April 2021

Parties:

- (i) Baowu Finance Company; and
- (ii) the Company

LETTER FROM THE BOARD

Term:

From the effective date of the agreement to 31 December 2023

Subject Matter and Proposed Caps of Transaction Amount

Baowu Finance Company agreed to provide the Company with the services as follows:

1. *Comprehensive credit services*

Credit and financing services include but are not limited to project-financing loans, loan commitment letter, current fund loans, bill acceptance, commercial bill discount, letter of credit, inward documentary bills, shipping guarantee, merger and acquisition loans; the specific business types and credit limit are subject to the relevant contract document signed by the parties upon the consideration and approval of the credit by Baowu Finance Company. In respect to the aforementioned comprehensive credit services, up to 31 December 2023, the maximum daily credit limit provided to the Company by Baowu Finance Company would be RMB2 billion (inclusive of interests).

2. *Treasury management services*

Treasury management services include settlement transaction service, deposit service, cash sweeping service and foreign exchange financial service. In respect to the aforementioned deposit service under the treasury management services, up to 31 December 2023, the maximum daily balance limit for deposit cash of deposit service provided to the Company by Baowu Finance Company would be RMB2 billion (inclusive of interests).

3. *Other financial services*

- (a) Financial advisory services: to provide professional financial advisory service. As per the financial demand in the business activities of the Company and its subsidiaries, such as investment, financing, merger and acquisition and reorganization, Baowu Finance Company would form a financial advisory team for specific project to provide special financial advisory service.
- (b) Information advisory services: leveraging on its own resource advantage and experience, Baowu Finance Company would provide the Company training and information advisory service with various topics in accordance with the Company's financial needs during the course of its business development and the actual circumstance.

LETTER FROM THE BOARD

- (c) Other financial services: other business cooperation models recognized by the parties would be added in accordance with their needs during the course of their business development.

In respect to the treasury management services (other than deposit service) under item 2 as well as the other financial services under item 3 mentioned above, up to 31 December 2023, the maximum annual cap of the service charges for services provided to the Company by Baowu Finance Company would be RMB1 million (other than acceptance charge, settlement handling fee, handling fee for opening letter of credit and other fees charged by banks on behalf).

The historical transaction figures (tax exclusive) in respect of the services that Baowu Finance Company agreed to provide to the Company are shown in the table below:

	From 1 January 2019 to 31 December 2019 <i>(RMB100 million)</i>	From 1 January 2020 to 31 December 2020 <i>(RMB100 million)</i>
Maximum daily credit limit for comprehensive credit services	5	10
Maximum daily balance limit for deposit cash of deposit service under the treasury management services	4	6
Treasury management services (other than the deposit service) under item 2 above and the other financial services under item 3	0	0

Determination of annual caps for the Financial Service Agreement

Maximum daily credit limit for comprehensive credit services

In determining the daily credit limit of RMB2 billion, the Company has taken into account, among other things, (a) the current financial position of the Group; and (b) the Group's future demand for the credit services generated from business development.

As stated in the annual results announcement of the Company for the year ended 31 December 2020, trade receivable amounted to approximately RMB35.0 million as at 31 December 2020, representing an increase of approximately 524.6% as compared to approximately RMB5.6 million as at 31 December 2019. Meanwhile, for the purpose of improving the liquidity of the Group, the Group obtains short-term borrowings by discounting bank acceptances during its daily capital management. Receivables financing of the Group increased by approximately 140.1% to approximately RMB2.1 billion as at 31 December 2020 from approximately RMB861.4 million as

LETTER FROM THE BOARD

at 31 December 2019. Among the receivables financing of approximately RMB2.1 billion as at 31 December 2020, approximately RMB1.3 billion was pledged for issuing bank acceptances and the remaining balance of approximately RMB800 million could be managed with the credit services provided by Baowu Finance Company in the future, including the discount of bank acceptances, as advised by the management of the Group.

According to the Production Plan, the production volumes of pig iron, steel and steel products are expected to increase at CAGRs of approximately 16.16%, 22.22% and 22.88%, respectively, during the period from 2020 to 2023. To accommodate such expansion of the Group's production capacity, the Group's demand for credit services is expected to increase.

The Company understands that Baowu Finance Company could also provide loans, letter of credit and other credit services to support the working capital of the Group. As at 31 December 2020, the Group had a net current liabilities position of approximately RMB380.8 million as compared to a net current assets position of approximately RMB2.8 billion as at 31 December 2019. As at 31 December 2020, total debts of the Group, comprising borrowings, notes payable and bonds payable amounted to approximately RMB3.4 billion, among which approximately RMB2.0 billion would be due within one year. The credit services provided by Baowu Finance Company could assist the Group in managing the working capital when the Group is undergoing an expansion in production capacity.

Maximum daily balance limit for deposit cash of deposit service under the treasury management services

In determining the daily balance limit of RMB2 billion, the Company has adopted the approach in maintaining a proper balance between deposits and loans. Baowu Finance Company has certain requirements on the average daily deposit amount for customers, which in any event shall not exceed the maximum limit of RMB2 billion.

Condition Precedent

The Financial Service Agreement is conditional upon the passing of the resolution(s) approving the Financial Service Agreement and the transactions contemplated thereunder (including the annual caps) by the Independent Shareholders at the general meeting to be convened.

Price

The terms of the Financial Service Agreement were entered into with negotiation on an arm's length basis and on normal commercial terms. The price or consideration of the Financial Service Agreement will be determined with reference to the following:

LETTER FROM THE BOARD

Maximum daily limit for comprehensive credit services

Pursuant to the Financial Service Agreement, the credit interest rates and rates for the credit business including loans, bills acceptance, bills discounting provided by Baowu Finance Company to the Company, shall not be higher than the credit interest rates and rates standard available to the Company from other domestic independent financial institutions in the same type for the same period in principle.

Maximum daily balance limit for deposit cash of deposit service under the treasury management services

Pursuant to the Financial Service Agreement, the deposit rates of the deposit service provided by Baowu Finance Company to the Company are determined based on the deposit rates in the same type for the same period promulgated by the People's Bank of China, and shall not be lower than deposit rates available to the Company from major domestic independent commercial banks in the PRC in the same type for the same period in principle.

The Company has taken into account similar financial service agreement entered into by a number of comparable listed companies. The Directors are of the view that financial services received by the comparable listed companies were similar to those under the Financial Service Agreement including but not limited to loan services, deposit services, settlement services, and other miscellaneous financial services; and (b) pricing basis of the financial services received by the comparable listed companies were similar to those under the Financial Service Agreement which include making reference to the credit interest rates and deposit interest rates offered by independent financial institutions and commercial bank in the PRC.

Maximum annual caps for treasury management services (other than the deposit service) and the other financial services

The maximum annual caps for the service charges are the estimated amount based on the services provided by Baowu Finance Company to other enterprises in the same type. The acceptance handling fee, handling fee for opening letter of credit, settlement handling fee and other fees charged by banks on behalf shall be implemented based on the relevant prices promulgated by the People's Bank of China and the National Development and Reform Commission, and shall not fall into the financial service charges.

LETTER FROM THE BOARD

Reasons for entering into the Financial Service Agreement

The Directors believe that Baowu Finance Company, as a non-banking financial institution and an important long-term partner of the Company in the future, can provide the Company with the financial management and diversified financial services, which is conducive for the Company to optimize its financial management, improve the fund utilization efficiency and reduce the financing costs and risks. The transactions contemplated under the Financial Service Agreement shall strictly comply with the transaction principles of voluntariness, equality, integrity and fairness, will not prejudice the interests of the Company and the shareholders, nor will they affect the independence of the Company or the Company's ability to continue as a going concern.

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

Information of the Company, China Baowu Group and Baowu Finance Company

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

China Baowu is a state-owned capital investment company wholly owned by the State-owned Assets Supervision and Administration Commission of the State Council. Its business scope includes operating state-owned assets within the scope authorized by the State Council, as well as carrying out relevant state-owned capital investment and operation.

Baowu Finance Company is a company controlled by China Baowu. Its business scope includes the provision of financial services and financing advisory services, credit verification and related consultancy, agency services, etc.

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, Mr. Zhang Wenxue and Mr. Zhou Ping, who have positions in or connected with China Baowu Group and have abstained from voting on the relevant Board's resolutions for the approval of the Service and Supply Agreement (including the annual caps) and Financial Service Agreement (including the annual caps) and the transactions contemplated thereunder, none of the Directors has interests in such transactions.

LETTER FROM THE BOARD

Internal Control

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

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

For the continuing connected transactions involving provision of products and services by China Baowu Group to the Group, it is the Group's policy to request service providers, including China Baowu Group and other independent service providers, to provide quotations in respect of the requested services and products. Following the receipt of quotations from China Baowu Group and other independent service providers, the Group will compare and negotiate the terms of quotations with service providers, and determine the selection of service providers by taking into account factors such as price quotations, quality of the products and services, ability of the service providers in meeting technical specifications and delivery schedules, and qualification and relevant

LETTER FROM THE BOARD

experiences of the service providers. The contract will be awarded to the service provider who offers the best commercial terms and technical terms to the Company. Other than obtaining of quotations, the Group may award a contract through a tender process, and there should be no less than three tenderers participating the tender process. The contract will be awarded to the service provider after assessment based on the criteria as set out above. The Company will try to obtain as many quotations and/or tenders as possible for the Company's interest. Accordingly, China Baowu Group may or may not be awarded the contracts.

For the continuing connected transactions involving provision of products by the Group to China Baowu Group, as mentioned above, the price shall be determined based on state-prescribed price or market price (as appropriate), which shall not be lower than the price of the same type of products provided by the Group to independent third parties with reference to the market price information gathered by (i) internal data base maintained by the operation departments of the Company based on the recent invoices issued to independent third parties and (ii) leading websites providing information regarding iron and steel such as www.mysteel.com and www.steelhome.cn.

For the continuing connected transactions involving provision of financial services by Baowu Finance Company to the Group, in order to protect the interests of the Shareholders, the Group has adopted certain internal control procedures and corporate governance measures to regulate the utilization of financial services under the Financial Service Agreement. For instance, after the end of each year, the Company will request Baowu Finance Company to provide sufficient information, including the audited financial statement, to enable the Company to review and assess the financial condition of Baowu Finance Company. If the Company considers that there is any material adverse change in the financial condition of Baowu finance Company, it will take appropriate measures (including early withdrawal of deposits) to safeguard its assets.

When any member of the Group is entering into major sub-contracts pursuant to the Agreements, the above pricing management procedures shall be followed in order to determine the price in those contracts.

Listing Rules Implications

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 the substantial shareholder of the Company. China Baowu has the control of 65% equity interest in Changshou Iron & Steel by the acting in concert agreement with Strategic Emerging Fund. China Baowu is the indirect controlling shareholder of Changshou Iron & Steel and is accordingly an indirect substantial shareholder of the Company, i.e., a connected person under Chapter 14A of the Listing Rules, as well as the de facto controller of the Company as defined under the Rules Governing the Listing of Securities on Shanghai Stock Exchange. Given that Baowu Finance Company is a company controlled by China Baowu, Baowu Finance Company is also a connected person under Chapter 14A of the Listing Rules. Therefore, the

LETTER FROM THE BOARD

transactions under the Service and Supply Agreement and Financial Service Agreement constitute continuing connected transactions of the Company under the Listing Rules. As the applicable percentage ratios for the caps of the proposed amount of the transactions contemplated under the Service and Supply Agreement and Financial Service Agreement are more than 5%, the transactions contemplated under the Service and Supply Agreement and Financial Service Agreement constitute non-exempt continuing connected transactions under Chapter 14A of the Listing Rules and are subject to the requirements of reporting, announcement, Independent Shareholders' approval and annual review under Chapter 14A of the Listing Rules.

The Independent Board Committee will advise the Independent Shareholders in respect of the relevant terms of the Service and Supply Agreement and the Financial Service Agreement. The Independent Financial Adviser has also been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

III. AGM

The AGM will be held at 2 p.m. on Tuesday, 29 June 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, the Service and Supply Agreement and the Financial Service Agreement. Notice of the AGM is set out on page 61 to 63 of this circular.

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

The proxy form for use at the AGM is enclosed with this circular. Whether or not you are able to attend the AGM, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited at 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 AGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the AGM or any adjourned meeting should you so desire.

LETTER FROM THE BOARD

IV. RECOMMENDATION

The Board considers that the transactions under the Agreements 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 AGM.

V. 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
Liu Jianrong
Chairman

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)

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS – SERVICE AND SUPPLY AGREEMENT AND FINANCIAL SERVICE AGREEMENT

We refer to the circular dated 28 May 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 Agreements, 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 transactions under the Agreements are entered into in the ordinary course of business of the Group; (ii) the terms of the Agreements are normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole; and (iii) the annual caps contemplated under the Agreements for the period ended 31 December 2023 are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to approve the Agreements and the transactions contemplated thereunder at the AGM.

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 to the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the Service and Supply Agreement and the Financial Service Agreement which has been prepared for the purpose of inclusion in this circular.

Rainbow Capital (HK) Limited

28 May 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,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the Service and Supply Agreement and the Financial Service Agreement (the “**Transactions**”) and the proposed annual caps (the “**Proposed Caps**”) for the Transactions up to 31 December 2023, 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 28 May 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 1 April 2021, the Company entered into the Service and Supply Agreement with China Baowu, pursuant to which the Group agreed to provide products to China Baowu Group and China Baowu Group agreed to provide products, materials and services to the Group. On the same date, the Company entered into the Financial Service Agreement with Baowu Finance Company, whereby Baowu Finance Company agreed to provide credit and financing services, treasury management services and other financial services to the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, Changshou Iron & Steel was interested in approximately 23.51% of the issued share capital of the Company and was therefore the substantial shareholder of the Company. China Baowu has the control of 65% equity interest in Changshou Iron & Steel by the acting in concert agreement with Strategic Emerging Fund. As China Baowu is the indirect controlling shareholder of Changshou Iron & Steel, it is an indirect substantial shareholder of the Company and therefore a connected person of the Company under Chapter 14A of the Listing Rules. Given that Baowu Finance Company is a company controlled by China Baowu, it is a connected person under Chapter 14A of the Listing Rules. As such, the Transactions constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio for the Proposed Caps is more than 5%, the Transactions constitute non-exempt continuing connected transactions under Chapter 14A of the Listing Rules, which are subject to the reporting, announcement, independent shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules. China Baowu and its associate(s) will abstain from voting on the resolutions approving the Transactions and the Proposed Caps at the AGM.

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 Transactions are in the ordinary and usual course of business of the Group; (ii) the Transactions are on normal commercial terms which are fair and reasonable; (iii) the entering into of the Service and Supply Agreement and the Financial Service Agreement is in the interests of the Company and the Shareholders as a whole; and (iv) the Proposed Caps are fair and reasonable. 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 China Baowu Group 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; and (iii) the continuing connected transactions between China Baowu Group and the Group, details of which are set out in the circular of the Company dated 19 February 2021, (collectively, the "**Previous Engagements**"). Other than that, there was no engagement or connection between the Group or China Baowu Group 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 China Baowu Group. 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 financial year ended 31 March 2021, we are qualified to give independent advice in respect of the Transactions (including the Proposed Caps).

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 and its advisers; (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 businesses, affairs, operations, financial position or future prospects of the Group, China Baowu Group or any of their respective substantial shareholders, subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of the Service and Supply Agreement and the Financial Service Agreement (including the Proposed Caps) are fair and reasonable, we have taken into account the principal factors and reasons set out below:

1. Information on the Group, China Baowu Group and Baowu Finance Company

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 scrap. 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

China Baowu is a state-owned capital investment company wholly-owned by the State-owned Assets Supervision and Administration Commission of the State Council. Its business scope includes operating state-owned assets within the scope authorised by the State Council, as well as carrying out relevant state-owned capital investment and operation. China Baowu has been maintaining a leading position in the iron and steel manufacturing industry, with total assets of approximately RMB862.2 billion as at 31 December 2019, revenue of approximately RMB552.2 billion and net profit of approximately RMB29.6 billion for the year ended 31 December 2019.

Baowu Finance Company, a company controlled by China Baowu, is a non-banking financial institution regulated by the China Banking and Insurance Regulatory Commission (“**CBIRC**”) and is principally engaged in provision of financial services to the members of China Baowu Group (including the Group). Its business scope comprises general banking services including deposit taking, loan servicing and notes acceptance and discounting, as well as provision of financial and other advisory services, insurance agency services and investment activities. The Company confirms that CBIRC has not taken any disciplinary actions, or imposed penalties or fines on Baowu Finance Company since its incorporation.

2. Reasons for entering into the Transactions

As set out in the Letter from the Board, the production stability and continuity of the Group can be maintained through the entering into of the Service and Supply Agreement. As advised by the Directors, on one hand, as a leading iron and steel manufacturer, China Baowu Group is specialised in providing the products and services under the Service and Supply Agreement. We concur with the Directors that the procurement from China Baowu Group is in line with the Group’s strategy to strengthen its procurement system by cooperating with high-quality suppliers. On the other hand, the Company considers China Baowu Group is a reliable partner with high credit standing. We consider that the entering into of the Service and Supply Agreement is consistent with the business and commercial objectives of the Group as the sales of products by the Group to China Baowu Group can enhance the business opportunities of the Group and broaden the revenue base of the Group.

On the other hand, under the Financial Service Agreement, Baowu Finance Company, as a non-banking financial institution, can provide the Group with the financial management and diversified financial services. This is conducive for the Group to optimise its financial management, improve the fund utilization efficiency and reduce the financing costs and risks, as stated in the Letter from the Board.

Based on the above, we consider that the Transactions are conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. Principal terms of the Service and Supply Agreement and the Financial Service Agreement

(i) *Service and Supply Agreement*

The Service and Supply Agreement was entered into on 1 April 2021 between the Company and China Baowu. Details of the terms of the Service and Supply Agreement are set out in the Letter from the Board, which are summarised as follows:

Term : From 1 April 2021 to 31 December 2023

Subject Matter : (a) China Baowu (by itself and/or China Baowu Group) agreed to provide the Group with the products, materials and services as follows:

- (1) raw materials such as iron ore, scrap steel, refractory materials, accessories (including dolomite, limestone, etc.), coal, etc.;
- (2) production materials such as chemical materials, equipment and spare parts, water etc.; and
- (3) technical services (including construction, software development and labour services, etc.), road transportation services and sanitation and greening services, etc.

(b) The Company (by itself and/or the Group) agreed to provide China Baowu Group with the products as follows:

- (1) production materials such as water, electricity, natural gas, steel billets, steel products, pig iron, etc.

Pricing basis : The price shall be based on the state-prescribed price. In the absence of the state-prescribed price, the price shall be based on the market price, which shall be determined with negotiation on an arm's length between the parties, on normal commercial terms and with reference to the comparable transaction market price.

The price regarding the products sold by the Group to China Baowu Group shall not be lower than the price of the same type of products sold by the Group to independent third parties. The price regarding the products and services to be sold or provided by China Baowu Group to the Group shall not be higher than the price of the same type of products and services purchased or received by the Group from independent third parties.

In accordance with the prevailing pricing standards, the basis of price for each of the transactions under the Service and Supply Agreement are as follows:

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Type	Pricing principle
<p>Products and materials provided by China Baowu Group to the Group</p>	<p>(a) Market pricing for raw materials and production materials; and</p> <p>(b) State pricing for water (the price is determined by the Development and Reform Commission of Changshou District, Chongqing City by public notice from time to time (please refer to fzggw.cq.gov.cn for details); the current price of water was published in 2016)</p>
<p>Services provided by China Baowu Group to the Group</p>	<p>Market pricing</p>
<p>Products provided by the Group to China Baowu Group</p>	<p>(a) State pricing for water, electricity, natural gas, etc. (the price is determined by the Development and Reform Commission of Changshou District, Chongqing City by public notice from time to time (please refer to fzggw.cq.gov.cn for details); the current price of water was published in 2016 and the current price of electricity and natural gas was published in 2020); and</p> <p>(b) Market pricing for steel billets, steel products, pig iron, etc.</p>
<p>Payment terms</p>	<p>: The price for the provision of services or materials may be settled by one-off payment or installments. The time of payment shall be determined by the parties based on the nature of the services or materials and the usual business practice of the provision of the services or materials.</p>
<p>Conditions precedent</p>	<p>: The Service and Supply Agreement is conditional upon the passing of the resolution(s) approving the Service and Supply Agreement and transactions contemplated thereunder (including the annual caps) by the Independent Shareholders at the AGM.</p>

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As advised by the management of the Group, the products, materials and services provided by China Baowu Group to the Group mainly include iron ore, coal, scrap steel and construction services whereas the products provided by the Group to China Baowu Group mainly include steel products.

In respect of procurement of iron ore, coal and scrap steel

In respect of historical procurement of iron ore, coal and scrap steel by the Group from China Baowu Group, we have obtained historical contract lists provided by the management of the Group, based on which we have identified the largest 20 transactions for each of the procurement of iron ore, coal and scrap steel (the “**Top Transactions**”) during the period from 1 October 2020 to 28 February 2021 (the “**Review Period**”) after China Baowu, Siyuanhe (Chongqing) Iron & Steel Industrial Development and Equity Investment Fund Partnership (Limited Partnership) and Siyuanhe Investment and Sichuan Desheng Group Vanadium & Titanium Co., Ltd. signed an equity transfer agreement in September 2020 in respect of the distribution in kind of the 75% equity interests in Changshou Iron & Steel such that China Baowu would become the de facto controller of the Company upon completion of such distribution, as set out below:

	For the five months ended 28 February 2021		
	Iron ore	Coal	Scrap steel
Number of Top Transactions entered into with China Baowu Group	9	2	4
Number of Top Transactions entered into with independent third parties	<u>11</u>	<u>18</u>	<u>16</u>
Total	<u>20</u>	<u>20</u>	<u>20</u>

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

From the Top Transactions, we have selected, obtained and reviewed (a) 8 contracts for procurement of iron ore, coal or scrap steel from China Baowu Group; and (b) 8 contracts for procurement of iron ore, coal or scrap steel from independent third parties, as set out below:

	For the five months ended 28 February 2021		
	Iron ore	Coal	Scrap steel
Number of Top Transactions entered into with China Baowu Group	3	2	3
Number of Top Transactions entered into with independent third parties	<u>3</u>	<u>2</u>	<u>3</u>
Total	<u><u>6</u></u>	<u><u>4</u></u>	<u><u>6</u></u>

Taking into account that (a) the sample contracts above have covered all the major materials; (b) the same number of sample contracts entered into with independent third parties for similar products or materials was selected for comparison with those with China Baowu Group; (c) all sample contracts above were selected from the Top Transactions with relatively large contract values; and (d) a total of 16 sample contracts were selected and reviewed, we are of the view that the number and size of sample contracts are sufficient and representative to provide a general reference to the major terms of historical contracts entered into between the Group and each of China Baowu Group and independent third parties for procurement of iron ore, coal and scrap steel.

In reviewing the sample contracts we selected above, we noted (a) the final settlement prices for iron ore were determined with reference to the Platts Iron Ore Index, a market-recognised index for pricing iron ore in the industry (details of which are further set out below); (b) the prices for coal and scrap steel procured from China Baowu Group were equal to or less than those procured from independent third parties; and (c) other terms of the sample contracts between the Group and China Baowu Group were no less favourable to the Group than those between the Group and independent third parties.

In respect of procurement of construction services

In respect of historical procurement of construction services of the Group, we have obtained a list of historical contracts (the “**Construction Contracts**”) entered into between the Group and China Baowu Group during the Review Period.

From Construction Contracts, we have selected, obtained and reviewed three sample contracts. For comparison purpose, we have also selected, obtained and reviewed three sample contracts entered into between the Group and independent third parties for procurement of similar construction services during the Review Period.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In reviewing the sample contracts we selected above, we noted that terms of the sample contracts between the Group and China Baowu Group were no less favourable to the Group than those between the Group and independent third parties.

In respect of sales of steel products

In respect of historical sales of steel products of the Group, we have obtained a list of historical contracts entered into between the Group and China Baowu Group during the Review Period, based on which we have identified the largest 10 transactions between the Group and China Baowu Group (the “**Top 10 Transactions**”).

From the Top 10 Transactions, we have selected, obtained and reviewed three sample contracts. For comparison purpose, we have also selected, obtained and reviewed three sample contracts for sales of similar products to independent third parties during the Review Period.

In reviewing the sample contracts we selected above, we noted that (a) the prices for the steel products sold to China Baowu Group were equal to or higher than those sold to independent third parties; and (b) other terms of the sample contracts between the Group and China Baowu Group were no less favourable to the Group than those between the Group and independent third parties.

Internal control

As disclosed in the Letter from the Board, in relation to the provision of materials and services by China Baowu Group to the Group, the finance department of the Company will carry out the pricing management and will lead the relevant managing department of each profession to conduct research on market prices for the continuing connected transactions involving provision of products and services by China Baowu Group to the Group. The Company will procure to obtain at least two quotations from independent third-party service providers. Other than obtaining of quotations, the Group may award a contract through a tender process. The contract will be awarded to the service provider who offers the best commercial terms and technical terms to the Company.

For the provision of products by the Group to China Baowu Group, as disclosed in the Letter from the Board, the Company will also conduct the pricing management and the price shall not be lower than the price of the same type of products provided by the Group to independent third parties. The selling prices of the Group’s product shall be determined with reference to the market price information gathered by (a) internal database maintained by the operation departments of the Company based on the recent invoices issued to independent third parties; and (b) industry websites providing information regarding iron and steel such as www.mysteel.com and www.steelhome.cn (the “**Relevant Websites**”).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In assessing whether the above internal control procedures are sufficient and effective, we have reviewed sample fee quotations obtained by the Company from independent third parties for similar materials or services. We noted that the Group had made public enquiry with similar good and/or service providers in the market which are independent third parties, as to the prices or fees of the products and services. For the provision of products by the Group to China Baowu Group, we have reviewed the Group's internal database on the selling prices of the products sold to independent third parties which will be updated on a daily basis and the Relevant Websites.

Taking into account (a) the Group shall obtain fee quotations from independent third parties as a counter check, as stated above; (b) there is sufficient market information available in the internal database and on the Relevant Websites; and (c) the prices for similar products, materials or services under the sample contracts entered into between the Group and China Baowu Group (the "**China Baowu Contracts**") were no less favourable to the Group than those entered into between the Group and independent third parties (the "**Independent Contracts**"), as illustrated above, we are of the view that the internal control procedures stated above (a) allow the Group to obtain sufficient market information including the market prices from independent sources so as to follow the pricing principals stated in the Service and Supply Agreement; and (b) assist in ensuring the pricing terms between the Group and China Baowu Group are no less favourable to the Group than those between the Group and independent third parties. On this basis, we consider the above internal control procedures are sufficient and effective in ensuring the transactions between the Group and China Baowu Group follow the pricing mechanism under the Service and Supply Agreement.

Conclusion

To sum up, as illustrated above, we have selected, obtained and reviewed the China Baowu Contracts and the Independent Contracts for procurement of major products, materials and services as well as sales of products under the Service and Supply Agreement. Given the pricing policy and the internal control procedures for the transactions contemplated under the China Baowu Contracts are the same as those applicable to the Service and Supply Agreement, we consider that our review and comparison of the historical transactions under the China Baowu Contracts and the Independent Contracts could assist us in evaluating the fairness and reasonableness of the terms of the Service and Supply Agreement. When comparing the terms of the China Baowu Contracts with those of the Independent Contracts, we noted that the prices for similar products, materials or services of the China Baowu Contracts were no less favourable to the Group than those under the Independent Contracts.

On the above basis, we consider that the terms of the Service and Supply Agreement are on normal commercial terms which are fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(ii) Financial Service Agreement

The Financial Service Agreement was entered into on 1 April 2021 between the Company and Baowu Finance Company. Details of the terms of the Financial Service Agreement are set out in the Letter from the Board, which are summarised as follows:

Term : From the effective date of the agreement to 31 December 2023

Subject Matter : Baowu Finance Company agreed to provide the Company with the services as follows:

(a) Comprehensive credit services

Credit and financing services include but are not limited to project-financing loans, loan commitment letter, current fund loans, bill acceptance, commercial bill discount, letter of credit, inward documentary bills, shipping guarantee, merger and acquisition loans. The specific business types and credit limit are subject to the relevant contract document signed by the parties upon the consideration and approval of the credit by Baowu Finance Company.

(b) Treasury management services

Treasury management services include settlement transaction service, deposit service, cash sweeping service and foreign exchange financial service.

(c) Other financial services

- (1) Financial advisory services: to provide professional financial advisory service in relation to the business activities of the Group such as investment, financing, merger and acquisition and reorganisation;
- (2) Information advisory services: to provide training and information advisory service; and
- (3) Other financial services recognised by the parties.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Pricing basis : The price or consideration of the Financial Service Agreement will be determined with reference to the following:

(a) In respect of comprehensive credit services

The credit interest rates and rates for the credit business including loans, bills acceptance and bills discounting provided by Baowu Finance Company to the Company shall not be higher than the credit interest rates and rates standard available to the Company from other domestic independent financial institutions in the same type for the same period in principle.

(b) In respect of treasury management services and other financial services

The deposit rates of the deposit service provided by Baowu Finance Company to the Company are determined based on the deposit rates in the same type for the same period promulgated by the People's Bank of China, and shall not be lower than deposit rates available to the Company from major domestic independent commercial banks in the PRC in the same type for the same period in principle.

For treasury management services (other than deposit service) and other financial services, the service charges are determined based on the services provided by Baowu Finance Company to other enterprises in the same type.

Conditions precedent : The Financial Service Agreement is conditional upon the passing of the resolution(s) approving the Financial Service Agreement and the transactions contemplated thereunder (including the annual caps) by the Independent Shareholders at the AGM to be convened.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have reviewed the Financial Service Agreement and noted that the Company will give priority to Baowu Finance Company for procurement of relevant financial services, provided that the terms provided by Baowu Finance Company are no less favourable to the Group than those provided by independent third parties. In other words, the Financial Service Agreement provides the Company with an additional option (instead of an obligation) of obtaining relevant financial services. Pursuant to the Financial Service Agreement, Baowu Finance Company shall promptly notify the Company if there is any significant change in its operation status.

As advised by the management of the Group, in order to protect the interests of the Shareholders, the Group has adopted certain internal control procedures and corporate governance measures to regulate the utilisation of financial services under the Financial Service Agreement. For instance, after the end of each year, the Company will request Baowu Finance Company to provide sufficient information, including the audited financial statement, to enable it to review and assess the financial condition of Baowu Finance Company. If the Company considers that there is any material adverse change in the financial condition of Baowu Finance Company, it will take appropriate measures (including early withdrawal of deposits) to safeguard its assets.

In order to assess the fairness and reasonableness of the terms of the Financial Service Agreement, we have reviewed the financial service agreements entered into by the Comparable Companies (defined below) which are similar to the arrangement under the Financial Service Agreement. Based on our review, we noted that (a) the financial services received by the Comparable Companies were similar to those under the Financial Service Agreement including but not limited to loan services, deposit services, settlement services and other miscellaneous financial services; and (b) the pricing bases of the financial services received by the Comparable Companies were similar to those under the Financial Service Agreement which include making reference to the credit interest rates and deposit interest rates offered by independent financial institutions and commercial banks in the PRC.

Taking into account (a) the Group has the option but not the obligation to use the financial services provided by the Baowu Finance Company under the Financial Service Agreement; (b) the internal control and risk management measures to be implemented by the Group to safeguard its assets as mentioned above; (c) the pricing terms under the Financial Service Agreement shall be no less favourable to the Group than those provided by independent third parties; and (d) the scope and pricing basis under the Financial Service Agreement are similar to those received by the Comparable Companies (defined below), we consider that the terms of the Financial Service Agreement are on normal commercial terms and are fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

4. The proposed annual caps for the transactions under the Service and Supply Agreement

The proposed annual caps (tax exclusive) for the transactions under the Service and Supply Agreement for the nine months ending 31 December 2021 (“**9M2021**”) and the two years ending 31 December 2023 (“**FY2022**” and “**FY2023**”, respectively) are set out below:

	9M2021	FY2022	FY2023
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Procurement of products, materials and services from China Baowu Group			
(i) Products and materials			
– Raw materials such as iron ore, scrap steel, refractory materials, accessories (including dolomite, limestone, etc), coal, etc	18,810	28,382	30,458
– Production materials such as chemical materials, equipment and spare parts, water, etc	805	957	1,001
(ii) Services			
– Technical services (including construction, software development and labour services, etc), road transportation services and sanitation and greening services, etc	2,037	2,943	2,597
Supply of products to China Baowu Group			
– Production materials such as water, electricity, natural gas, steel billets, steel products, pig iron, etc	12,984	16,706	20,051

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(i) Procurement of products, materials and services from China Baowu Group

As set out in the Letter from the Board, the proposed annual caps for the procurement of products, materials and services from China Baowu Group under the Service and Supply Agreement were determined with reference to, among other things, (a) the recent market prices or state-prescribed prices applicable to the relevant materials and/or services; (b) the Group’s anticipated demand for China Baowu Group’s products and services to meet its production plans; and (c) China Baowu Group’s anticipated capacity in providing products and services to the Group.

In assessing the fairness and reasonableness of the above proposed annual caps, we have reviewed (a) the production plan of the Group for the three years ending 31 December 2023 (the “**Production Plan**”); (b) the working schedule for setting the proposed annual caps which are determined with reference to the Production Plan (the “**Working Schedule**”); (c) the estimated prices of relevant products or services adopted by the Company in the Working Schedule; (d) the historical average purchase prices of the Group for similar products or services in the domestic market; and (e) the Platts Iron Ore Index.

As advised by the management of the Group, the Production Plan is determined based on the production capacity of the Group. Details of the Production Plan are set out below:

	Pig iron <i>(million tonnes)</i>	Steel <i>(million tonnes)</i>	Steel products <i>(million tonnes)</i>
For the year ended 31 December 2020 <i>(Note)</i>	6.38	7.12	6.78
For the nine months ending 31 December 2021	6.21	7.57	7.96
For the year ending 31 December 2021	8.50	10.00	9.58
For the year ending 31 December 2022	10.00	12.00	11.62
For the year ending 31 December 2023	10.00	13.00	12.58
Compounded annual growth rate (“ CAGR ”) from 31 December 2020 to 31 December 2023	16.16%	22.22%	22.88%

Note: Actual production volume

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(a) *Raw materials*

	9M2021	FY2022	FY2023
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Procurement of iron ore	12,917	20,280	20,280
Procurement of coal	1,893	2,366	2,839
Procurement of scrap steel	3,000	4,500	6,000
Sub-total (A)	17,810	27,146	29,119
Procurement of others	1,000	1,236	1,339
Proposed annual caps for procurement of raw materials (B)	18,810	28,382	30,458
Proportion of procurement of iron ore, coal and scrap steel (A/B)	95%	96%	96%

As shown above, in reviewing the Working Schedule, we noted that the proposed annual caps for procurement of iron ore, coal, and scrap steel together accounted for approximately 95% of the proposed annual caps for procurement of raw materials. In light of this, we have reviewed the sub-categories individually to assess the fairness and reasonableness of the proposed annual caps for the procurement of raw materials:

In respect of procurement of iron ore

	9M2021	FY2022	FY2023
Average purchase price (RMB per tonne) (A)	1,170	1,170	1,170
Purchase amount (million tonnes) (B)	11.040	17.333	17.333
Transaction amount (RMB million) (AxB)	12,917	20,280	20,280
Proposed annual caps (RMB million)	12,917	20,280	20,280

As shown above, the estimated purchase price of iron ore is approximately RMB1,170 per tonne for each of 9M2021, FY2022 and FY2023, which is determined with reference to the Platts Iron Ore Index.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Platts Iron Ore Index provides the price of iron ore on a daily basis and is a benchmark assessment of the spot price of physical iron ore issued by the S&P Global Platts, a leading independent provider of information, benchmark prices and analytics for the energy and commodities markets. (Source: <https://www.spglobal.com/platts/en/our-methodology/price-assessments/metals/iindex-iron-ore-metals-price-assessment>)

Under the Platts Iron Ore Index, the average prices for 62% Fe index and 65% Fe index for the two months ended 28 February 2021 were approximately US\$167 per tonne (the “**62% Fe Price**”) and US\$190 per tonne (the “**65% Fe Price**”), respectively. The average of the 62% Price and the 65% Price was approximately US\$179 per tonne. On this basis, the management of the Group estimates that the average purchase price of iron ore is approximately US\$180 per tonne for each of 9M2021, FY2022 and FY2023 (equivalent to approximately RMB1,170 per tonne). Given the estimated purchase price of iron ore of RMB1,170 per tonne is determined with reference to the historical prices of iron ore, we consider that the estimated purchase price of iron ore for setting the proposed annual caps is fair and reasonable.

As for the estimated purchase amounts, the Group is expected to procure approximately 11.040 million tonnes, 17.333 million tonnes and 17.333 million tonnes for 9M2021, FY2022 and FY2023, respectively, which are determined with reference to the Production Plan, as follows:

	9M2021	FY2022	FY2023
Production volume of pig iron (million tonnes) (A)	6.21	10.00	10.00
Amount of iron ore needed for every tonne of pig iron produced (tonnes) (B)	1.60	1.60	1.60
Amount of iron ore needed for the Production Plan (million tonnes) (C=AxB)	9.936	16.00	16.00
Percentage of iron ore purchased from China Baowu Group (D)	100%	100%	100%
Amount of iron ore procured from China Baowu Group (million tonnes) (Cx D)	9.936	16.00	16.00
Buffer	11%	8%	8%
Purchase amount (million tonnes)	11.040	17.333	17.333

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As shown above, according to the Production Plan, the Group plans to produce pig iron of approximately 6.21 million tonnes, 10.00 million tonnes and 10.00 million tonnes for 9M2021, FY2022 and FY2023, respectively. As advised by the management of the Group, iron ore is one of the major raw materials for the production of pig iron. For the year ended 31 December 2020, approximately 1.60 tonnes of iron ore were required for producing one tonne of pig iron. As such, it is estimated that the Group is required to procure iron ore of approximately 9.936 million tonnes, 16.00 million tonnes and 16.00 million tonnes to fulfill the Production Plan for 9M2021, FY2022 and FY2023, respectively.

The Group plans to procure most of iron ore from China Baowu Group after considering the following: (1) it is time-consuming to negotiate with the Group's other suppliers of iron ore which are primarily located in overseas; (2) as one of the largest iron and steel manufacturers in the world, China Baowu Group has close relationship with iron ore suppliers in different overseas markets. By leveraging China Baowu Group's overseas network, the Group could procure high-quality iron ore with favorable prices; and (3) as the de facto controller of the Company, China Baowu is committed to providing a stable supply of high-quality iron ore to the Group.

Given (1) the estimated purchase price of iron ore for setting the proposed annual caps is determined with reference to the Platts Iron Ore Index which is a market-recognised index for pricing iron ore in the industry; (2) the estimated purchase amounts of iron ore are determined with reference to the Production Plan; and (3) a certain buffer is allowed to tailor for any unexpected business growth in the future, we consider that the proposed annual caps for procurement of iron ore are fair and reasonable.

In respect of procurement of coal

	9M2021	FY2022	FY2023
Average purchase price (RMB per tonne) (A)	1,577	1,577	1,577
Purchase amount (million tonnes) (B)	1.20	1.50	1.80
Transaction amount (RMB million) (AxB)	1,893	2,366	2,839
Proposed annual caps (RMB million)	1,893	2,366	2,839

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As shown above, the estimated purchase price of coal is approximately RMB1,577 per tonne for each of 9M2021, FY2022 and FY2023, which is determined with reference to historical purchase prices. We have obtained and reviewed the Group's procurement plan for coal in February 2021. We noted that the purchase prices of coal in February 2021 were approximately RMB1,699 and RMB1,454 per tonne, the average of which was approximately RMB1,577 per tonne. This is used as the estimated purchase price of coal in the Working Schedule.

As coal is also one of the major raw materials for producing pig iron, the estimated purchase amounts of coal are determined with reference to the Production Plan, as follows:

	9M2021	FY2022	FY2023
Production volume of pig iron (million tonnes) (A)	6.21	10.0	10.0
Amount of coal needed for every tonne of pig iron produced (tonnes) (B)	0.764	0.764	0.764
Amount of coal needed for the Production Plan (million tonnes) (C=AxB)	4.74	7.64	7.64
Percentage of coal purchased from China Baowu Group (D)	23%	19%	22%
Amount of coal procured from China Baowu Group (million tonnes) (CxD)	1.09	1.45	1.68
Buffer	10%	3%	7%
Purchase amount (million tonnes)	1.20	1.50	1.80

As shown above, according to the Production Plan, the Group plans to produce pig iron of approximately 6.21 million tonnes, 10.00 million tonnes and 10.00 million tonnes for 9M2021, FY2022 and FY2023, respectively. For the year ended 31 December 2020, approximately 0.764 tonne of coal was required for producing one tonne of pig iron. As such, it is estimated that the Group is required to procure coal of approximately 4.74 million tonnes, 7.64 million tonnes and 7.64 million tonnes to fulfill the Production Plan for 9M2021, FY2022 and FY2023, respectively.

The Group plans to procure approximately 20% of coal from China Baowu Group after taking into account that (1) most of the Group's coal is planned to be sourced from the domestic market which the Group is familiar with; and (2) such procurement level could provide another option to the Group in the event that China Baowu Group provides a better fee quotation.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Given (1) the estimated purchase price of coal for setting the proposed annual caps is determined with reference to historical purchase prices; (2) the estimated purchase amounts of coal are determined with reference to the Production Plan; and (3) a certain buffer is allowed to tailor for any unexpected business growth in the future, we consider that the proposed annual caps for procurement of coal are fair and reasonable.

In respect of procurement of scrap steel

	9M2021	FY2022	FY2023
Average purchase price (RMB per tonne) (A)	3,000	3,000	3,000
Purchase amount (million tonnes) (B)	1.00	1.50	2.00
Transaction amount (RMB million) (AxB)	3,000	4,500	6,000
Proposed annual caps (RMB million)	3,000	4,500	6,000

As shown above, the estimated purchase price of scrap steel is approximately RMB3,000 per tonne for each of 9M2021, FY2022 and FY2023, which is determined with reference to historical purchase prices. We have obtained and reviewed the market research report conducted by the procurement department of the Group in relation to the procurement of scrap steel in February 2021. We noted that the purchase price of scrap steel in February 2021 was approximately RMB3,000 per tonne. This is adopted as the estimated purchase price of scrap steel in the Working Schedule.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As scrap steel is one of the major raw materials for producing steel, the estimated purchase amounts of scrap steel are determined with reference to the Production Plan, as follows:

	9M2021	FY2022	FY2023
Production volume of steel (million tonnes) (A)	7.57	12.00	13.00
Amount of scrap steel needed for every tonne of steel produced (tonnes) (B)	0.205	0.222	0.286
Amount of scrap steel needed for the Production Plan (million tonnes) (C=AxB)	1.552	2.664	3.718
Percentage of scrap steel purchased from China Baowu Group (D)	60%	53%	50%
Amount of scrap steel procured from China Baowu Group (million tonnes) (Cx D)	0.931	1.412	1.859
Buffer	7%	6%	8%
Procurement amount (million tonnes)	1.00	1.50	2.00

As shown above, according to the Production Plan, the Group plans to produce steel of approximately 7.57 million tonnes, 12.00 million tonnes and 13.00 million tonnes for 9M2021, FY2022 and FY2023, respectively. As advised by the management of the Group, as the production volume of steel increases, the amount of scrap steels needed to produce each tonne of steel will increase accordingly. As such, the amounts of scrap steel needed for every tonne of steel produced are estimated to be approximately 0.205 tonne, 0.222 tonne and 0.286 tonne for 9M2021, FY2022 and FY2023, respectively.

Taking into account that (1) scrap steel is one of the key materials for the production of steel; (2) the supply of scrap steel in the market is sometime fluctuating which is not conducive to the Group's Production Plan; and (3) as the de facto controller of the Company, China Baowu is committed to providing a stable supply of scrap steel to the Group, the Group plans to procure approximately 50% to 60% of scrap steel from China Baowu Group, provided that the prices and other terms provided by China Baowu Group is no less favourable to the Group than those available from other independent third parties.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Given (1) the estimated purchase price of scrap steel for setting the proposed annual caps is determined with reference to historical purchase prices; (2) the estimated purchase amounts of scrap steel are determined with reference to the Production Plan; and (3) a certain buffer is allowed to tailor for any unexpected business growth in the future, we consider that the proposed annual caps for procurement of scrap steel are fair and reasonable.

Conclusion

Taking into account that (1) the estimated purchase prices adopted in the Working Schedule are determined with reference to either the Platts Iron Ore Index or historical purchase prices; (2) the quantity of each raw material required is determined with reference to the Production Plan; and (3) a certain buffer is allowed to tailor for any unexpected business growth in the future, we consider that the proposed annual caps for the procurement of raw materials from China Baowu Group are fair and reasonable.

(b) Production materials

	9M2021	FY2022	FY2023
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Production materials such as chemical materials, equipment and spare parts, water etc.	805	957	1,001

In reviewing the Working Schedule, we noted that the proposed annual caps for the procurement of equipment and spare parts account for more than 90% of the proposed annual caps for the procurement of production materials. As advised by the management of the Group, the proposed annual caps for the procurement of production materials are determined with reference to historical transaction amounts.

The historical transaction amount in relation to the Group's procurement of equipment and spare parts amounted to approximately RMB968 million and RMB1,089 million for the two years ended 31 December 2020, respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

After considering (1) China Baowu will integrate the demand for production materials from different companies under the China Baowu Group and therefore have a stronger bargaining power with outside suppliers; (2) the Group could enjoy a more favorable price by purchasing through China Baowu Group; and (3) as the de facto controller of the Company, China Baowu is committed to providing a stable supply of production materials to the Group, the Group decided to procure most of the production materials from China Baowu Group, provided that the prices and other terms provided by China Baowu Group is no less favourable to the Group than those available from other independent third parties.

Taking into account (1) the historical transaction amounts for the two years ended 31 December 2020 were close to approximately RMB1,000 million; and (2) the advantages of purchasing from China Baowu Group as stated above, we consider that the proposed annual caps for the procurement of production materials from China Baowu Group are fair and reasonable.

(c) *Services*

	9M2021	FY2022	FY2023
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Construction	1,234	1,878	1,510
Transportation and labour services	673	900	972
Sub-total	1,907	2,778	2,482
Other services and buffer	7%	6%	5%
Proposed annual caps for services	2,037	2,943	2,597

As shown above, the proposed annual caps for the procurement of services mainly consist of those in relation to the procurement of construction as well as transportation and labour services. As advised by the management of the Company, the proposed annual caps for the procurement of services are determined with reference to the Production Plan and historical transaction amounts.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In respect of procurement of construction services

Construction services are required for (1) daily maintenance of the Group’s production facilities (the “**Maintenance Projects**”); and (2) upgrading the Group’s current facilities (the “**Upgrading Projects**”). The amount of construction services required for the Maintenance Projects is related to the production volume of the steel whereas that required for the Upgrading Projects is associated with the increase in the production capacity of the Group. According to the Group’s internal assessment plan in 2021, as one of the indicators of performance assessment, the Group should keep the maintenance cost per tonne of steel produced below RMB129. As such, the estimated transaction amount for Maintenance Projects amounted to approximately RMB371 million, RMB588 million and RMB637 million for the nine months ended 31 December 2021 and for the year ended 31 December 2022 and 2023, respectively.

	9M2021	FY2022	FY2023
Maintenance cost per tonne of steel produced (RMB) (A)	129	129	129
Production volume of steel (million tonnes) (B)	7.57	12.00	13.00
Percentage of construction services procured from China Baowu Group (C)	38%	38%	38%
Amount of construction services required for the Maintenance Projects (RMB million) (C=AxBxC)	371	588	637
Amount of construction services required for the Upgrading Projects (RMB million) (D)	863	1,290	873
Transaction amount of construction services (C+D)	1,234	1,878	1,510
Number of months (E)	9	12	12
Amount of construction services required for the Upgrading Projects per month (RMB million) (D/E)	95.8	107.5	72.75

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As shown above, the amounts of construction services required for the Upgrading Projects are estimated to be approximately RMB863 million, RMB1,290 million and RMB873 million for 9M2021, FY2022 and FY2023, which are translated into approximately RMB95.8 million, RMB107.5 million and RMB72.75 million per month, respectively. In assessing the fairness and reasonableness of such estimation, we have obtained and reviewed the historical list of contracts entered into between the Group and China Baowu Group for the Upgrading Projects during the Review Period. We noted that the total contract value amounted to approximately RMB600 million for the Review Period, which is equivalent to approximately RMB120 million per month. As such, we consider the amounts of construction services required for the Upgrading Projects to be justifiable.

Taking into account (1) the amounts of construction services required for the Maintenance Projects are determined with reference to the estimated production volumes of steel in the Production Plan; and (2) the amounts of construction services required for Upgrading Projects are determined with reference to historical contract values, we consider that the proposed annual caps for the procurement of construction services are fair and reasonable.

In respect of procurement of transportation and labour services

The proposed annual caps for the procurement of transportation and labour services are mainly determined with reference to historical transaction amounts with Chongqing Iron & Steel Company (Group) Limited (“**Chongqing Group**”). As advised by the management of the Group, on 21 December 2020, China Baowu Group entered into an agreement with Chongqing Stated-owned Assets Supervision and Administration Commission, pursuant to which China Baowu Group agreed to acquire 90% of the equity interests in Chongqing Group (the “**Acquisition**”). As such, the transaction amounts with Chongqing Group should also be covered by the proposed annual caps after completion of the Acquisition. The transaction amounts of transportation and labor services are estimated to be approximately RMB673 million, RMB900 million and RMB972 million for 9M2021, FY2022 and FY2023, respectively, which are determined with reference to historical transaction amounts with Chongqing Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Conclusion

Given (1) the proposed annual caps for the procurement of construction services are mainly determined with reference to the Production Plan and historical contract values; (2) the proposed annual caps for the procurement of transportation and labor services are mainly determined with reference to historical transaction amounts between the Group and Chongqing Group; and (3) a certain buffer is allowed to tailor for any unexpected demand in the future, we consider that the proposed annual caps for the procurement of services are fair and reasonable.

(ii) Sale of products to China Baowu Group

	9M2021	FY2022	FY2023
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Sales of steel products	11,140	15,624	18,799
Sales of pig iron	1,120	–	–
Sub-total	12,260	15,624	18,799
Sales of other products and buffer	6%	7%	7%
Proposed annual caps for sales of products	12,984	16,706	20,051

As shown above, the proposed annual caps for sales of products mainly consist of sales of steel products and pig iron. As advised by the management of the Company, the proposed annual caps for sales of products are determined with reference to the Production Plan and historical sales amounts.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In respect of sales of steel products

The proposed annual caps for sales of steel products are determined with reference to the Production Plan and historical selling prices, details of which are set out below:

	9M2021	FY2022	FY2023
Production volume of steel products (million tonnes) (A)	7.96	11.62	12.58
Amount of steel products sold to China Baowu Group (million tonnes) (B)	2.77	3.70	4.24
Percentage of steel products sold to China Baowu Group (B/A)	35%	32%	34%
Estimated average selling price (RMB per tonne) (C)	4,022	4,223	4,434
Estimated transaction amount (RMB million) (BxC)	11,140	15,624	18,799
Sales of steel billets and steel products (RMB million)	11,140	15,624	18,799

According to the Production Plan, the Group plans to produce steel products of approximately 7.96 million tonnes, 11.62 million tonnes and 12.58 million tonnes for 9M2021, FY2022 and FY2023, respectively. Given that (a) the production volumes of steels products for the three years ending 31 December 2023 are expected to increase significantly as compared to that for the year ended 31 December 2020 as a result of the upgrade of production facilities; (b) sales to China Baowu Group allow the Group to generate additional revenue from the Group's increasing production capacity; (c) the prices and other terms provided by China Baowu Group shall be no less favourable to the Group than those available from other independent third parties; and (d) the amount of steel products sold to China Baowu Group is expected to maintain at approximately 30–50% of the Group's production volume, the amounts of steel products sold to China Baowu Group are estimated to be approximately 2.77 million tonnes, 3.70 million tonnes and 4.24 million tonnes for 9M2021, FY2022 and FY2023, respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The estimated average selling prices of steel products are, on the other hand, determined with reference to the average selling price of approximately RMB3,817 per tonne for the Review Period. Based on the historical selling price of approximately RMB3,817 per tonne and an annual inflation rate of approximately 5%, the average selling prices of steel products are estimated to be approximately RMB4,022, RMB4,223 and RMB4,434 per tonne for 9M2021, FY2022 and FY2023, respectively. Given (a) the sales amounts to China Baowu Group are determined with reference to the Production Plan; and (b) the average selling prices of steel products are determined with reference to historical selling prices, we consider that proposed annual cap for the sales of steel products from the Group to China Baowu Group are fair and reasonable.

In respect of sales of pig iron

According to the Production Plan, the Group plans to produce pig iron of approximately 6.21 million tonnes for 9M2021 and approximately 8.50 million tonnes for the year ending 31 December 2021, representing an increase of approximately 33.2% as compared to that in 2020. Given (a) the significant increase in the production volume of pig iron; (b) as the Group is undergoing upgrading and renovation projects for certain steel rolling facilities which has limited the production volume of steel rolling in 2021, the Group plans to sell more pig iron (which is originally acquired for its own steel rolling purpose) to China Baowu Group for better utilisation of its resources; (c) sales of pig iron to China Baowu Group amounted to approximately RMB200 million for the two months ended 28 February 2021, we consider the proposed annual cap for the sales of pig iron of approximately RMB1,120 million for 9M2021 to be fair and reasonable.

Conclusion

Given (1) the proposed annual caps for sales of steel products are mainly determined with reference to the Production Plan and historical selling prices; (2) the proposed annual cap for sales of pig iron for 9M2021 is mainly determined with reference to historical sales amounts; and (3) a certain buffer is allowed to tailor for any unexpected business growth in the future, we consider that the proposed annual caps for sales of products to China Baowu Group are fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

5. The proposed annual caps for the transactions under the Financial Service Agreement

(i) *Comprehensive credit services*

From the effective date of the Financial Service Agreement up to 31 December 2023, the maximum daily credit limit provided by Baowu Finance Company to the Company in respect of the comprehensive credit services under the Financial Service Agreement would be RMB2 billion (inclusive of interests).

**From the effective date
of the Financial Service
Agreement up to
31 December 2023**

Maximum daily credit limit RMB2 billion

In assessing the fairness and reasonableness of the above daily credit limit, we have discussed with the management of the Group in respect of the credit services to be provided by Baowu Finance Company to the Group and the various financial needs of the Group for future business development. In determining the above daily credit limit, the Directors have taken into account, among other things, (a) the current financial position of the Group; and (b) the Group's future demand for the credit services generated from business development.

	For the year ended 31 December 2020 <i>(RMB'000)</i>	For the year ended 31 December 2019 <i>(RMB'000)</i>	Growth rate
Trade receivables	35,041	5,610	524.6%
Receivables financing	2,068,546	861,373	140.1%
Net current assets/(liabilities)	(380,840)	2,765,568	N/A
Total borrowings	1,150,788	384,528	199.3%
Notes payable	1,272,291	91,127	1,296.2%
Bonds payable	995,150	–	N/A
Total debts	3,418,229	475,655	618.6%

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As stated in the annual results announcement of the Company for the year ended 31 December 2020, trade receivable amounted to approximately RMB35.0 million as at 31 December 2020, representing an increase of approximately 524.6% as compared to approximately RMB5.6 million as at 31 December 2019. Meanwhile, for the purpose of improving the liquidity of the Group, the Group obtains short-term borrowings by discounting bank acceptances during its daily capital management. Receivables financing of the Group increased by approximately 140.1% to approximately RMB2.1 billion as at 31 December 2020 from approximately RMB861.4 million as at 31 December 2019. Among the receivables financing of approximately RMB2.1 billion as at 31 December 2020, approximately RMB1.3 billion was pledged for issuing bank acceptances and the remaining balance of approximately RMB800 million could be managed with the credit services provided by Baowu Finance Company in the future, including the discount of bank acceptances, as advised by the management of the Group.

According to the Production Plan, the production volumes of pig iron, steel and steel products are expected to increase at CAGRs of approximately 16.16%, 22.22% and 22.88%, respectively, during the period from 2020 to 2023. To accommodate such expansion of the Group's production capacity, the Group's demand for credit services is expected to increase.

As advised by the management of the Group, Baowu Finance Company could also provide loans, letter of credit and other credit services to support the working capital of the Group. As at 31 December 2020, the Group had a net current liabilities position of approximately RMB380.8 million as compared to a net current assets position of approximately RMB2.8 billion as at 31 December 2019. As at 31 December 2020, total debts of the Group, comprising borrowings, notes payable and bonds payable amounted to approximately RMB3.4 billion, among which approximately RMB2.0 billion would be due within one year. We concur with the Directors that the credit services provided by Baowu Finance Company could assist the Group in managing the working capital when the Group is undergoing an expansion in production capacity.

Based on the above, we are of the view that the maximum daily credit limit RMB2 billion for the comprehensive credit services provided by Baowu Finance Company is fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(ii) Deposit service

From the effective date of the Financial Service Agreement up to 31 December 2023, the maximum daily balance limit for the deposit service under the Financial Service Agreement would be RMB2 billion (inclusive of interests).

**From the effective date
of the Financial Service
Agreement up to
31 December 2023**

Maximum daily balance limit RMB2 billion

In assessing the fairness and reasonableness of the above daily balance limit, we have identified listed companies in Hong Kong (the “**Comparable Companies**”) utilising deposit services provided by parent companies, with their respective circulars published between 1 October 2020 and 1 April 2021, being a period of approximately 6 months prior to the date of the Financial Service Agreement. Based on the aforesaid criteria, we have identified nine Comparable Companies.

We consider the Comparable Companies presented below to be sufficient to provide a fair and representative sample which can be taken as a general reference to the prevailing market practice of companies listed in Hong Kong utilising similar kinds of deposit services provided by their parent as the Group does. We have reviewed the proposed maximum daily deposit balances to be placed by the Comparable Companies with the finance companies held by their parent, and their respective cash balances, including cash and cash equivalents, bank balances, time deposits and pledged deposits as at 31 December 2020, according to their respective annual results announcement for the year ended 31 December 2020, details of which are set out below:

Company name (stock code)	Date of circular	Maximum daily deposit balance <i>(million)</i> (A)	Cash balance as at 31 December 2020 <i>(million)</i> (B)	Maximum daily deposit balance as a percentage of cash balance <i>(%)</i> (A/B)
Minmetals Land Limited (230)	25 February 2021	HK\$3,564.60	HK\$8,432.60	42.27%
Beijing Energy International Holding Company Limited (686)	8 January 2021	RMB2,000 RMB2,500 RMB3,000	RMB2,972	67.29% 84.12% 100.94%

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Company name (stock code)	Date of circular	Maximum daily deposit balance <i>(million)</i> (A)	Cash balance as at 31 December 2020 <i>(million)</i> (B)	Maximum daily deposit balance as a percentage of cash balance <i>(%)</i> (A/B)
Zhaojin Mining Industry Company Limited (1818)	31 December 2020	RMB4,000 RMB4,500 RMB5,000	RMB2,416	165.56% 186.26% 206.95%
Poly Culture Group Corporation Limited (3636)	30 November 2020	RMB600	RMB1,398	42.92%
Sinopharm Group Company Limited (1099)	27 November 2020	RMB5,000	RMB60,208	8.30%
China Datang Corporation Renewable Power Co., Limited (1798)	13 November 2020	RMB6,000	RMB3,105	193.24%
Changhong Jiahua Holdings Limited (3991)	11 December 2020	RMB1,500 RMB2,000 RMB2,500	HK\$4,095	43.18% 57.58% 71.97% (<i>Note</i>)
AviChina Industry & Technology Company Limited (2357)	10 November 2020	RMB35,000	RMB25,138	139.23%
Guodian Technology & Environment Group Corporation Limited (1296)	23 October 2020	RMB4,500	RMB5,704	78.89%
			Maximum	206.95%
			Minimum	8.30%
			Average	99.25%
			Median	78.89%
The Company		RMB2,000	RMB4,943	40.46%

Source: the website of the Stock Exchange

Note: adopting the exchange rate in the respective circular

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As shown above, the proposed maximum daily deposit balances of the Comparable Companies represent approximately 8.30% to 206.95% of their respective cash balances as at 31 December 2020, with an average and median of approximately 99.25% and 78.89%, respectively. The proposed maximum daily balance limit of RMB2 billion for the deposit service provided by Baowu Finance Company under the Financial Service Agreement represents approximately 40.46% of the Group's total cash balance as at 31 December 2020. This is lower than the average and median of those of the Comparable Companies, which we consider prudent in terms of the potential risk exposure arising from placing deposits with connected persons. As such, we consider the proposed maximum daily limit of RMB2 billion for the deposit service provided by Baowu Finance Company under the Financial Service Agreement to be fair and reasonable.

(iii) Treasury management services (other than deposit service) and other financial services (the "Other Services")

As shown below, the proposed annual caps for the Other Services under the Financial Service Agreement would be RMB1 million (other than acceptance charge, settlement handling fee, handling fee for opening letter of credit and other fees charged by banks on behalf).

	From the effective date of the Financial Service Agreement up to 31 December 2021	FY2022	FY2023
Other Services	RMB1 million	RMB1 million	RMB1 million

For the year ended 31 December 2020, the Group's general and administrative expenses amounted to approximately RMB591.9 million and the net profit attributable to the Shareholders amounted to approximately RMB638.5 million. The proposed annual caps for the Other Services accounted for approximately 0.17% of the general and administrative expenses and approximately 0.16% of the net profit attributable to the Shareholders, which we consider immaterial.

Taking into account (a) Baowu Finance Company, as a non-banking financial institution and an important long-term partner of the Company in the future, can provide the Company with diversified financial services including the Other Services, which is conducive for the Company to optimise its financial management and improve the fund utilisation efficiency; and (b) the estimated transaction amounts associated with provision of the Other Services are immaterial, we consider the proposed annual caps for the Other Services of RMB1 million to be fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

6. Reporting requirements and conditions of the continuing connected transactions

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the Transactions are subject to the following annual review requirements:

- (i) the independent non-executive Directors must review the Transactions and confirm in the annual report and accounts that the Transactions have been entered into:
 - (a) in the ordinary and usual course of business of the Group;
 - (b) on normal commercial terms or better; and
 - (c) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (ii) the Company must engage its auditors to report on the Transactions every year. The Company's auditors must provide a letter to the Board (with a copy to be provided to the Stock Exchange at least ten business days before the bulk printing of the Company's annual report) confirming whether anything has come to their attention that causes them to believe that the Transactions:
 - (a) have not been approved by the Board;
 - (b) were not, in all material respects, in accordance with the pricing policies of the Group if the Transactions involve the provision of goods or services by the Group;
 - (c) were not entered into, in all material respects, in accordance with the relevant agreement governing the Transactions; and
 - (d) have exceeded the Proposed Caps;
- (iii) the Company must allow, and ensure that the counter-parties to the Transactions allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the Transactions as set out in paragraph (ii); and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (iv) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or auditors of the Company cannot confirm the matters as required.

In light of the reporting requirements attached to the Transactions, in particular, (i) the restriction of the value of the Transactions by way of the Proposed Caps; and (ii) the ongoing review by the independent non-executive Directors, the auditors of the Company and the CCT Management Committee of the terms of the Transactions and the Proposed Caps not being exceeded, we are of the view that appropriate measures have been in place to monitor the conduct of the Transactions and assist in safeguarding the interests of the Independent Shareholders.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the continuing connected transactions contemplated under the Service and Supply Agreement and the Financial Service Agreement are conducted in the ordinary and usual course of business of the Group and on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the AGM to approve the continuing connected transactions contemplated under the Service and Supply Agreement and the Financial Service Agreement (including the Proposed Caps).

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.

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 (share)	Percentage in the share capital of A shares of the Company (%)	Percentage in the total share capital of the Company (%)	Class of shares
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%
Changshou Iron & Steel	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 AGM:

- (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 Service and Supply Agreement;
- (e) the Financial Service Agreement;
- (f) the written consent of the expert referred to in the section headed “Experts” in this appendix;
- (g) the material contracts referred to in the paragraph headed “Material Contracts” in this appendix; and
- (h) this circular.

NOTICE OF ANNUAL GENERAL MEETING

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 2020 ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 2020 annual general meeting of Chongqing Iron & Steel Company Limited (the “**Company**”) will be held at 2:00 p.m. on Tuesday, 29 June 2021 at the Chongqing Iron & Steel Conference Center, No. 2 Jiangnan Avenue, Jiangnan Subdistrict, Changshou District, Chongqing, the PRC, for the purpose of considering and, if thought fit, passing the following resolutions of the Company.

ORDINARY RESOLUTIONS

RESOLUTIONS ADOPTING NON-CUMULATIVE VOTING

1. The final financial accounts report for the year 2020
2. The 2020 annual report (full text and summary)
3. The profit distribution plan for the year 2020
4. The report of the board of directors for the year 2020
5. The report of the supervisory committee for the year 2020
6. The proposal for the re-appointment of the financial and internal control auditor of the Company for the year 2021
7. The proposal for the proposed budget for the year 2021

NOTICE OF ANNUAL GENERAL MEETING

8. The proposal for the signing of the Financial Service Agreement and the connected transactions between the Company and Baowu Finance Company
9. The proposal for the entering into of the 2021- 2023 Service and Supply Agreement and the continuing connected transactions (including the annual caps) between the Company and China Baowu

By order of the Board
Chongqing Iron & Steel Company Limited
Liu Jianrong
Chairman

Chongqing, the PRC, 27 May 2021

As at the date of this announcement, the Directors of the Company are: Mr. Liu Jianrong (Executive Director), 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).

Notes:

I. ELIGIBILITY FOR ATTENDING THE AGM

Shareholders whose names appear on the register of members of the Company at the close of business on 23 June 2021 are entitled to attend the AGM upon completion of the necessary registration procedures (Holders of A Shares will be otherwise notified).

II. REGISTRATION PROCEDURES FOR ATTENDING THE AGM

The register of members of the Company will be closed from 24 June 2021 to 29 June 2021 (both days inclusive), during which no transfer of shares will be effected. Holders of H Shares of the Company intending to attend the AGM are required to lodge their respective instrument of transfer and the relevant share certificates to Hong Kong Registrars Limited, the Registrars of the Company, by 4:30 p.m. on 23 June 2021.

NOTICE OF ANNUAL GENERAL MEETING

III. PROXIES

1. Any shareholder entitled to attend and vote at the AGM is entitled to appoint one or more proxies (whether he is a shareholder or not) to attend and vote at the meeting on his behalf. Each shareholder (or his proxy) shall have one vote for each share held.
2. The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing. If the proxy form is signed by a person authorized by the appointer, the power of attorney or other authorization documents shall be notarized. The notarized power of attorney or other authorization documents together with the proxy form must be lodged with Hong Kong Registrars Limited, the Registrars of the Company, no less than 24 hours before the time appointed for the holding of the AGM (or appointed for voting) i.e. by no later than 2:00 p.m. on 28 June 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 AGM shall be responsible for their own travel and accommodation expenses.
2. Information may be dispatched by hand or registered post.
3. Address of Hong Kong Registrars Limited: 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, No. 2 Jiangnan Avenue, Jiangnan Subdistrict, Changshou District, Chongqing, the PRC

Postal Code: 401258

Tel: (86)23 6898 3482

Fax: (86)23 6887 3189

Contact Person: Peng Guoju/Ji Hong