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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)

DISCLOSEABLE TRANSACTION **ACQUISITION OF EQUITY INTEREST IN QIANXIN ENERGY**

The Resolution in Relation to Participation in Online Bidding for Acquisition of 100% Equity Interest in Chongqing Qianxin Energy Environmental Protection Company Limited (重慶千信能源環保有限公司) was considered and approved by the Board at the twentieth meeting of the eighth session of the Board held on 27 March 2020. It was approved that the Company may participate in the online bidding for 100% equity interest in Qianxin Energy held by Qianxin Group based on its needs for business development, and the management was authorized to sign relevant agreements, documents and handle other related specific matters in accordance with relevant procedures and laws and regulations.

The Board is pleased to announce that the Company has succeeded in the bid for 100% equity interest in Qianxin Energy. On 15 July 2020, the Company and Qianxin Group signed the Equity Transaction Contract, pursuant to which, the Company agreed to acquire and Qianxin Group agreed to sell 100% equity interest in Qianxin Energy at a consideration of RMB836,623,600.

Since the applicable percentage ratio(s) (as defined under the Listing Rules) exceeds 5% but less than 25%, the transaction contemplated under the Equity Transfer Contract constitutes a discloseable transaction, which shall be subject to the reporting and announcement requirements under the Chapter 14 of the Listing Rules but is exempted from the Shareholders' approval requirement thereunder.

SUMMARY OF THE TRANSACTION

The Resolution in Relation to Participation in Online Bidding for Acquisition of 100% Equity Interest in Chongqing Qianxin Energy Environmental Protection Company Limited (重慶千信能源環保有限公司) was considered and approved by the Board at the twentieth meeting of the eighth session of the Board held on 27 March 2020. It was approved that the Company may participate in the online bidding for 100% equity interest in Qianxin Energy held by Qianxin Group based on its needs for business development, and the management was authorized to sign relevant agreements, documents and handle other related specific matters in accordance with relevant procedures and laws and regulations.

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PRINCIPLE TERMS OF THE EQUITY TRANSACTION CONTRACT

Date:

15 July 2020

Parties:

- Qianxin Group, as the transferor;
- the Company, as the transferee

To the best of the Directors' knowledge, information and belief after making all reasonable enquiries, Qianxin Group and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

Target Assets:

Pursuant to the Equity Transaction Contract, the Company agreed to acquire and Qianxin Group agreed to sell 100% equity interest in Qianxin Energy. Upon the completion of the transaction, Qianxin Energy will become a wholly-owned subsidiary of the Company.

As valued by Beijing Pan-China Assets Appraisal Co., Ltd. (北京天健興業資產評估有限公司) using the income approach with 30 June 2019 as the reference date, the value of the entire equity interest of the shareholders of Qianxin Energy is RMB928,550,000, representing an increase of RMB524,974,500 or 130.08% as compared with the book value of RMB403,575,500.

As audited by Chongqing Kanghua Certified Public Accountants* (重慶康華會計師事務所有限責任公司), Qianxin Energy recorded total assets of RMB2,133 million, net assets of RMB143 million, operating revenue of RMB635 million and net profit of RMB165 million in 2019.

In 2019, the audited profit before tax of Qianxin Energy was RMB196 million, and the audited net profit after tax was RMB165 million; in 2018, the audited profit before tax of Qianxin Energy was RMB244 million, and the audited net profit after tax was RMB215 million.

Qianxin Group undertakes to the Company that the equity interest transferred are real and complete, without withholding the following facts: (1) the seizure of assets by enforcement institutions; (2) equity and asset guarantees; (3) withholding of assets; (4) lawsuit in progress; (5) other facts that affect the authenticity and completeness of the equity interest. The Company undertakes to Qianxin Group that it has the full right and capacity to be transferred the equity interest, without any fraud conduct.

Consideration and Payment Method:

The Consideration of RMB836,623,600 was determined through bidding after taking into account the economic benefits which may be brought by the transaction (including the electricity costs to be reduced, the increase in profit arising from the enhanced synergy effect for the production of the Group, and the energy costs to be reduced by the optimized machinery configuration) and making reference to the appraised value of 100% equity interest in Qianxin Energy.

The Consideration shall be paid off in one lump sum within five working days after the Equity Transaction Contract comes into effect. Upon registering for the transfer, the Company has paid the transaction security deposit of RMB185,000,000 to Chongqing United Assets and Equity Exchange. Such security deposit will become an integral part of the Consideration after the Equity Transaction Contract comes into effect.

The Consideration shall be funded through the Company's internal resources.

Delivery:

The completion of the equity transfer falls on the date of the completion of the procedures for change in industry and commercial registration. Before the completion date, Qianxin Group shall prepare a list for the completion, which sets out the objects which are required to be transferred to the Company, including the seals, financial accounts, documents and files, ownership certificates of assets of Qianxin Energy, and transfer the aforesaid objects to the Company on the completion date of the equity transfer. The Company will negotiate with Qianxin Group for an agreement on details concerning the completion of the equity transfer.

With the cooperation of the Company and Qianxin Group after consultation, Qianxin Energy shall complete the procedures for change in industry and commercial registration for all the target equity interest within 7 days from the effective date of the Equity Transaction Contract.

Liabilities for Default:

The Company has paid RMB185,000,000 as security deposit to Chongqing United Assets and Equity Exchange upon registering for the equity to be transferred. In case the Company defaults, the Company shall assume its liabilities for that by paying liquidated damages with the amount equal to that of the aforesaid security deposit, which will be paid to Qianxin Group after deducting the transaction costs payable to Chongqing United Assets and Equity Exchange by the Company and Qianxin Group. In case Qianxin Group defaults, Qianxin Group shall assume its liabilities for that by paying liquidated damages with the amount equal to that of the aforesaid security deposit, which will be paid to the Company after deducting the transaction costs payable to Chongqing United Assets and Equity Exchange by the Company and Qianxin Group. Where a party suffers from direct economic loss caused by the other party's default and the liquidated damages paid by the defaulting party are unable to cover the economic loss suffered by the other party, the defaulting party shall pay the shortfall.

Effective Date:

The Equity Transaction Contract shall come into effect from the date of signing and sealing by the Company and Qianxin Group, i.e., 15 July 2020.

REASONS FOR AND BENEFIT OF THE TRANSACTION

Qianxin Energy is a self-generation power plant established as a part of Energy Conservation, Emission Reduction and Environment-friendly Relocation Project of CIS (approved by Chongqing Development and Reform Commission in 2007). 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 acquisition of the equity in Qianxin Energy can ensure high coordination between the Company's generator set and its production and the full recycle of excessive coal gas, which is in line with the Company's business development need and its development strategy. The major economic indicators of Qianxin Energy meet the requirements of the Company on long term investment projects. Since there are still uncertainty to some extent as to whether the Company's development goal can be realized after the completion of the acquisition, the investors are advised to exercise cautions when making decisions and pay attention to investment risks.

The Directors believe the terms (including the Consideration) of the Equity Transaction Contract are on normal commercial terms and are fair and reasonable and in the interests of the Shareholders as a whole.

INFORMATION ON THE COMPANY

The Company is mainly engaged in the production and sale of medium and thick steel plates, profiles and wires.

INFORMATION ON QIANXIN GROUP

Qianxin Group is a wholly state-owned enterprise, which is mainly engaged in waste heat and residual gas generation, the production and sale of electricity and heat; the development, construction and operation of solar energy, wind energy, hydroenergy, mash gas, distributed generation projects; treatment of environmental pollution; research and development, manufacturing and sale of energy conservation and environment-friendly products and related technical service; sale of electrical and electronic products and mechanical equipment and related technical service; research and development, production and sale of water treatment agent, water-based paint, lubricant, cutting compound; sale of instrument and apparatus, wire and cable, ordinary machinery and equipment and components and parts, hardware and electric equipment, galvanised pipe fittings, metallic materials, metallurgical furnace charge, nonferrous metals, metal materials, metalware, minerals, coke, building materials, steel, chemical raw material and products (excluding hazardous chemicals), cast iron and granulating slag, steel slag, steel scrap; electricity quality detection and optimization and related technical service; contract energy management service; import and export of cargoes.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

Pursuant to Rules 14.60A, 14.62 of and paragraph 29(2) of Appendix 1B to the Listing Rules, should the announcement contain a profit forecast in respect of the issuer or a company which is, or is proposed to become, one of its subsidiaries, the issuer must submit the following additional information and documents to the Stock Exchange by no later than the publication of such announcement:

- (1) details of the principal assumptions, including commercial assumptions, upon which the forecast is based;
- (2) a letter from the issuer's auditor or reporting accountants confirming that they have reviewed the accounting policies and calculations for the forecast and containing their report; and
- (3) a report from issuer's financial advisers confirming that they are satisfied that the forecast has been made by the Directors after due and careful enquiry. If no financial advisers have been appointed in connection with the transaction, the issuer must provide a letter from the Board confirming they have made the forecast after due and careful enquiry.

Since in the valuation report of Qianxin Energy, the income approach has been adopted to formulate the valuation conclusion, the valuation report matches with the description of “profit forecast” under Rule 14.61 of the Listing Rules. An application has been made to the Stock Exchange for a waiver from the strict compliance with the requirements under Rules 14.60A, 14.62 of and paragraph 29(2) of Appendix 1B to the Listing Rules, for reasons, among other things, that:

- (1) the valuation is just for the bidders’ reference and is not necessarily a material factor to be taken into account in determining the Consideration. In determining the Consideration, the Company mainly considered the economic benefits which may be brought by the transaction (including the electricity costs to be reduced, the increase in profit arising from the enhanced synergy effect for the production of the Group, and the energy costs to be reduced by the optimized machinery configuration);
- (2) the valuation is prepared for the purpose of the public auction pursuant to the PRC rules and regulations, which was done by the independent appraiser appointed by Qianxin Group. The Company was not involved in the preparation of the valuation, nor did the Directors participate in the formulation of the methods and assumptions adopted in the valuation. Before the equity interest of Qianxin Energy was listed for auction, the Company had no knowledge about the valuation information. It would be unreasonable to require the financial adviser or Directors of the Company to confirm that the profit forecast was made by them after due and careful enquiry;
- (3) since the valuation does not necessarily form the basis of the Consideration, it would be unduly burdensome to the Company to prepare a letter of the auditors and translate the content of the valuation report.

The Stock Exchange has granted a waiver in this respect to the Company.

IMPLICATIONS OF THE LISTING RULES

Since the applicable percentage ratio(s) (as defined under the Listing Rules) exceeds 5% but less than 25%, the transaction contemplated under the Equity Transfer Contract constitutes a discloseable transaction, which shall be subject to the reporting and announcement requirements under the Chapter 14 of the Listing Rules but are exempted from the Shareholders’ approval requirement thereunder.

DEFINITIONS

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

“Board”	the board of Directors
“Company”	Chongqing Iron & Steel Company Limited, a company incorporated in the PRC with limited liability and the shares of which are listed on the Stock Exchange
“Consideration”	the consideration payable to Qianxin Group by the Company for the acquisition of 100% equity interest in Qianxin Energy
“connected person”	has the meaning ascribed to it in the Listing Rules
“Director(s)”	the director(s) of the Company
“Equity Transaction Contract”	the equity transaction contract entered into between the Company and Qianxin Group on 15 July 2020, pursuant to which, the Company agreed to acquire and Qianxin Group agreed to sell 100% equity interest in Qianxin Energy
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, the Special Administrative Region of Macau and Taiwan
“Qianxin Energy”	Chongqing Qianxin Energy Environmental Protection Company Limited, a company established under the laws of the PRC with limited liability
“Qianxin Group”	Chongqing Qianxin Group Co., Ltd., a company established under the laws of the PRC with limited liability
“RMB”	renminbi, the lawful currency of the PRC

“Shareholder(s)” holder(s) of shares of the Company
“Stock Exchange” The Stock Exchange of Hong Kong Limited
“%” percent

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

Chongqing, the PRC, 16 July 2020

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

* *For identification purpose only*