THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

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

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) MAJOR AND CONNECTED TRANSACTION – LEASE AGREEMENT AND (2) NOTICE OF 2020 SECOND EXTRAORDINARY GENERAL MEETING

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

RAINBOW CAPITAL (HK) LIMITED

RAINBOW.

RAINBOW CAPITAL (HK) LIMITED
浤博資本有限公司

A letter from the Board is set out from pages 1 to 6 of this circular.

A notice convening the EGM to be held at 2:30 p.m. on Wednesday, 30 December 2020 at Regent Chongqing Hotel, 66th Jinshamen Road, Jiangbei District, Chongqing, the PRC, is set out on pages 52-53 of this circular. The proxy form for use at the EGM are enclosed with this circular.

Shareholders are advised to read the notice. Whether or not you are able to attend the EGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return 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, Changshou District, Chongqing, the PRC (Postal Code: 401258) or at the Company's H share registrar and transfer office, Hong Kong Registrars Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 24 hours before the time appointed for such meeting. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM, or any adjournment thereof, if you so wish.

14 December 2020

CONTENT

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

"A Share(s)"	the domestic share(s) in the ordinary share capital of the Company with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange
"Articles of Association"	the articles of association of the Company
"Assets"	Blast furnace, sintering machine, coke oven and other pre-ironmaking machinery and equipment
"Board"	the board of Directors
"Changshou Iron & Steel"	Chongqing Changshou Iron & Steel Company Limited (重慶長壽鋼鐵有限公司), a limited liability company established in the PRC and the controlling shareholder (as defined in the Listing Rules) of the Company
"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
"connected person"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	the director(s) of the Company
"EGM"	the 2020 second extraordinary general meeting (or any adjournment thereof) of the Company to be convened at the Regent Chongqing Hotel, 66th Jinshamen Road, Jiangbei District, Chongqing, the PRC, at 2:30 p.m. on Wednesday, 30 December 2020, for purpose of considering and, if thought fit, approving, among other things, the resolution in relation to the Lease Agreement

"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 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 respect of the entering into of the Lease Agreement
"Independent Shareholder(s)"	shareholders other than the connected person(s) who is(are) interested in the relevant transactions
"Latest Practicable Date"	11 December 2020
"Lease Agreement"	the lease agreement entered into between the Company and Changshou Iron & Steel on 16 November 2020, pursuant to which Changshou Iron & Steel agreed to lease the Assets to the Company from 1 January 2021 to 31 December 2021
"Listing Rules"	the Rules Governing the Listing of securities on the Stock Exchange
"PRC"	the People's Republic of China
"Previous Lease Agreement"	the lease agreement entered into between the Company and Changshou Iron & Steel on 27 December 2019, pursuant to which Changshou Iron & Steel agreed to lease the Assets to the Company from 1 January 2020 to 31 December 2020

"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

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. Tu De Ling
Mr. Zou An

Non-executive Directors:
Mr. Zhang Jingang
Mr. Song De An
Mr. Zhou Ping

Independent Non-executive Directors:
Mr. Xin Qingquan
Mr. Xu Yixiang
Mr. Wong Chunwa

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

14 December 2020

To the Shareholders

Dear Sir or Madam,

(1) MAJOR AND CONNECTED TRANSACTION – LEASE AGREEMENT AND (2) NOTICE OF 2020 SECOND EXTRAORDINARY GENERAL MEETING

I. INTRODUCTION

Reference is made to the announcement of the Company dated 17 November 2020 in relation to the major and connected transaction – Lease Agreement.

The purpose of this circular is to provide you with, among other things, information about the resolution to be proposed at the EGM and to give you the notice of the EGM. The resolution to be proposed at the EGM is in relation to the Lease Agreement.

II. MAJOR AND CONNECTED TRANSACTION – LEASE AGREEMENT

Lease Agreement

The Previous Lease Agreement entered into between the Company and Changshou Iron & Steel on 27 December 2019 will expire on 31 December 2020. In order to ensure the consistent and stable production and operation of the Company, the Company and Changshou Iron & Steel entered into the Lease Agreement on 16 November 2020, pursuant to which Changshou Iron & Steel agreed to lease the Assets to the Company.

The principal terms of the Lease Agreement are set out below:

Date:

16 November 2020

Parties:

(i) the Company, as the lessee;

(ii) Changshou Iron & Steel, as the lessor.

Assets to be leased:

Blast furnace, sintering machine, coke oven and other pre-ironmaking machinery and equipment

Lease period:

The lease period shall be one year, from 1 January 2021 to 31 December 2021.

Rent:

The rent shall be RMB17,875,000 (tax inclusive) per month. If within the lease period, the number of actual leasing days is less than a month, the rent shall be calculated based on the monthly rent ÷ 30 days × actual number of days of usage (which may happen in case of early termination of the Lease Agreement due to the Company's purchase of the Assets).

The rent shall be paid by cash on a monthly basis, and the Company shall pay the rent of the preceding month by the tenth day of the following month.

The annual depreciation rate of such assets as the production machinery and equipment of Changshou Iron & Steel shall be 5.588%. The total annual rent of such assets as the production machinery and equipment rented by the Company from Changshou Iron & Steel was calculated at 5.5% of the original asset value (tax inclusive) of Changshou Iron & Steel and determined by the parties on arm's length basis, and the rent agreed shall not be higher than the prices offered by independent third parties for leasing the same kind of assets to the Company and its subsidiaries.

Although no comparable leases for leasing the same kind of assets are found in the market in the proximity so far due to the distinctiveness of the Assets, the Company would rent the same kind of assets offered by independent third parties if such leases are available and the leasing terms (including the rent) are more favourable than the terms offered by Changshou Iron & Steel. Further, the rent under the Service and Supply Agreement is equal to the rent under the Previous Lease Agreement. The estimated remaining service life of the Assets is approximately 14 years on average. Assuming the Assets would be leased to the Group at the same rent for the entire estimated remaining service life, the total estimated rent (i.e. RMB3,003 million) would not deviate materially from the current book amount of the Assets (i.e. RMB2,781 million as at 31 August 2020). Therefore, the Board is of the view that the amount of rent is fair and reasonable and is reached on normal commercial terms.

Information of the Assets

The Assets are production facilities, which have been leased to the Company during the past 2 years at a rent of RMB214,500,000 (tax inclusive) per year, and the book value of the Assets was RMB2,781 million as at 31 August 2020. The Assets was acquired by Changshou Iron & Steel at a consideration of RMB3,900 million (tax inclusive) in the course of the judicial reorganisation of the Company in 2017.

According to the Lease Agreement entered into by both parties, and in accordance with the relevant provisions under the PRC accounting standards, the assets to be leased will be recognized as right-of-use assets of the Company with the book amount of RMB3,447 million (which will be adjusted subsequently according to the appraised value or the purchase price) as right-of-use assets. This is because the Lease Agreement stipulates that the Company will purchase the Assets during the lease period (which demonstrates a confirmed intention but not merely an option to purchase, subject to relevant specific transaction conditions and the specific contents of the purchase agreement as well as the terms of the agreement to be approved and eventually signed by both parties through internal decision-making process), and Changshou Iron & Steel undertook to sell the Assets to the Company. The book amount of right-of-use assets in the sum of RMB3,447 million is determined after taking into account the valuation of the Assets conducted by China Enterprise Appraisals Co., Ltd., an independent firm of qualified PRC valuers as at 31 August 2020. The valuation report is set out in Appendix IV to this circular.

The purchase of the Assets will be subject to the entering into of a separate sales and purchase agreement between the Company and Changshou Iron & Steel. The Company will comply with the applicable requirement under Chapters 14 and 14A of the Listing Rules, including, where appropriate, announcement, circular, Independent Shareholders' approval, profit and loss statement, pro forma financial information and valuation in due course.

Based on the "Unaudited Pro Forma Financial Information of the Group" as set out in Appendix III to this circular, the total assets and liabilities of the unaudited pro forma consolidated statement of assets and liabilities of the Group as at 30 June 2020 would be increased to approximately HK$32,058,565,000 and HK$12,538,381,000 respectively upon completion of entering into the Lease Agreement, assuming that entering into the Lease Agreement had taken place on 30 June 2020. There will be no effect on the earnings of the Group due to the entering into of the Lease Agreement.

Reasons for and benefits of the entering into of the Lease Agreement

The lease of such assets as the production machinery and equipment by the Company from Changshou Iron & Steel for the Company's own production and operation activities is necessary for the normal production and operation of the Company and will ensure its consistent and stable production.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Lease Agreement are fair and reasonable, entered into on normal commercial terms in the ordinary and usual course of business of the Company, and are in the interests of the Shareholders as a whole.

Information on the Parties

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

Changshou Iron & Steel is principally engaged in the technology development, technology transfer, technical services and technical management consultancy in the fields of steel, metallurgy and mining, coal, chemical industry, electric power and transportation; sale of steel raw materials; operation of dock; warehousing service (excluding storage of dangerous goods); leasing of self-own property and equipment; import and export of goods and technology; corporate management and consultancy service.

The ultimate controller of Changshou Iron & Steel is China Baowu Steel Group Corporation Limited, a limited liability company incorporated in the PRC and a state-owned capital investment company 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.

Board approval

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

Listing Rules Implications

As at the Latest Practicable Date, Changshou Iron & Steel holds approximately 23.51% of the issued share capital of the Company and is a substantial shareholder of the Company. Accordingly, Changshou Iron & Steel is a connected person of the Company and the transactions contemplated under the Lease Agreement constitute a connected transaction for the Company under the Listing Rules. The entering into of the Lease Agreement requires the recognition of RMB3,447 million (which will be adjusted subsequently according to the appraised value or the purchase price) as right-of-use assets, and thus the entering into of the Lease Agreement and the transactions contemplated thereunder will be regarded as a purchase of assets by the Company. As certain applicable percentage ratios in respect of the Lease Agreement exceed 25%, but are all below 100%, the Lease Agreement and the transactions contemplated thereunder constitute a major transaction for the Company under Chapter 14 of the Listing Rules and are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

The Independent Board Committee will advise the Independent Shareholders in respect of the relevant terms of the Lease 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. EGM

The EGM will be held at 2:30 p.m. on Wednesday, 30 December 2020 at the Regent Chongqing Hotel, 66th Jinshamen Road, Jiangbei District, Chongqing, the PRC, at which relevant resolution will be proposed to approve, among others, the Lease Agreement. Notice of the EGM is set out on page 52 to 53 of this circular.

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

The proxy form for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 24 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so desire.

IV. RECOMMENDATION

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

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
Meng Xiangyun
Company Secretary

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,

MAJOR AND CONNECTED TRANSACTION – LEASE AGREEMENT

We refer to the circular dated 14 December 2020 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 Lease Agreement, its terms and transactions 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 the Lease Agreement is entered into in the ordinary course of business of the Company, the terms and transactions contemplated thereunder are on normal commercial terms, fair and reasonable and are 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 Lease Agreement and the transactions contemplated thereunder at the EGM.

Yours faithfully,
Independent Board Committee
Independent Non-executive Director
Xu Yixiang, Xin Qingquan, Wong Chun Wa

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

Rainbow Capital (HK) Limited

14 December 2020

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,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE LEASE AGREEMENT

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Lease Agreement and the transactions contemplated thereunder, 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 14 December 2020 (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 16 November 2020, the Company entered into the Lease Agreement with Changshou Iron & Steel, pursuant to which the Company agreed to rent the Assets from Changshou Iron & Steel for a term of one year from 1 January 2021 to 31 December 2021. The Assets are production facilities, which have been leased to the Company during the past two years at a rent of RMB214,500,000 (tax inclusive) per year. The Previous Lease Agreement entered into between the Company and Changshou Iron & Steel on 27 December 2019 will expire on 31 December 2020.

As at the Latest Practicable Date, Changshou Iron & Steel held approximately 23.51% of the issued share capital of the Company and is a substantial shareholder of the Company. Accordingly, Changshou Iron & Steel is a connected person of the Company and the transactions contemplated under the Lease Agreement constitute a connected transaction for the Company under the Listing Rules. Since the entering into of the Lease Agreement will require the Group to recognise the right-of-use assets in its financial statements, this will be regarded as a deemed acquisition of assets by the Company. As certain applicable percentage ratios in respect of the Lease Agreement exceed 25%, but are all below 100%, the Lease Agreement and the transactions contemplated thereunder constitute a major and connected transaction for the Company and are subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

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

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

As at the Latest Practicable Date, we did not have any relationships or interests with the Group and Changshou Iron & Steel that could reasonably be regarded as relevant to our independence. We have acted as the independent financial adviser to the independent board committee and the independent shareholders of the Company in relation to (i) the establishment of partnership for acquisition of Chongqing Iron & Steel Company (Group) Limited through capital contribution, details of which are set out in the circular of the Company dated 27 May 2020; and (ii) the continuing connected transactions in relation to mutual supply of goods and services between the Group and China Baowu Steel Group Corporation Limited and its subsidiaries, details of which are set out in the announcement of the Company dated 21 November 2020. Other than that, there was no engagement or connection between the Group or Changshou Iron & Steel and us in the last two years. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received any fees or benefits from the Group or any other party to the Lease Agreement. Accordingly, we are qualified to give independent advice in respect of the Lease Agreement and the transactions contemplated thereunder.

BASIS OF OUR OPINION

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

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering the Lease Agreement and the transactions contemplated thereunder, we have taken into account the principal factors and reasons set out below:

1. Background to, reasons for and benefits of entering into the Lease Agreement

(i) The Group

The Company was established in 1997 and its Shares have been listed on the Main Board of the Stock Exchange since 1997 and on the Shanghai Stock Exchange since 2007. As stated in the interim report of the Company for the six months ended 30 June 2020 (the "**2020 Interim Report**"), 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 Company has a production capacity of approximately 8.4 million tonnes of steel per year, with the following production lines: 4,100mm wide and thick plate, 2,700mm medium plate, 1,780mm hot rolled sheet, high speed wire rods, bar materials and steel sections. The Group's products are applied in various industries such as machinery, architecture, engineering, automobile, motorbike, shipbuilding, offshore oil, gas cylinder, boiler and oil and gas pipelines.

As at the Latest Practicable Date, the Group carried out its steel production business through certain assets rented from Changshou Iron & Steel, with lease period of one year from 1 January 2020 to 31 December 2020. The entering into of the Lease Agreement is necessary for the normal production and operation of the Company and will ensure its consistent and stable production.

(ii) The Assets

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

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

As disclosed in the Letter from the Board, the Assets are production facilities which have been leased to the Company for its production during the past two years. The lease of the Assets as the production machinery and equipment by the Company from Changshou Iron & Steel for the Company's own production and operation activities is necessary for the normal production and operation of the Company and will ensure its consistent and stable production.

The Assets mainly consist of steel production facilities related to the upstream production processes including coking, sintering and iron and steel melting, which are part of a vertically integrated system essential to the production and operation of the Group. Pursuant to the terms of the Lease Agreement, the Group agreed to rent the Assets from Changshou Iron & Steel for a term of one year from 1 January 2021 to 31 December 2021 and purchase the Assets during the lease term. We consider the continued leasing and acquisition of the

Assets under the Lease Agreement will ensure that the Group maintains normal production and operation and owns the complete iron and steel production lines, allowing the Group to control the overall production cost and the production capacity without having to rely on external supplies required for its production. Otherwise, it would critically affect the Group's production and operation.

Based on the above, we concur with the Directors that the entering into the Lease Agreement is in the ordinary and usual course of business of the Company and is in the interests of the Shareholders as a whole.

2. The Lease Agreement

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

The Assets:	Blast furnace, sintering machine, coke oven and other pre-ironmaking machinery and equipment
Lease period:	One year, from 1 January 2021 to 31 December 2021 (the "**Lease Period**")
Rent:	RMB17,875,000 (tax inclusive) per month (the "**Rental**"). The rent shall be paid by cash on a monthly basis and the Company shall pay the rent of the preceding month by the tenth day of the following month. If within the Lease Period, the number of actual leasing days is less than a month, the rent shall be calculated based on the monthly rent divided by 30 days and times actual number of days of usage (which may happen in case of early termination of the Lease Agreement due to the Company's purchase of the Assets) (the "**Rental Adjustment Arrangement**"). As disclosed in the Letter from the Board, the annual rent is determined with reference to the annual depreciation rate of production machinery and equipment of Changshou Iron & Steel of approximately 5.588%.

Other term: The Company will purchase the Assets during the Lease Period (which demonstrates a confirmed intention but not merely an option to purchase, subject to relevant specific transaction conditions and the specific contents of the purchase agreement as well as the terms of the agreement to be approved and eventually signed by both parties through internal decision-making process), and Changshou Iron & Steel undertook to sell the Assets to the Company.

According to the relevant PRC accounting standards, the Assets to be leased under the Lease Agreement shall be recognised as right-of-use assets of the Company in the amount of RMB3,447 million (tax exclusive) (which will be adjusted subsequently according to the appraised value or the purchase price), which is determined with reference to an independent valuation of the Assets.

3. Assessment of the principal terms of the Lease Agreement

(i) Valuation of the Assets

China Enterprise Appraisals Co., Ltd. (the "**Valuer**"), an independent firm of qualified PRC valuers, has been appointed to form an independent opinion on the market value of the Assets as at 31 August 2020. The appraised value of the Assets using the cost approach was approximately RMB3,447.31 million as at 31 August 2020 (the "**Valuation**").

(ii) Our due diligence on the Valuation

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

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

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

(b) Valuation methodology

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

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

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

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

(c) Factors to be considered in valuing the Assets

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

(d) Conclusion

In light of the above, we consider that the methodology, bases and assumptions adopted by the Valuer in assessing the market value of the Assets are appropriate and the Valuation is fair and reasonable so far as the Independent Shareholders are concerned.

(iii) Our due diligence on the Rental

In assessing the fairness and reasonableness of the Rental charged by Changshou Iron & Steel under the Lease Agreement, we have considered (a) the previous rents charged by Changshou Iron & Steel; (b) the estimated remaining useful lives of the Assets; and (c) the Valuation.

We have reviewed the previous lease agreements (the "**Previous Lease Agreements**") entered into by the Company and Changshou Iron & Steel for the Assets on 27 February 2018, 19 December 2018 and 27 December 2019, and noted that the Rental is equal to the rents charged by Changshou Iron & Steel under the Previous Lease Agreements.

We have also reviewed the depreciation schedule of the Assets provided by the Company and noted that the estimated useful lives and remaining useful lives of the Assets are, on average, approximately 22 years and 14 years, respectively. By dividing the estimated remaining useful lives by the useful lives of the Assets, the average newness rate of the Assets is approximately 63.6% (the "**Implied Newness Rate**"). When conducting the Valuation using the cost approach, the Valuer estimated the newness rates of the Assets after conducting a site visit to assess the physical conditions of the Assets. As estimated by the Valuer, the newness rates of the Assets ranged from approximately 43% to approximately 69% (the "**Range**"), most of which was over 60%. Since the Implied Newness Rate is within the Range estimated by the Valuer, we consider the Implied Newness Rate to be fair and reasonable.

Assuming the Assets would be leased to the Group at the same Rental for the remaining useful lives of the Assets, the total estimated rent would not deviate materially from the Valuation which we consider fair and reasonable. Meanwhile, in case of early termination of the Lease Agreement due to the Company's purchase of the Assets, which causes the lease term to be less than a month, the Rental payable will decrease accordingly and will be determined based on the actual number of days of usage. On the above basis, we consider the Rental and the Rental Adjustment Arrangement to be fair and reasonable so far as the Independent Shareholders are concerned.

(iv) Acquisition of the Assets

Pursuant to the Lease Agreement, the Company will purchase the Assets during the Lease Period (which demonstrates a confirmed intention but not merely an option to purchase, subject to the terms of the relevant definitive sale and purchase agreement to be approved through internal decision-making process), and Changshou Iron & Steel undertook to sell the Assets to the Company. The purchase of the Assets is an obligation incorporated in the Lease Agreement. As disclosed in the Letter from the Board, the purchase of the Assets will be subject to the entering into of a separate sales and purchase agreement between the Company and Changshou Iron & Steel and the Company will comply with the applicable requirement under Chapters 14 and 14A of the Listing Rules, including, where appropriate, announcement, circular, Independent Shareholders' approval, profit and loss statement, pro forma financial information and valuation in due course.

Taking into account that (a) the acquisition of the Assets from Changshou Iron & Steel allows the Group to take control of the complete production lines and consolidate the Group's position in the domestic steel industry through enhancement of asset base; (b) the consideration for the acquisition of the Assets shall be determined with reference to an independent valuation; and (c) such acquisition is expected to be subject to independent shareholders' approval requirement under the Listing Rules, we consider the Company's undertaking to purchase the Assets as stipulated in the Lease Agreement to be fair and reasonable.

4. Financial effect on the Group

Pursuant to the relevant PRC accounting standards, the entering into of the Lease Agreement will require the Group to recognise the right-of-use assets in its financial statements. A resultant liability for the acquisition of the Assets will be recognised by the Group at the same time. Please refer to the Letter from the Board for details of the accounting treatment of the transactions contemplated under the Lease Agreement.

Based on the unaudited pro forma financial information of the Group set out in Appendix III to the Circular, the assets and liabilities of the Group will be increased by approximately RMB3,447.3 million, reflecting the recognition of the right-of-use assets relating to the Lease Agreement and the corresponding liabilities. Among the lease liabilities to be recognised, approximately RMB956.7 million will be presented under current liabilities and approximately RMB2,490.6 million will be presented under non-current liabilities.

As set out in Appendix I to the Circular, the Directors have confirmed that, taking into account the financial resources available to the Group, including internally generated funds and available banking facilities of the Group, the Group will have sufficient working capital for its requirements for at least 12 months from the date of the Circular.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the Lease Agreement and the transactions contemplated thereunder are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. We further consider that the entering into of the Lease Agreement is in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole. We therefore advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Lease Agreement and the transactions contemplated thereunder.

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 6 (advising on corporate finance) regulated activity under the SFO. He has over ten years of experience in the corporate finance industry.

1. FINANCIAL INFORMATION OF THE GROUP

The Company is required to set out in this circular the information for the last three financial years with respect to the Group's profits and losses, financial record and position (set out as a comparative table), and the latest published audited balance sheet together with the notes to the annual accounts for the corresponding financial year. The audited consolidated financial statements of the Group together with the relevant notes for each of the three years ended 31 December 2017, 2018 and 2019 are set out in the annual reports of the Company for the year of 2017, 2018 and 2019 dated 22 March 2018 (pages 142–314), 25 April 2019 (pages 151–341), 22 April 2020 (pages 153–323) respectively; whereas the unaudited consolidated financial statements of the Group together with the relevant notes for the period from 1 January 2020 to 31 March 2020, 1 January 2020 to 30 June 2020 and 1 January 2020 to 30 September 2020 are set out in the first quarterly report dated 30 April 2020 (pages 12-34), the interim report dated 18 September 2020 (pages 67-211) and the third quarterly report dated 27 October 2020 respectively, all of which have been published on the websites of the Company (http://www.cqgt.cn) and the Stock Exchange (http://www.hkex.com.hk).

2. STATEMENT OF INDEBTEDNESS

Borrowings

As at the close of business on 31 October 2020, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding borrowings of approximately RMB577.34 million, comprising (i) bank loans of RMB211.92 million; (ii) corporate bonds of RMB99.44 million; and (iii) other interest-bearing borrowings of RMB265.97 million (the aforesaid figures are unaudited).

Among the borrowings mentioned above, RMB70 million of bank loans are guaranteed. Save as disclosed herein, none of the above outstanding borrowings are guaranteed or secured.

Disclaimer

Save as aforesaid, and apart from intra-group liabilities and normal trade payables, as at the close of business on 31 October 2020, the Group did not have any outstanding issued or agreed-to-be-issued loan capital, bank overdrafts, loans, or other similar borrowings, liabilities or liabilities under acceptance credit, debentures, mortgages, charges, hire-purchase commitments, guarantees or other material contingent liabilities.

3. WORKING CAPITAL

Having taken into account the financial resources available to the Group at present, including internally generated funds, the available banking facilities and the registered medium-term notes, the Directors of the Company are of the opinion that the Group will have sufficient working capital for its requirement for at least 12 months from the date of this circular.

4. FINANCIAL AND TRADING PROSPECTS

Industry Competition Pattern and Development Trend

In 2019, the iron and steel industry continued to advance the supply-side structural reform, consolidated the results of the capacity cutting, accelerated structural adjustment, transformation and upgrading, and achieved stable operation in general. Due to factors such as accelerated growth of steel production, slight decrease in steel price and higher price of raw materials (such as iron ore), the economic benefits of steel companies fell sharply.

In 2020, the last year of the 13th Five-Year Plan, the development of the iron and steel industry faces a complex and changeable situation. The entire industry will follow the requirements of the Central Economic Work Conference, continue to focus on supply-side structural reform, consolidate the results of the capacity cutting in the iron and steel industry, elevate green and intelligent standards in the iron and steel industry, and improve quality and efficiency, so as to promote high quality development of the iron and steel industry.

In the future, intelligent manufacturing, integration and innovation will be the key works of the iron and steel industry for a period of time. Green and low-carbon, integration and innovation, network and intelligence, and sharing and win-win are becoming new features of the development of intelligent manufacturing. Due to intensifying competition in domestic and foreign markets, rapid development of information technology, and the advent of information society, the iron and steel industry needs to accelerate the establishment of a highly integrated and coordinated comprehensive operation system for managing enterprise under the information environment, the green and low-carbon steel manufacturing system supported by information technology, the industry chain integration system based on network, and the digital lifetime management system for steel products, to make the development prospects of the iron and steel industry brighter.

Corporate development strategy

The Company will strive to become the most competitive steel enterprise in Southwest China, the leading green-friendly, transforming and upgrading inland steel factory, becoming the model for the mutual development of the staff and enterprises, and shaping itself to “Be Strong”, “Be Beautiful”and “Be Attractive”.

The Company will implement its cost leadership strategy and leading manufacturing technology strategy. In a market with competition from the homogenization of the iron and steel industry, the cost leadership will become the most important competitive strategy for an enterprise. Since the leading manufacturing technologies can decide the competition pattern, the space of cost reduction in the future lies in whether the relevant technologies are in place. On the premise that the users' usage standards can be met, the leadership in the manufacturing technologies can help lower manufacturing costs.

Operating plans

In 2020, the Company will consolidate its foundation and transformed its development model. The Company will continue to take "shaping Chongqing Iron to be strong, beautiful and attractive" as its vision and goals, actively implement the annual production and operation policy of "expanding scale, adjusting structure, and reducing costs" and basic work of "finding differences from excellent enterprises comprehensively, paying close attention to reducing costs and increasing efficiency, promoting the implementation of plans and improving system capabilities", and adhere to the philosophy of "all costs can be lowered" to establish a sense of crisis for all employees and make plan for hard times, while focusing on "scale + cost" and "efficiency + benefit", so as to promote the production and operation, project construction, reforms and development of the Company comprehensively, and improve the Company's competitiveness continuously.

The Company plans to produce 6.12 million tonnes of pig iron, 6.80 million tonnes of steel and 6.38 million tonnes of steel products, and realize sales volume of 6.64 million tonnes of steel and steel products and sales revenue of RMB23.9 billion (tax exclusive) in the year of 2020.

Potential risks

1. The iron and steel industry is a strong cyclical industry. Domestic and international situation, macro-economic and industrial policies may have certain effect on the operation of the Company.

2. The steel price is subject to significant fluctuations, which may have certain effect on the profitability of the Company.

3. The Company is suffering increasing cost pressures as a result of the continuous rise in domestic steel production capacity, fluctuations of iron ore price at high level, and rising freight of bulk raw materials.

4. Serious backlog of steel stocks in the market and difficulties encountered by the Company in delivering products as a result of the epidemic have short-term adverse effect on the Company's production and operation.

UNAUDITED PROFIT AND LOSS STATEMENTS OF THE ASSETS

In accordance with paragraph 14.67(6) (b) (i) of the Listing Rules, the unaudited profit and loss statement of identifiable net income stream attributable to blast furnace, sintering machine, coke oven and other pre-ironmaking machinery and equipment (the "**Assets**") for the period from 8 December 2017 (the date when the Assets held by the vendor) to 31 December 2017, for the years ended 31 December 2018 and 2019, and for the nine months ended 30 September 2020 (the "**Relevant Periods**") (the "**Unaudited Profit and Loss Statement of the Assets**") prepared by the directors of the Company (the "**Directors**") are set out below. In the opinion of the Directors, such information has been properly compiled and derived from the underlying books and records of the vendor. The Company has engaged Ernst & Young to conduct certain factual finding procedures on the compilation of such information in accordance with the Hong Kong Standard on Related Services 4400, "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has agreed the Unaudited Profit and Loss Statement of the Assets to the underlying books and records of the vendor and checked arithmetical accuracy in accordance with the agreed-upon procedures set out in the relevant engagement letter between the Company and the auditor and reported its factual findings based on the agreed-upon procedures to the Directors. The reported factual findings should not be used or relied upon by any other parties for any purposes.

	For the period from 8 December 2017 (the date when the Assets held by the vendor) to 31 December	For the year ended 31 December		For the nine months ended 30 September
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	11,204	184,387	188,596	142,367
Depreciation expense	–	(207,207)	(207,207)	(155,404)
Profit/(loss) before income tax	11,204	(22,820)	(18,611)	(13,037)
Income tax expenses	–	–	–	–
Identifiable net income/(loss) stream	11,204	(22,820)	(18,611)	(13,037)

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

This unaudited pro forma financial information (the "**Unaudited Pro Forma Financial Information**") of Chongqing Iron & Steel Company Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") comprising the unaudited pro forma consolidated statement of assets and liabilities of the Group as at 30 June 2020, has been prepared by the directors of the Company (the "**Directors**") in accordance with Rule 4.29 of the Listing Rules and is solely prepared for the purpose to illustrate the effect of the Group entering into the lease agreement of blast furnace, sintering machine, coke oven and other pre-ironmaking machinery and equipment (the "**Transaction**") as if the Transaction has been completed on 30 June 2020.

The Unaudited Pro Forma Financial Information is prepared based on the unaudited consolidated statement of financial position of the Group as at 30 June 2020 as set out in the published interim report of the Group for the six months ended 30 June 2020, after giving effect to the unaudited pro forma adjustment that is (i) directly attributable to the Transaction; and (ii) factually supportable, as further described in the accompanying notes.

The Unaudited Pro Forma Financial Information is prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. As a result of the hypothetical nature of the Unaudited Forma Financial Information, it may not give a true picture of the actual financial position of the Group that would have been attained had the Transaction been completed on 30 June 2020. Furthermore, the Unaudited Pro Forma Financial Information does not purport to predict the Group's future financial position. The Unaudited Pro Forma Financial Information should be read in conjunction with the financial information of the Group as set out in the published interim report of the Group for the six months ended 30 June 2020, and other financial information included elsewhere in this Circular.

The Unaudited Pro Forma Financial Information

	Unaudited consolidated statement of assets and liabilities of the Group as at 30 June 2020	Pro forma adjustment	Adjusted unaudited pro forma consolidated statement of assets and liabilities of the Group as at 30 June 2020
	RMB'000	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	
Current assets:			
Cash and bank balances	3,208,632		3,208,632
Trade receivables	11,747		11,747
Receivables financing	2,528,817		2,528,817
Prepayments	647,644		647,644
Other receivables	7,203		7,203
Inventories	2,979,319		2,979,319
Other current assets	5,055		5,055
Total current assets	9,388,417		9,388,417
Non-current assets:			
Long-term equity investments	28,258		28,258
Other equity investments	15,000		15,000
Property, plant and equipment	16,112,970		16,112,970
Construction in progress	637,162		637,162
Right-of-use assets	–	3,447,314	3,447,314
Intangible assets	2,361,008		2,361,008
Deferred tax assets	68,436		68,436
Total non-current assets	19,222,834		22,670,148
Total assets	28,611,251		32,058,565

The Unaudited Pro Forma Financial Information (continued)

	Unaudited consolidated statement of assets and liabilities of the Group as at 30 June 2020	**Pro forma adjustment**	**Adjusted unaudited pro forma consolidated statement of assets and liabilities of the Group as at 30 June 2020**
	RMB'000	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	
Current liabilities:			
Short-term borrowings	695,273		695,273
Notes payable	88,805		88,805
Trade payables	2,104,786		2,104,786
Contract liabilities	1,175,270		1,175,270
Employee benefits payable	125,703		125,703
Taxes payable	146,648		146,648
Other payables	555,798		555,798
Non-current liabilities due within one year	456,526	956,734	1,413,260
Other current liabilities	152,785		152,785
Total current liabilities	5,501,594		6,458,328
Non-current liabilities:			
Bonds payable	993,347		993,347
Lease liabilities	–	2,490,580	2,490,580
Long-term payables	333,333		333,333
Long-term employee benefits payable	175,707		175,707
Deferred income	37,086		37,086
Other non-current liabilities	2,050,000		2,050,000
Total non-current liabilities	3,589,473		6,080,053
Total liabilities	9,091,067		12,538,381

The Unaudited Pro Forma Financial Information (continued)

	Unaudited consolidated statement of assets and liabilities of the Group as at 30 June 2020	Pro forma adjustment	Adjusted unaudited pro forma consolidated statement of assets and liabilities of the Group as at 30 June 2020
	RMB'000	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	
Owners' equity:			
Share capital	8,918,602		8,918,602
Capital reserves	19,282,147		19,282,147
Less: Treasury shares	65,940		65,940
Special reserves	21,025		21,025
Surplus reserves	606,991		606,991
Accumulated losses	(9,242,641)		(9,242,641)
Total owners' equity	19,520,184		19,520,184
Total liabilities and owners' equity	28,611,251		32,058,565

Notes:

(1) The figures are extracted from the unaudited consolidated statement of financial position of the Group as at 30 June 2020 as set out in the published interim report of the Group for the six months ended 30 June 2020.

(2) Under the lease agreement, the Company intended to purchase the Assets during or at the end of the lease period with the consideration to be determined by both parties according to the valuation of the Assets. The specific relevant transaction conditions and the content of the purchase agreement shall be subject to final signed purchase agreement approved by both parties' internal decision-making process.

Pursuant to the lease agreement, the entering into the Transactions as a lessee will require the Group to recognise the right-of-use assets and lease liabilities in its financial statements. The estimated measurement of the present value of the lease liabilities was based on the independent valuation report prepared by an independent professional qualified valuer. Right-of-use assets and lease liabilities will be initially recognised with amount of approximately RMB3,447,314,000, in which approximately RMB956,734,000 lease liabilities will be presented under current liabilities as non-current liabilities due within one year and approximately RMB2,490,580,000 under non-current liabilities as lease liabilities. The Unaudited Pro Forma Financial Information is prepared in a manner consistent with both the format and accounting policies adopted by the Group in its interim report for the six months ended 30 June 2020.

The calculation of the effect of the Transactions have been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the effect to the Group had the Transactions been completed on the actual date of completion.

(3) No adjustment has been made to the Unaudited Pro Forma Financial Information for transaction-related costs (including fees to legal advisers, reporting accountants, valuer, and other expenses) and the directors determined that such costs are insignificant.

(4) No adjustments have been made to adjust any trading results or other transactions of the Group entered into subsequent to 30 June 2020.

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong.

EY 安永

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REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

To the Directors of Chongqing Iron & Steel Company Limited

We have completed our assurance engagement to report on the compilation of the unaudited pro forma financial information of Chongqing Iron & Steel Company Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 30 June 2020 and related notes as set out in Appendix III of the Company's circular dated 14 December 2020 (the "**Circular**") (the "**Unaudited Pro Forma Financial Information**") in connection with the major and connected transaction entering into the lease agreement (the "**Transaction**"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in Appendix III.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Transaction on the Group's assets and liabilities as at 30 June 2020 as if the Transaction had taken place at 30 June 2020. As part of this process, information about the Group's assets and liabilities has been extracted by the Directors from the Group's interim report for the six months ended 30 June 2020, on which no audit or review report has been published.

Directors' responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline ("**AG**") *7 Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Our independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements*, and Other Assurance and Related Services Engagements, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the Transaction on unadjusted financial information of the Group as if the Transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the Transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and

- the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the Transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

14 December 2020

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

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

To: Chongqing Changshou Iron & Steel Company Limited

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

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

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

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

Company name:	Chongqing Changshou Iron & Steel Company Limited (“**Changshou Iron & Steel**”)
Unified social credit code:	91500115MA5XE5K89F
Registered address:	Room 1–1, No. 20 Qixin Avenue, Yanjia Street, Changshou District, Chongqing
Legal representative:	Zhou Zhuping
Registered capital:	RMB4.0 billion
Date of establishment:	12 October 2017
Operation period:	12 October 2017 to 11 October 2037

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

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

II. PURPOSE OF VALUATION

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

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

III. VALUATION TARGET AND SCOPE

(I) Valuation target

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

(II) Valuation scope

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

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

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

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

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

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

The company has no off-balance sheet assets.

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

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

IV. TYPE OF VALUE

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

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

V. VALUATION REFERENCE DATE

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

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

VI. VALUATION BASES

(I) Economic activity basis

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

2. Assets Valuation Entrustment Contract.

(II) Law and regulation basis

1. The Laws on Assets Valuation of the People's Republic of China (adopted at the 21st meeting of the Standing Committee of the twelfth National People's Congress on 2 July 2016);

2. The Securities Laws of the People's Republic of China (amended for the second time at the 15th meeting of the Standing Committee of the thirteenth National People's Congress on 28 December 2019);

3. The Measures for Financial Supervision and Control in the Assets Valuation Industry (Order No. 86 issued by the Ministry of Finance of the People's Republic of China);

4. The Laws on the State-Owned Assets of Enterprises of the People's Republic of China (adopted at the 5th meeting of the Standing Committee of the eleventh National People's Congress on 28 October 2008);

5. The Provisional Regulations on Supervision and Administration of State-owned Assets of Enterprises (Order No. 378 issued by the State Council, revised by Order No. 588 issued by the State Council);

6. The Measures for Supervision and Administration of Transactions of State-Owned Assets of Enterprises (Order No. 32 issued by State-owned Assets Supervision and Administration Commission of the State Council, the Ministry of Finance);

7. The Measures for the Administration of Assessment of State-owned Assets (Order No. 91 issued by the State Council);

8. The Notice on the Issuance of the Rules for Implementation of Measures for the Administration of Assessment of State-owned Assets (Guo Zi Ban Fa [1992] No. 36);

9. The Provisional Measures for the Administration of Assessment of State-owned Assets of Enterprises (Order No. 12 issued by the State-owned Assets Supervision and Administration Commission of the State Council);

10. The Notice on Matters related to the Enhancement of the Administration of Assessment of State-owned Assets of Enterprises (Guo Zi Wei Chan Quan [2006] No. 274);

11. The Notice on Matters related to the Audit of the Valuation Report on State-owned Assets of Enterprises (Guo Zi Chan Quan [2009] No. 941);

12. The Guideline on Registration of Projects on Valuation of State-owned Assets of Enterprises (Guo Zi Fa Chan Quan [2013] No. 64);

13. The Provisional Regulation on Value-added Tax of the People's Republic of China (Order No. 691 issued by the State Council);

14. The Rules for Implementation of the Provisional Regulation on Value-added Tax of the People's Republic of China (Order No. 50 issued by the Ministry of Finance, State Taxation Administration);

15. The Notice on the Adjustment of the Value-added Tax Rate issued by the Ministry of Finance, State Taxation Administration (Cai Shui [2018] No. 32);

16. The Notice on Relevant Policies for the Deepening of the Reform on the Value-added Tax (Notice No. 39 of 2019 issued by the Ministry of Finance, State Taxation Administration, General Administration of Customs);

17. Other related laws, regulations, notices and documents, etc.

(III) Valuation standard basis

1. The Basic Standard for Assets Valuation (Cai Zi [2017] No. 43);

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

3. The Practice Standards for Assets Valuation – Assets Valuation Report (Zhong Ping Xie [2018] No. 35);

4. The Practice Standards for Assets Valuation – Assets Valuation Procedures (Zhong Ping Xie [2018] No. 36);

5. The Practice Standards for Assets Valuation – Assets Valuation Entrustment Contract (Zhong Ping Xie [2017] No. 33);

6. The Practice Standards for Assets Valuation – Assets Valuation Records (Zhong Ping Xie [2018] No. 37);

7. The Practice Standards for Assets Valuation – Machinery and Equipment (Zhong Ping Xie [2017] No. 39);

8. The Practice Standards for Assets Valuation – Assets Valuation Methodology (Zhong Ping Xie [2019] No. 35);

9. The Guidelines for Valuation Report of State-owned Assets of Enterprises (Zhong Ping Xie [2017] No. 42);

10. The Quality Control Guidance on the Business of Assets Valuation Agency (Zhong Ping Xie [2017] No. 46);

11. The Guiding Opinions on Types of Value under Assets Valuation (Zhong Ping Xie [2017] No. 47);

12. The Guiding Opinions on Legal Ownership of the Assets Valuation Target (Zhong Ping Xie [2017] No. 48).

(IV) Ownership Basis

1. Relevant title transfer contract;

2. Letter on confirmation of the completion of the transfer of the equipment.

(V) Pricing basis

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

2. Construction and project supervision service fee (Fa Gai Jia Ge (2007) No. 670);

3. Fees for consulting on impact on environment (Ji Wei Huang Bao Zong Ju Ji Jia Ge (2002) No. 125);

4. Engineering design fee (Ji Wei Jian She Bu Ji Jia (2002) No. 10);

5. Tendering and bidding service fee (Ji Jia Ge (2002) No. 1980);

6. Consulting fee for preliminary work of construction project (Ji Jia Ge [1999] No. 1283);

7. Electromechanical Products Quotation Manual (2020);

8. Relevant final accounts of project provided by the enterprise;

9. On-site survey records from the valuers and other relevant price evaluation information gathered;

10. Wind Financial Terminal;

11. Other information related to the assets valuation.

(VI) Other reference basis

1. Detailed list of assets and evaluation reporting form provided by the property right owner;

2. Information base of China Enterprise Appraisals Co., Ltd.

VII. VALUATION APPROACHES

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

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

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

Appraised value = full replacement price × integrated residue ratio

1. Determination of the full replacement price

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

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

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

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

(2) Load and joint test run fees

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

(3) Upfront construction and other costs

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

(4) Cost of capital

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

(5) Deductible VAT in the equipment purchase price

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

2. Determination of the integrated residue ratio

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

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

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

3. Determination of the appraised value

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

VIII. PROCESS AND CONDITION OF THE IMPLEMENTATION OF VALUATION PROCEDURES

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

(I) Accepting the engagement

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

(II) Preliminary preparation

1. Developing the valuation plan

2. Forming a valuation team

3. Carrying out project training

(1) Training personnel of property right owner

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

(2) Training the valuers

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

(III) On-site survey

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

1. Assets verification

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

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

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

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

(3) On-site survey

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

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

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

(5) Verification of property title certificates

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

(IV) Collection of information

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

(V) Valuation and estimate

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

(VI) Internal review

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

IX. VALUATION ASSUMPTIONS

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

1. It was assumed that there would be no material changes in the political, economic and social environment of the country or region subsequent to the valuation reference date;

2. It was assumed that there would be no material changes in the national macroeconomic policies, industry policies and regional development policies subsequent to the valuation reference date;

3. It was assumed that other than known issues, there would be no material changes in interest rates, exchange rates, tax bases, tax rates and policy-based levies related to the valuation target subsequent to the valuation reference date;

4. It was assumed that there would be no force majeure which may cause material adverse impact on the valuation target subsequent to the valuation reference date;

5. It was assumed that the assets within the valuation scope would be used continuously for their original purposes and in their original locations.

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

X. CONCLUSION OF VALUATION

Valuation conclusion from the aforementioned valuation is as follows:

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

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

Summary of valuation results by using the asset-based approach

Unit: RMB0'000

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

XI. EXPLANATORY NOTES ON SPECIAL MATTERS

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

(I) In the Assets Valuation Report, all tables or textual expressions are denominated in RMB ten thousands, and any difference between the total amount and the sum of the individual sub-values is due to rounding off.

(II) According to the Guiding Opinions on Asset Valuers Concerning Legal Ownership of the Valuation Target, the property right owner and relevant parties concerned shall provide the legal ownership of the valuation target and other information, and take responsibility for the truthfulness, legitimacy and integrity thereof. It is the responsibility of the asset valuers to make the necessary inspection and disclosure of such information and its sources, which does not represent any guarantee of the ownership of the valuation target, and it is beyond the scope of practice of the asset valuers to confirm or express an opinion on the legal ownership of the valuation target.

(III) The pellet production line in the process of sintering had been idle for many years before the property right owner acquired the asset. However, the property right owner started to carry out the functional restoration and transformation of 2 million tons pellet in October 2020, which would come into service after the restoration and transformation. The valuers have considered the impact of the idle condition on the appraised value, without taking into account the impact on the appraised value from the costs of subsequent restoration, transformation and debugging.

(IV) Specific notes relating to pending legal and economic matter on the valuation reference date and its possible impact on the valuation conclusion;

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

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

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

XII. RESTRICTIONS ON THE USE OF THE ASSETS VALUATION REPORT

(I) The scope of the use of the Assets Valuation Report

1. The Assets Valuation Report shall only be used by Chongqing Changshou Iron & Steel Company Limited and other users of the Assets Valuation Report as required in the national laws and administrative regulations.

2. The valuation conclusion revealed in the Assets Valuation Report is only valid for the corresponding economic activity in relation to this project.

3. The validity period of the valuation conclusion in the Assets Valuation Report is one year from the valuation reference date. The principal or other users of the Assets Valuation Report shall use the Assets Valuation Report within the validity period of valuation conclusion as specified.

4. Without the written permission of the principal, the assets valuation agency and its professional asset valuers shall not provide or disclose the content of the Assets Valuation Report to any third party, unless otherwise required by laws and administrative regulations.

5. Unless otherwise required by laws and regulations or agreed among relevant parties concerned, the content of the Assets Valuation Report shall not be extracted, quoted or disclosed in any public media without prior consent of the assets valuation agency.

(II) The assets valuation agency and its professional asset valuers shall take no responsibility if the principal or other users of the Assets Valuation Report fail to use the Assets Valuation Report in accordance with the provisions of laws and administrative regulations and the scope of use set out in the Assets Valuation Report.

(III) Except for the principal, the other users of the Assets Valuation Report as agreed in the Assets Valuation Entrustment Contract and the users of the Assets Valuation Report as stipulated in the laws and administrative regulations, no other institutions or individuals shall be the users of the Assets Valuation Report.

(IV) Users of the Assets Valuation Report shall correctly understand and use the valuation conclusion, which is not equivalent to the realizable price of the valuation target and should not be considered as a guarantee for the realizable price of the valuation target.

(V) The Assets Valuation Report is a professional report issued by the assets valuation agency and its valuers in compliance with laws, administrative regulations and assets valuation standards through necessary assets valuation procedures based on the engagement. This report can be used officially only after being signed by the asset valuers undertaking this valuation and affixed with the common seal of the valuation agency, and filed with the state-owned assets supervision and administration authority or the funded enterprise.

XIII. DATE OF THE ASSETS VALUATION REPORT

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

Legal representative: Quan Zhongguang (signed)

Asset valuer: Zhang Xiaohui (signed and sealed)

Asset valuer: Mu Jigang (signed and sealed)

China Enterprise Appraisals Co., Ltd. (sealed)
16 November 2020

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 Latest Practicable Date, none of the Directors, supervisors and chief executive of the Company have any interests and short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such Director, chief executive or supervisor is taken or deemed to have under such provisions of the SFO) or which was required to be entered into the register required to be kept by the Company under section 352 of the SFO or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

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 2019, 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
Chongqing Changshou Iron & Steel Company Limited	Long position	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 2019, 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.

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 6 (advising on corporate finance) regulated activity
Ernst & Young Hua Ming LLP	Certified Public Accountants
China Enterprise Appraisals Co., Ltd.	an independent firm of qualified PRC valuers

(b) As at the Latest Practicable Date, the above experts 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 experts 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 2019 (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 experts have given and have not withdrawn their respective written consent to the issue of this circular with the inclusion of their respective advice, letters, reports and/or summary of their 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 secretaries of the Company is Ms. Meng Xiangyun and Ms. Chiu Hoi Shan.

(c) The share registrar and transfer office of the Company in Hong Kong is Hong Kong Registrars Limited at Rooms 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. 1 of Gangcheng Avenue, Economic & Technological Development Zone, Changshou District, Chongqing, the PRC and/or Rooms 1202, 1204-16, The Chinese Bank Building, 61-65 Des Voeux Road, Central, Hong Kong during 9 a.m. to 5 p.m. (Monday to Friday) from the date of this circular up to and including the date of the EGM:

(a) the Articles of Association of the Company;

(b) the letter from the Independent Board Committee;

(c) the letter from the Independent Financial Adviser;

(d) the Lease Agreement;

(e) the annual reports for the three financial years ended 31 December 2017, 31 December 2018 and 31 December 2019;

(f) the first quarterly report of 2020 of the Company;

(g) the interim report of the Company ended 30 June 2020;

(h) the third quarterly report of 2020 of the Company;

(i) the written consent of each of the experts referred to in the section headed "Experts" in this appendix;

(j) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix;

(k) the circular of the Company dated 27 May 2020 in relation to (i) discloseable and connected transactions – establishment of the partnership for acquisition of chonggang group through capital contribution; (ii) proposed amendments to the articles of association; (iii) proposed amendments to rules of procedures for general meetings; (iv) notice of 2019 annual general meeting; and (v) supplemental notice of 2019 annual general meeting; and

(l) this circular.

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 SECOND EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 2020 second extraordinary general meeting (the "**EGM**") of Chongqing Iron & Steel Company Limited (the "**Company**") will be held at 2:30 p.m. on Wednesday, 30 December 2020 at the Regent Chongqing Hotel, 66th Jinshamen Road, Jiangbei District, Chongqing, the PRC, for the purpose of considering and, if thought fit, passing the following resolution of the Company.

ORDINARY RESOLUTION

RESOLUTION ADOPTING NON-CUMULATIVE VOTING

1. Resolution on the lease renewal and the final purchase of the assets of Changshou Iron & Steel

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

Chongqing, the PRC, 14 December 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).

Notes:

I. ELIGIBILITY FOR ATTENDING THE EGM

Shareholders whose names appear on the register of members of the Company at the close of business on 22 December 2020 are entitled to attend the EGM upon completion of the necessary registration procedures (holders of A shares will be otherwise notified).

II. REGISTRATION PROCEDURES FOR ATTENDING THE EGM

The register of members of the Company will be closed from 23 December 2020 to 30 December 2020 (both days inclusive), during which no transfer of shares will be effected. Holders of H shares of the Company intending to attend the EGM are required to lodge their respective instrument of transfer and the relevant share certificates to Hong Kong Registrars Limited, the Registrars of the Company, at or before 4:30 p.m. on 22 December 2020.

III. PROXIES

1. Any shareholder entitled to attend and vote at the EGM is entitled to appoint one or more proxies (whether he/she is a shareholder or not) to attend and vote at the meeting on his/her behalf. Each shareholder (or his/her proxy) shall have one vote for each share held.

2. To be valid, the instrument appointing a proxy shall be in writing under the hand of the appointer or his/her attorney duly authorised in writing. If the proxy form is signed by a person authorized by the appointer, the power of attorney or other authorization documents shall be notarized. The notarized power of attorney or other authorization documents together with the proxy form must be lodged with Hong Kong Registrars Limited, the Registrars of the Company, no less than 24 hours before the time appointed for the holding of the EGM (or appointed for voting) i.e. by no later than 2:30 p.m. on 29 December 2020.

3. For the shareholders appointing more than one proxy, the voting right can only be exercised by way of poll.

IV. MISCELLANEOUS

1. Shareholders attending the EGM shall be responsible for their own travel and accommodation expenses.

2. Information may be dispatched by hand or registered post.

3. Address of Hong Kong Registrars Limited: Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

4. Office of Secretary to the Board of Chongqing Iron & Steel Company Limited

   Address: Room 312, Management Building of the Company, No. 2 of Jiangnan Avenue, Jiangnan Street, Changshou District, Chongqing, the PRC
   Postal Code: 401258
   Tel: (86) 23 6898 3482
   Fax: (86) 23 6887 3189
   Contact Person: Peng Guoju/Ji Hong