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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

In 2020, the Company formed a joint venture, Xinyang JV, with Xinyang Co for the production and sale of coke, electricity and heat energy. Xinyang JV is owned as to 70% by the Group and 30% by Xinyang Co. After the formation of such joint venture, the Group has been supplying coke to Xinyang Co Group since March 2022. As Xinyang Co is a substantial shareholder of Xinyang JV, it is a connected person of the Company. Accordingly, the sale of coke and heat energy by the Group to the Xinyang Co Group constitutes continuing connected transactions of the Company. In this regard, the Company entered into the Existing Framework Agreement with Xinyang Co dated 29 March 2022 in relation to such continuing connected transactions. Please refer to the announcement of the Company dated 29 March 2022 for further information.

The term of the Existing Framework Agreement is due to expire on 31 December 2022, and the Company proposed to renew the continuing connected transactions with the Xinyang Co Group. For such purposes, on 8 November 2022, the Company entered into the New Framework Agreement with Xinyang Co Group.

LISTING RULES IMPLICATIONS

The Company and Xinyang Co are shareholders of Xinyang JV with a 70% and 30% equity interest, respectively. As such, Xinyang Co is a connected person of the Company. As the highest percentage ratio calculated in accordance with the Listing Rules in respect of the Annual Caps exceeds 5%, the transactions contemplated under the New Framework Agreement constitute continuing connected transactions of the Company.

As (i) Xinyang Co is a connected person of the Company at the subsidiary level under the Listing Rules; (ii) the Board has approved the New Framework Agreement; and (iii) the Directors (including the independent non-executive Directors) have confirmed that the terms of the New Framework Agreement are fair and reasonable and the transactions contemplated thereunder are on normal commercial terms or better and in the interests of the Company and its Shareholders as a whole, the Continuing Connected Transactions under the New Framework Agreement are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules but are exempt from the circular, independent financial advice and shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules.

INTRODUCTION

In 2020, the Company formed a joint venture, Xinyang JV, with Xinyang Co for the production and sale of coke, electricity and heat energy. Xinyang JV is owned as to 70% by the Group and 30% by Xinyang Co. After the formation of such joint venture, the Group has been supplying coke to Xinyang Co Group since March 2022. As Xinyang Co is a substantial shareholder of Xinyang JV, it is a connected person of the Company. Accordingly, the sale of coke and heat energy by the Group to the Xinyang Co Group constitutes continuing connected transactions of the Company. In this regard, the Company entered into the Existing Framework Agreement with Xinyang Co dated 29 March 2022 in relation to such continuing connected transactions. Please refer to the announcement of the Company dated 29 March 2022 for further information.

The term of the Existing Framework Agreement is due to expire on 31 December 2022, and the Company proposed to renew the continuing connected transactions with the Xinyang Co Group. For such purposes, on 8 November 2022, the Company entered into the New Framework Agreement with Xinyang Co Group.

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

NEW FRAMEWORK AGREEMENT

Principal terms of the New Framework Agreement

Date: 8 November 2022

Parties: (1) The Company
(2) Xinyang Co

Term: 1 January 2023 to 31 December 2025

Pursuant to the New Framework Agreement, the Group agrees to provide coke and heat energy to the Xinyang Co Group during the three years from 1 January 2023 to 31 December 2025. The Xinyang Co Group will from time to time place purchase orders with the Group, specifying the amount of coke and/or heat energy required by the Xinyang Co Group, the requisite product specifications, as well as the expected delivery schedule; and following the Group's acceptance of the orders, the Group will sell the coke and/or heat energy at a prevailing market price (as determined based on the pricing policy as further disclosed below) and complete the delivery of the products according to the agreed delivery schedule. The costs of transportation of coke from the Group's production facilities to the depot designated by the Xinyang Co Group will be borne by the Xinyang Co Group. The payment to the Group in respect of the sale of coke and/or heat energy is to be settled on a monthly basis by the Xinyang Co Group.

Coke pricing mechanism

The price of 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 Xinyang Co Group; and
- (iv) with respect to coke with special specifications requested by the Xinyang Co 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.

Heat energy pricing mechanism

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

- (i) the Group's sales department will regularly monitor the movements and trends of heat energy price and determine the prevailing price range of heat energy after taking into account the relevant prices of heat energy published by specialised online information platforms as well as government policy on pricing adjustment; and
- (ii) the Group will then, having taken into account heat energy specification and heat energy generation costs, determine the final sale price after arm's length negotiations with the Xinyang Co Group.

Basis of setting the Annual Caps

The transaction cap for the transactions under the Existing Framework Agreement for the year ending 31 December 2022 is RMB398,640,000.

The table below sets out the actual transaction amounts under the Existing Framework Agreement and the volumes of coke supplied by the Group to the Xinyang Co Group for the nine months ended 30 September 2022:

Coke supplied to the Xinyang Co Group	Nine months ended 30 September 2022* <i>RMB'000</i> (unaudited)
Actual transaction amount of coke supplied	199,403
Volumes of coke supplied (tons)	71,535

Note:

* *After the formation of Xinyang JV, the Group only commenced sale of coke to the Xinyang Co Group in March 2022.*

Xinyang Co Group is an iron and steel conglomerate in Henan Province and has a significant need for quality coke as a raw material for its manufacturing of iron and steel. Entering into the New Framework Agreement also means Xinyang Co Group shall receive reliable supplies of coke and heat energy going forward for the three years ending 31 December 2025 for its production of iron and steel.

Since its establishment in 2020, Xinyang JV has been developing its coking production facilities (the “**Xinyang Coke Production Project**”). The first phase of an advanced heat-recovery coking furnace with an annual output of 1.6 million tons of coke has commenced operation since November 2022. The second phase of coking furnace is under construction and is expected to be fully put into operation in the second half year of 2023.

Based on:

- (a) the Xinyang Co Group’s current projected needs for the Group’s coke for its production of iron and steel, and heat energy to power its production and operation;
- (b) the existing coke production and heat energy generation capacity of the Group; and
- (c) the progress of the construction of the coking production furnace of Xinyang JV (which is on schedule) and the expected increase in the Group’s coke production capacity resulting from the completion of the construction of the coking production furnace,

the Board estimates that the Group will sell to the Xinyang Co Group up to (i) 1,300,000 tons, 1,500,000 tons and 1,500,000 tons of coke for the year ending 31 December 2023, 2024 and 2025, respectively; and (ii) 5,000,000 tons, 6,250,000 tons and 6,250,000 tons of heat energy for the year ending 31 December 2023, 2024 and 2025, respectively.

In terms of supply of coke, the average price of coke per ton (net of VAT) sold to the Xinyang Co Group was approximately RMB2,787 for the nine months ended 30 September 2022. No heat energy was previously sold by the Group to the Xinyang Co Group.

In 2022 to date, there has been a significant rise in the price of coke and heat energy, 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, coke, electricity and heat energy markets; and (iii) the PRC government's imposition of stricter environmental protection measures and requirements which resulted in an adjustment of coal, coke, electricity and heat energy 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 and heat energy, the Board estimates that, with the ongoing effect of the above mentioned factors contributing to the high price of coke and heat energy continuing to impact the coking chemical and heat energy industries, 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, and the average price of heat energy per ton (net of VAT) would fluctuate at the average price of RMB140 per ton for the three years ending 31 December 2025.

Based on:

- (a) the historical transaction amounts;
- (b) the estimated supply of coke by the Group to the Xinyang Co Group of up 1,300,000 tons, 1,500,000 tons and 1,500,000 tons of coke for the year ending 31 December 2023, 2024 and 2025, respectively;
- (c) the estimated supply of heat energy by the Group to the Xinyang Co Group of up to 5,000,000 tons, 6,250,000 tons and 6,250,000 tons of heat energy for the year ending 31 December 2023, 2024 and 2025, respectively; and
- (d) the assumption that the average market price (net of VAT) of coke and heat energy will remain at the level of approximately RMB3,000 per ton and RMB140 per ton, respectively for the three years ending 31 December 2025,

the Board has set the following Annual Caps in respect of the transactions contemplated under the New Framework Agreement for the three years ending 31 December 2025:

	2023	2024	2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Annual Caps	4,600,000	5,375,000	5,375,000

INFORMATION ON XINYANG CO

Xinyang Co is a company established in the PRC with limited liability. It is principally engaged in the production and sale of pig iron, billet, rod and strip materials, and is a steel conglomerate involved in various operations including the production of iron and steel, mining, mineral separation, railway transportation, cement and energy generation and trading.

Insofar as the Directors are aware, as at the date of this announcement, Xinyang Co is held as to approximately 65.22% by He Dianzhou (何殿洲), approximately 15.84% by Henan Hengchang Trading Co., Ltd. (河南省恒昌商貿有限公司) (“**Hengchang Trading**”) (which is in turn ultimately held by Liang Junsheng (梁俊生) and Zhao Lili (趙麗麗) as to 85% and 15%, respectively), and approximately 8.57% by Anyang Steel Group Co., Ltd. (安陽鋼鐵集團有限責任公司) (“**Anyang Steel**”) (which is in turn ultimately wholly owned by Henan Province State-owned Assets Supervision and Administration Commission (河南省人民政府國有資產監督管理委員會)). The remaining interest of approximately 10.37% in Xinyang Co is held by seven other individuals.

REASONS FOR AND BENEFITS OF THE NEW FRAMEWORK AGREEMENT

The Group is a leading coke producer and processor of coking by-products in the coking chemical industry in Henan Province, the PRC. 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. Capitalising on the Group’s years of operations in the coking chemical industry and the Group’s long-term business relationship with coal suppliers, the Group also engages in the trading of coal, coke, LNG and nonferrous materials.

In considering the New Framework Agreement, the Continuing Connected Transaction and the Annual Caps, the Directors have considered the following factors:

- (a) the Group has built a strategic and strong business relationship with Xinyang Co through the formation of Xinyang JV, in which Xinyang Co is a substantial shareholder;
- (b) the Group intends to leverage on the partnership with Xinyang Co to gain access to new business opportunities along the coking chemical value chain;
- (c) it has always been contemplated that the Group would sell products to Xinyang Co following the commencement of production at the commences production at the Xinyang JV’s Xinyang Coke Production Project; and
- (d) the Group has been supplying coke to the Xinyang Co Group since March 2022 and such transactions have been beneficial to the Group.

The Directors (including the independent non-executive Directors), having considered the above factors, are of the view that it is beneficial to continue the sale of coke and heat energy to the Xinyang Co Group, as this will enable to Group to further strengthen its relationship with the Xinyang Co Group and continue the momentum built from the first half year of 2022, and the transactions also provide a stable source of revenue for the Group which helps implement the Group’s sales growth plan by increasing the overall sales of the Group’s products.

The Directors (including the independent non-executive Directors), having considered the factors described above, are of the view that the New Framework Agreement has been negotiated on an arm’s length basis, are on normal commercial terms or better and in the ordinary and usual course of business of the Group, and that the terms of the New Framework Agreement and the Annual Caps are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

LISTING RULES IMPLICATIONS

The Company and Xinyang Co are shareholders of Xinyang JV with a 70% and 30% equity interest, respectively. As such, Xinyang Co is a connected person of the Company. As the highest percentage ratio calculated in accordance with the Listing Rules in respect of the Annual Caps exceeds 5%, the transactions contemplated under the New Framework Agreement constitute continuing connected transactions of the Company.

As (i) Xinyang Co is a connected person of the Company at the subsidiary level under the Listing Rules; (ii) the Board has approved the New Framework Agreement; and (iii) the Directors (including the independent non-executive Directors) have confirmed that the terms of the New Framework Agreement are fair and reasonable and the transactions contemplated thereunder are on normal commercial terms or better and in the interests of the Company and its Shareholders as a whole, the Continuing Connected Transactions under the New Framework Agreement are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules but are exempt from the circular, independent financial advice and shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules.

None of the Directors has any interest in the New Framework Agreement and the transactions contemplated thereunder, and hence no Director has abstained from voting on the relevant board resolutions approving the New Framework Agreement, the Continuing Connected Transactions and the Annual Caps.

DEFINITIONS

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

“Annual Caps”	the Annual Caps for the Continuing Connected Transactions set out in the section headed “New Framework Agreement – Basis of setting the Annual Caps” in this announcement
“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 continuing connected transactions between the Group and the Xinyang Co Group under the New Framework Agreement, as further described in this announcement
“Directors”	the directors of the Company
“Existing Framework Agreement”	the framework agreement entered into between the Company and Xinyang Co dated 29 March 2022 in respect of the sale of coke and electricity by the Group to the Xinyang Co Group for the year ending 31 December 2022
“Group”	the Company and its subsidiaries
“independent third party(ies)”	third party(ies) independent of the Group and not connected persons of the Company

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Framework Agreement”	the new framework agreement entered into between the Company and Xinyang Co dated 8 November 2022 in relation to the sale of coke and heat energy by the Group to the Xinyang Co Group for the three years ending 31 December 2025
“PRC”	the People’s Republic of China
“prevailing market price”	the price of the same or similar products or services provided by independent third parties during the same period in the ordinary course of business and on normal commercial terms
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“VAT”	value added tax
“Xinyang Co”	安鋼集團信陽鋼鐵有限責任公司 (Angang Group Xinyang Steel Co., Ltd.), a limited company established in the PRC
“Xinyang Co Group”	Xinyang Co and its associates (excluding Xinyang JV)
“Xinyang JV”	信陽鋼鐵金港能源有限公司 (Xinyang Steel Jingang Energy Co., Ltd.), a company established in the PRC with limited liability, in which the Company and Xinyang Co hold a 70% and 30% equity interest, respectively

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.