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河南金馬能源股份有限公司

HENAN JINMA ENERGY COMPANY LIMITED

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 6885)

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS

The Group has been supplying coke to the Maanshan Steel Group. As Maanshan Steel is a substantial shareholder and thus a connected person of the Company, the sale of coke by the Group to the Maanshan Steel Group constitutes continuing connected transactions of the Company. Such continuing connected transactions are governed by the Existing Framework Agreement entered into between the Company and Maanshan Steel dated 23 August 2019 and were approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 18 October 2019. For further information on the Existing Framework Agreement and the related continuing connected transactions, please refer to the announcement and the circular of the Company dated 23 August 2019 and 18 September 2019, respectively.

The term of the Existing Framework Agreement is due to expire on 31 December 2022, and the Company proposes to renew the continuing connected transactions with the Maanshan Steel Group. For such purposes, on 8 November 2022, the Company entered into the New Framework Agreement with Maanshan Steel. The New Framework Agreement, the Continuing Connected Transactions and the Proposed Annual Caps are conditional upon the approval of the Independent Shareholders at the EGM.

LISTING RULES IMPLICATIONS

Maanshan Steel is a substantial shareholder of the Company holding approximately 26.89% of the total issued shares of the Company as at the date of this announcement, and therefore a connected person of the Company under the Listing Rules. As the highest percentage ratio calculated in accordance with the Listing Rules in respect of the Proposed Annual Caps exceeds 5%, the transactions contemplated under the New Framework Agreement constitute continuing connected transactions of the Company and the New Framework Agreement, the Continuing Connected Transactions and the Proposed Annual Caps are subject to the reporting, announcement, annual review, and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

In so far as the Directors are aware, other than Maanshan Steel and its associates, no Shareholder will be required to abstain from voting at the EGM in relation to the resolution to be proposed in respect of the New Framework Agreement, the Continuing Connected Transactions and the Proposed Annual Caps.

None of the Directors had any material interest in the New Framework Agreement and thus no Director was required to abstain from voting on the Board resolutions approving the New Framework Agreement, the Continued Connected Transactions and the Proposed Annual Caps. Nevertheless, Mr. Wang Kaibao and Mr. Xu Baochun, each of whom holds certain positions with Maanshan Steel, voluntarily abstained from voting on the Board resolutions approving the New Framework Agreement.

A circular containing, inter alia, (i) further details of the Continuing Connected Transactions; (ii) a letter from the Independent Board Committee to the Independent Shareholders in relation to the Continuing Connected Transactions; and (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Continuing Connected Transactions, will be despatched to the Shareholders in accordance with the requirements of Rule 14A.46(1) (as modified by Rule 19A.39A) of the Listing Rules. As additional time is required to prepare the relevant information to be included in the circular, it is expected that the circular will be despatched to the Shareholders no later than 29 November 2022.

INTRODUCTION

The Group has been supplying coke to the Maanshan Steel Group. As Maanshan Steel is a substantial shareholder and thus a connected person of the Company, the sale of coke by the Group to the Maanshan Steel Group constitutes continuing connected transactions of the Company. Such continuing connected transactions are governed by the Existing Framework Agreement entered into between the Company and Maanshan Steel dated 23 August 2019 and were approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 18 October 2019. For further information on the Existing Framework Agreement and the related continuing connected transactions, please refer to the announcement and the circular of the Company dated 23 August 2019 and 18 September 2019, respectively.

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A summary of the New Framework Agreement, the Continuing Connected Transactions and the Proposed Annual Caps (with the basis of determination) is set out in the section headed “Continuing Connected Transactions” in this announcement.

CONTINUING CONNECTED TRANSACTIONS

Date: 8 November 2022

Parties: (1) The Company
(2) Maanshan Steel

Term: 1 January 2023 to 31 December 2025

The New Framework Agreement provides for the sale of coke by the Group to the Maanshan Steel Group. Subject to the Independent Shareholders’ approval having been obtained, the term of the sale of coke under the Existing Framework Agreement will be extended for three years from 1 January 2023 to 31 December 2025 and the Proposed Annual Caps have been determined as further described below.

Principal terms of the New Framework Agreement

Pursuant to the New Framework Agreement, the Group agrees to provide coke to the Maanshan Steel Group during the three years from 1 January 2023 to 31 December 2025. The Maanshan Steel Group will from time to time place purchase orders with the Group, specifying the amount of coke required by the Maanshan Steel Group, the requisite product specifications, as well as the expected delivery schedule. Following the Group’s acceptance of the orders, the Group will sell the coke at a prevailing market price (as determined based on the pricing policy as further described below) and deliver the products according to the agreed delivery schedule. The Maanshan Steel Group is responsible for the costs of transportation of coke from the Group’s production facilities to the depot designated by the Maanshan Steel Group. The Maanshan Steel Group is required to settle the payment for the coke purchased on a monthly basis.

The price of the coke will be determined according to the following mechanism:

- (i) the Group’s sales department will regularly monitor the movements and trends of the futures price of coke and determine the prevailing price range of coke after considering the prices and market inventory levels of coke published by specialised online information platforms (including MySteel and Steelhome) as well as the factory gate prices recommended by the China Coking Industry Association together with other associations in principal coke production regions;

- (ii) based on the prevailing price range of coke, the Group will convene weekly internal price analysis meetings to determine the factory gate price of its coke after considering the above factors;
- (iii) the Group will then having taking into account the relevant transportation costs (if applicable), determine the final sale price after arm's length negotiations with the Maanshan Steel Group; and
- (iv) with respect to coke with special specifications requested by the Maanshan Steel Group, the Group will also take into account the relevant product specifications, the extra production costs as well as the historical prices of coke with similar specifications when determining its factory gate price.

Basis of setting the Proposed Annual Caps

The annual cap for the transactions under the Existing Framework Agreement for the each of three years ending 31 December 2022 is RMB1,170 million.

The table below sets out the actual transaction amounts under the Existing Framework Agreement and the volumes of coke the Group supplied to the Maanshan Steel Group for the respective periods indicated:

	Nine months ended		
	Year ended 31 December	2021	30 September
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>
Actual transaction amount	899,875	767,199	850,974
Volumes of coke supplied to the Maanshan Steel Group (tons)	531,786	309,420	271,343

The Maanshan Steel Group purchases coke from the Group as a raw material for manufacturing of iron and steel.

Considering (i) the Maanshan Steel Group's historical demand for the Group's coke; (ii) the measures adopted in the PRC to contain the impact of the COVID-19 pandemic are expected to result in a gradual recovery of domestic economies in the PRC from 2023 onwards with a stable development of investments in infrastructure; and (iii) the current coke production capacity of the Group, the Board estimates that the Group will sell up to 390,000 tons of coke to the Maanshan Steel Group for each of the three years ending 31 December 2025.

The average price of coke per ton (net of VAT) sold to the Maanshan Steel Group for the years ended 31 December 2020 and 2021 and for the nine months ended 30 September 2022 was approximately RMB1,692, RMB2,479 and RMB3,136, respectively.

In 2022 to date, there has been a significant rise in the price of coke, due to factors including (i) the geopolitical war in Eastern Europe, resulting in the rising price of global energy commodities, which in turn led to inflation and downward pressure on the economy; (ii) the continued impact of the COVID-19 pandemic which resulted in a serious imbalance of supply and demand within both the coal and coke markets; and (iii) the PRC government's imposition of stricter environmental protection measures and requirements which resulted in an adjustment of coke and coal production capacity. For the six months ended 30 June 2022, the average selling price of the Group's coke products was approximately RMB3,034 per ton, representing an increase of 44.8% compared to the same period in 2021. Following a recent review by the Group's sales department on the future trend of the market price of coke, the Board estimates that, with the ongoing effect of the above mentioned factors contributing to the high price of coke continuing to impact the coking chemical industry, the average price of coke (net of VAT) would fluctuate at the average price of RMB3,000 per ton for the three years ending 31 December 2025.

Based on (i) the historical transaction amounts, (ii) the estimated supply of coke of up to 390,000 tons from the Group to the Maanshan Steel Group for each of the three years ending 31 December 2025, and (iii) the assumption that the average market price (net of VAT) of coke will increase to approximately RMB3,000 per ton for each of the three years ending 31 December 2025, the Board proposes to adopt the Proposed Annual Caps in respect of the Continuing Connected Transactions contemplated under the New Framework Agreement for each of the three years ending 31 December 2025 at RMB1,170 million per year.

REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS

The Group is a coke producer and processor of coking by-products in the coking chemical industry in Henan province. The Group operates a vertically integrated business model along the coking chemical value chain from coke production to the processing of coking by-products into refined chemicals and energy products.

Maanshan Steel, being one of the largest steel product manufacturers in the PRC, has been one of the main customers of the Group's coke for over a decade. As the Group has conducted the Continuing Connected Transactions for many years and has built a long term strategic and solid business relationship with Maanshan Steel, the Directors (excluding the independent non-executive Directors) consider it beneficial to the Company to continue to conduct the Continuing Connected Transactions in order to ensure and maximise operating efficiency and generate stable and predictable revenue.

The Directors (excluding the independent non-executive Directors, whose views will be given after taking into consideration the advice from the Independent Financial Adviser) are of the view that the New Framework Agreement has been negotiated on an arm's length basis, has been entered into by the Group in the ordinary and usual course of business and are on normal commercial terms or better, and that the terms of the Continuing Connected Transactions and the Proposed Annual Caps are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

LISTING RULES IMPLICATIONS

Maanshan Steel is a substantial shareholder of the Company holding approximately 26.89% of the total issued shares of the Company as at the date of this announcement, and therefore a connected person of the Company under the Listing Rules. As the highest percentage ratio calculated in accordance with the Listing Rules in respect of the Proposed Annual Caps exceeds 5%, the transactions contemplated under the New Framework Agreement constitute continuing connected transactions of the Company and the New Framework Agreement, the Continuing Connected Transactions and the Proposed Annual Caps are subject to the reporting, announcement, annual review, and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

In so far as the Directors are aware, other than Maanshan Steel and its associates, no Shareholder will be required to abstain from voting at the EGM in relation to the resolution to be proposed in respect of the New Framework Agreement, the Continuing Connected Transactions and the Proposed Annual Caps.

None of the Directors had any material interest in the New Framework Agreement and thus no Director was required to abstain from voting on the Board resolutions approving the New Framework Agreement, the Continued Connected Transactions and the Proposed Annual Caps. Nevertheless, Mr. Wang Kaibao and Mr. Xu Baochun, each of whom holds certain positions with Maanshan Steel, voluntarily abstained from voting on the Board resolutions approving the New Framework Agreement.

INFORMATION ON MAANSHAN STEEL

Maanshan Steel is a company incorporated in the PRC whose A and H shares are listed on the Shanghai Stock Exchange and the Main Board of the Stock Exchange, respectively. Maanshan Steel is principally engaged in the manufacture and sale of iron and steel products.

Based on publicly available information, 馬鋼(集團)控股有限公司 (Magang (Group) Holding Company Limited) (“**Magang Group**”) is a controlling shareholder of Maanshan Steel and held approximately 45.10% equity interest in Maanshan Steel as at the date of this announcement. Magang Group is a state-owned enterprise with limited liability, and mainly engaged in mining and sorting of mineral products, construction, manufacturing of construction materials, trading, storage and property management, as well as agriculture and forestry. The ultimate beneficial owner of Magang Group is China Baowu Steel Group Corporation Limited (“**China Baowu**”). China Baowu is a state-owned capital investment company controlled and held by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee comprising all the independent non-executive Directors (namely, Mr. WU Tak Lung, Mr. MENG Zhihe and Mr. CAO Hongbin) has been established to advise the Independent Shareholders as to whether (i) the terms of the Continuing Connected Transactions are fair and reasonable; (ii) the Continuing Connected Transactions are entered into on normal commercial terms or better and in the ordinary and usual course of business of the Group; and (iii) the New Framework Agreement, the Continuing Connected Transactions and the Proposed Annual Caps are in the interests of the Company and its Shareholders as a whole. First Shanghai Capital Limited has been appointed as an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the New Framework Agreement, the Continuing Connected Transactions and the Proposed Annual Caps.

DESPATCH OF CIRCULAR

A circular containing, inter alia, (i) further details of the Continuing Connected Transactions; (ii) a letter from the Independent Board Committee to the Independent Shareholders in relation to the Continuing Connected Transactions; and (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Continuing Connected Transactions, will be despatched to the Shareholders in accordance with the requirements of Rule 14A.46(1) (as modified by Rule 19A.39A) of the Listing Rules. As additional time is required to prepare the relevant information to be included in the circular, it is expected that the circular will be despatched to the Shareholders no later than 29 November 2022.

DEFINITIONS

Unless the context otherwise requires, capitalised terms used in this announcement have the following meanings:

“Board”	the board of Directors
“Company”	河南金馬能源股份有限公司 (Henan Jinma Energy Company Limited), a joint stock company incorporated in the PRC with limited liability
“Continuing Connected Transactions”	the proposed continuing connected transactions between the Group and the Maanshan Steel Group under the New Framework Agreement, as further described in the section headed “Continuing Connected Transactions” in this announcement
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be held to consider, among others, the New Framework Agreement, the Continuing Connected Transactions and the Proposed Annual Caps in respect of the Continuing Connected Transactions
“Existing Framework Agreement”	the framework agreement entered into between the Company and Maanshan Steel dated 23 August 2019 in respect of the supply of coke by the Group to the Maanshan Steel Group for the three years ending 31 December 2022
“Group”	the Company and its subsidiaries
“Independent Shareholders”	Shareholders other than Maanshan Steel and its associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“Maanshan Steel”	馬鞍山鋼鐵股份有限公司 (Maanshan Iron & Steel Company Limited), a company incorporated in the PRC whose A and H shares are listed on the Shanghai Stock Exchange and the Main Board of the Stock Exchange, respectively, and a connected person of the Company
“Maanshan Steel Group”	Maanshan Steel and its associates
“New Framework Agreement”	the new framework agreement entered into between the Company and Maanshan Steel dated 8 November 2022 in respect of the supply of coke by the Group to the Maanshan Steel Group for the three years ending 31 December 2025
“PRC”	the People’s Republic of China
“Proposed Annual Caps”	the new annual cap(s) for the Continuing Connected Transactions set out in the section headed “Basis of setting the Proposed Annual Caps” in this announcement
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	the shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“VAT”	value added tax

In this announcement, the terms “associate”, “connected person”, “subsidiary” and “substantial shareholder” have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

The English names of Chinese entities included in this announcement are unofficial translations of their Chinese names and are included for identification purposes only.

By Order of the Board
Henan Jinma Energy Company Limited
Yiu Chiu Fai
Chairman

Hong Kong, 8 November 2022

As at the date of this announcement, the executive Directors of the Company are Mr. YIU Chiu Fai, Mr. WANG Mingzhong and Mr. LI Tianxi; the non-executive Directors of the Company are Mr. Xu Baochun, Mr. WANG Kaibao and Ms. YE Ting; and the independent non-executive Directors of the Company are Mr. WU Tak Lung, Mr. MENG Zhihe and Mr. CAO Hongbin.