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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)

### **CONTINUING CONNECTED TRANSACTIONS SERVICE AND SUPPLY AGREEMENT AND FINANCIAL SERVICE AGREEMENT**

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

**RAINBOW.**

RAINBOW CAPITAL (HK) LIMITED  
泓博資本有限公司

Reference is made to the announcement of the Company dated 20 March 2021 in relation to possible continuing connected transactions.

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.

In addition, 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.

As at the date of this announcement, 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 Chongqing Strategic Emerging Equity Investment Fund Partnership (Limited Partnership). 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 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.

A circular including, among other things, details of the Service and Supply Agreement (including the annual caps) and Financial Service Agreement (including the annual caps) and the transactions contemplated thereunder, the recommendation letter from the Independent Board Committee, the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders and, a notice convening the EGM to approve the Service and Supply Agreement (including the annual caps) and Financial Service Agreement (including the annual caps) and the transactions contemplated thereunder, is expected to be dispatched to the Shareholders on or before 22 April 2021 pursuant to Chapter 14A of the Listing Rules.

## **BACKGROUND**

Reference is made to the announcement of the Company dated 20 March 2021 in relation to possible continuing connected transactions. 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.

In addition, 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.

## **MAJOR TERMS OF THE SERVICE AND SUPPLY AGREEMENT**

### **Date**

1 April 2021

### **Parties**

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

### **Term**

From 1 April 2021 to 31 December 2023

### **Subject Matter**

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.

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 EGM 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.

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:

<b>Type</b>	<b>Pricing principle</b>	<b>Items</b>
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.
Services provided by China Baowu Group to the Group	State pricing	Water
	Market pricing	Technical services (including construction, software development and labour services, etc), road transportation services and sanitation and greening services, etc.
Products provided by the Group to China Baowu Group	State pricing	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.

## 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:

	<b>From 1 April 2021 to 31 December 2021 (RMB0'000)</b>	<b>From 1 January 2022 to 31 December 2022 (RMB0'000)</b>	<b>From 1 January 2023 to 31 December 2023 (RMB0'000)</b>
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:

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

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 caps (tax exclusive) in respect of the products, materials and services provided to the Group by China Baowu Group are shown in the table below:

	<b>From 1 October 2020 to 28 February 2021 (RMB0'000)</b>
Raw materials such as iron ore, scrap steel, coal, etc	181,728.71
Production materials such as chemical materials, equipment and spare parts, etc	2,880.69
Technical services (including construction, software development and labour services, etc), road transportation services and sanitation and greening services, etc	41,848.90

The historical transaction caps (tax exclusive) in respect of the products provided to China Baowu Group by the Group are shown in the table below:

	<b>From 1 October 2020 to 28 February 2021 (RMB0'000)</b>
Production materials such as water, electricity, natural gas, steel billets, steel products, pig iron, etc	188,930.64

## **REASONS FOR ENTERING INTO THE SERVICE AND SUPPLY AGREEMENT**

The signing of 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.

## **MAJOR TERMS OF THE FINANCIAL SERVICE AGREEMENT**

### **Date**

1 April 2021

### **Parties**

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

### **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.
- (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 caps (tax exclusive) in respect of the services that Baowu Finance Company agreed to provide to the Company are shown in the table below:

	<b>From 1 January 2019 to 31 December 2019</b>	<b>From 1 January 2020 to 31 December 2020</b>
	<i>(RMB100 million)</i>	<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

### **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 EGM 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:

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.

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.

## **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 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.

### **LISTING RULES IMPLICATIONS**

As at the date of this announcement, 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 Chongqing Strategic Emerging Equity Investment Fund Partnership (Limited Partnership). 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 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.

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.

An EGM will be convened at which resolution(s) will be proposed to seek the approval of the Independent Shareholders by way of poll for the Service and Supply Agreement (including the annual caps) and Financial Service Agreement (including the annual caps) and the transactions contemplated thereunder. China Baowu and its associate(s) as defined under the Listing Rules will abstain from voting thereon.

An Independent Board Committee has been formed by the Company to make recommendations to the Independent Shareholders as to whether the terms of the Service and Supply Agreement and Financial Service Agreement are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and its Shareholders as a whole and to advise the Independent Shareholders on how to vote after taking into account the recommendation of the Independent Financial Adviser. Rainbow Capital has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in this respect.

A circular including, among other things, details of the Service and Supply Agreement (including the annual caps) and Financial Service Agreement (including the annual caps) and the transactions contemplated thereunder, the recommendation letter from the Independent Board Committee, the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders and, a notice convening the EGM to approve the Service and Supply Agreement (including the annual caps) and Financial Service Agreement (including the annual caps) and the transactions contemplated thereunder, is expected to be dispatched to the Shareholders on or before 22 April 2021.

## **DEFINITIONS**

The following defined terms are used in this announcement:

“Board”	the board of Directors
“Baowu Finance Company”	Baowu Group Finance Co., Ltd., a limited liability company established in the PRC
“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

“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
“China Baowu Group”	China Baowu and its subsidiaries (excluding the Group)
“Company”	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
“EGM”	the extraordinary general meeting of the Company to be convened 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
“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
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	a board committee comprising three independent non-executive Directors, Mr. Xin Qingquan, Mr. Xu Yixiang and Mr. Wong Chun Wa
“Independent Financial Adviser” or “Rainbow Capital”	Rainbow Capital (HK) Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the transactions contemplated under the Service and Supply Agreement
“Independent Shareholders”	Shareholders other than China Baowu and its associates

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Service and Supply Agreement”	the service and supply agreement dated 1 April 2021 entered into between the Company and China Baowu
“PRC”	the People’s Republic of China
“RMB”	renminbi, the lawful currency of the PRC
“Shareholders”	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**  
**Liu Jianrong**  
*Chairman*

Chongqing, the PRC, 2 April 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).*