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

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

(Stock Code: 1053)

### **MAJOR AND CONNECTED TRANSACTION** **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.

As at the date of this announcement, 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 (tax inclusive) (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 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. An independent financial adviser will also be appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, the details of the Lease Agreement and the transactions contemplated thereunder, a letter of recommendation from the Independent Board Committee, a letter of advice from the independent financial adviser to Independent Board Committee and Independent Shareholders and a notice to convene an extraordinary general meeting in order to approve, among other things, the Lease Agreement and the transactions contemplated thereunder is expected to be despatched to the Shareholders on or before 7 December 2020.

## **LEASE AGREEMENT**

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### **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  $\div$  30 days  $\times$  actual number of days of usage.

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.

## **INFORMATION ON 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 RMB 3,447 million (tax inclusive) (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 (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.

## **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 or terms not less favorable than those offered by independent third parties 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.

## **LISTING RULES IMPLICATIONS**

As at the date of this announcement, 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 (tax inclusive) (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 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. An independent financial adviser will also be appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, the details of the Lease Agreement and the transactions contemplated thereunder, a letter of recommendation from the Independent Board Committee, a letter of advice from the independent financial adviser to Independent Board Committee and Independent Shareholders and a notice to convene an extraordinary general meeting in order to approve, among other things, the Lease Agreement and the transactions contemplated thereunder is expected to be despatched to the Shareholders on or before 7 December 2020.

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.

## DEFINITIONS

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

“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”	Chongqing Iron & Steel Company Limited, a company incorporated in PRC with limited liability and the share of which are listed on the Stock Exchange
“connected person”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee comprising all independent non-executive Directors, namely Mr. Xin Qingquan, Mr. Xu Yixiang and Mr. Wong Chunwa, formed for the purpose of advising 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
“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
“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 machinery and equipment of the smelting plant, the coking plant and the sintering plant to the Company from 1 January 2020 to 31 December 2020
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	holder(s) of the Company’s shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	percent

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

Chongqing, the PRC, 17 November 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).*