

24 November 2022

*To the Independent Board Committee and  
the Independent Shareholders*

Henan Jinma Energy Company Limited  
West First Ring Road South  
Jiyuan City  
Henan Province  
The PRC

Dear Sirs,

## RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

### INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the New Framework Agreement, the Continuing Connected Transactions and the Proposed Annual Caps, details of which are contained in the circular to the Shareholders dated 24 November 2022 (the “Circular”), of which this letter forms part. Unless the context requires otherwise, (i) capitalised terms used in this letter shall have the same meanings as those ascribed in the Circular; and (ii) the unit prices of coke, the transaction amounts of coke and annual caps related to the Continuing Connected Transactions mentioned in this letter are net of value added tax.

The Group has been supplying coke to the Maanshan Steel Group. Nonetheless, the term of the Existing Framework Agreement is due to expire on 31 December 2022, therefore the Company proposes to renew the continuing connected transactions with the Maanshan Steel Group. Hence, on 8 November 2022, the Group entered into the New Framework Agreement with Maanshan Steel.

As set out in the “Letter from the Board” contained in the Circular (the “**Board Letter**”), Maanshan Steel is a substantial shareholder and a connected person of the Company, therefore the sale of coke by the Group to the Maanshan Steel Group constitutes continuing connected transactions of the Company. Accordingly, the New Framework Agreement and the Proposed Annual Caps in respect of the Continuing Connected Transactions are conditional upon the approval of the Independent Shareholders at the EGM.

An independent board committee comprising Mr. WU Tak Lung, Mr. MENG Zhihe and Mr. CAO Hongbin, being all the three independent non-executive Directors, has been formed to advise the Independent Shareholders in relation to the New Framework Agreement, the Continuing Connected Transactions and the Proposed Annual Caps. We, First Shanghai Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

## **OUR INDEPENDENCE**

The Independent Shareholders should note that we were previously engaged as the independent financial adviser by the Company regarding the revision of certain annual caps as detailed in the circular of the Company dated 8 December 2021 (the “**Previous Engagement**”). Apart from normal professional fees paid or payable to us in connection with the Previous Engagement and this current engagement, we did not have any other relationships or interests with the Group within the past two years prior to the Latest Practicable Date. Given (i) our independent roles in the Previous Engagement; (ii) none of the members of our parent group is a direct party to the New Framework Agreement; and (iii) our fee for this current engagement with the Company, in addition to that for the Previous Engagement, represented an insignificant percentage of revenue of our parent group, we consider the Previous Engagement would not affect our independence, and we consider ourselves independent pursuant to rule 13.84 of the Listing Rules, to provide our advice and form our opinion in respect of the New Framework Agreement, the Continuing Connected Transactions and the Proposed Annual Caps.

## **BASIS OF OUR ADVICE**

In arriving at our recommendation, we have relied on the information and facts provided by the Company and have assumed that any representations made to us are true, accurate and complete. We have also relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and management of the Group (collectively, the “**Management**”). We have assumed that all information, representations and opinions contained or referred to in the Circular and

all information, representations and opinions which have been provided by the Management for which they are solely responsible, are true and accurate at the time they were made and will continue to be accurate at the date of the despatch of the Circular.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular the omission of which would make any such statement contained in the Circular misleading. We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. We have not, however, carried out any independent verification of the information provided by the Management, nor have we conducted an independent investigation into the business and affairs of the Group and the Maanshan Steel Group.

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In formulating our opinion regarding the New Framework Agreement, the Continuing Connected Transactions and the Proposed Annual Caps, we have taken into consideration the following principal factors:

### **1. Background information of the Group**

The Group is a 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. We have reviewed the annual report of the Company for the year ended 31 December 2021 (the “**2021 Annual Report**”) and we noted that the majority of the sales and also the segment results of the Group were contributed by the sales of coke for each of the years ended 31 December 2020 and 2021.

### **2. Background information on the Maanshan Steel Group**

Maanshan Steel is a substantial shareholder of the Company and 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. We have reviewed the annual report of Maanshan Steel for the year ended 31 December 2021, which stated, among other things, (i) the Maanshan Steel Group is one of the largest iron and steel producers and sellers in the PRC; and (ii) the cost of sales of the Maanshan Steel Group for the year ended 31 December 2021 substantially increased as compared with the previous year, mainly due to the rising prices of raw materials such as iron ore, coal and coke as well as the increase in the sales volume of steel.

### **3. Background of and reasons for the New Framework Agreement**

As stated in the Circular, Maanshan Steel has been one of the main customers of the Group's coke for over a decade. Nonetheless, the term of the Existing Framework Agreement is due to expire on 31 December 2022, therefore the Company proposes to renew the continuing connected transactions with the Maanshan Steel Group. Hence, on 8 November 2022, the Group entered into the New Framework Agreement with Maanshan Steel.

Having considered, in particular, (i) sales of coke is a core businesses of the Group; (ii) the Continuing Connected Transactions contemplated under the New Framework Agreement, being the sale of coke to the Maanshan Steel Group, are revenue in nature to the Group; and (iii) the terms of the New Framework Agreement and the Continuing Connected Transactions are fair and reasonable as discussed below, we are of the view that the entering into of the New Framework Agreement and the Continuing Connected Transactions are in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole.

### **4. 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 and deliver the products according to the agreed delivery schedule. As detailed in the Board Letter, the market price shall be determined with reference to, among other things, the prevailing price range of coke after considering the prices and market inventory levels of coke published by specialised online information platforms (including online data from websites providing information regarding coke such as MySteel (我的鋼鐵) ([www.mysteel.com](http://www.mysteel.com)) and Steelhome (鋼之家) ([www.steelhome.cn](http://www.steelhome.cn))). The Maanshan Steel Group is required to settle the payment for the coke purchased on a monthly basis. As advised by the Management, we understand the pricing bases and payment terms in the New Framework Agreement remain substantially the same as those in the Existing Framework Agreement. For further details of the terms of the New Framework Agreement, please refer to the Board Letter.

In respect of the background of MySteel and Steelhome, we have reviewed their websites to obtain an understanding. Regarding MySteel, we understand (i) it provides consultancy, data, insight, information, news and research on the commodities markets; (ii) it is the first price reporting agency in the PRC to achieve International Organization of Securities Commissions (IOSCO) assurance; and (iii) it is operated by Shanghai Ganglian E-Commerce Holdings Co., Ltd. (listed on the Shenzhen Stock Exchange with stock code 300226). Regarding Steelhome, we understand (i) it is an authoritative, leading and independent website in Chinese steel market, providing information, consultancy, data, industry events and E-commerce to global steel companies, raw material suppliers, traders, logistics companies,

steel users, government departments, industry associations, financial & research institutes; and (ii) it is a strategic partner of Bloomberg and Reuters. We also note that the industry pricing information of both MySteel and Steelhome had been adopted by several companies listed in Hong Kong, such as CSSC Offshore & Marine Engineering (Group) Company Limited (317 HK) and Chongqing Iron & Steel Company Limited (1053 HK), as pricing reference for their continuing connected transactions. Based on the aforesaid, we consider MySteel and Steelhome are credible information source.

For our further assessment of the fairness and reasonableness of the aforementioned pricing bases, we have reviewed the sales invoices between the Group and (i) the Maanshan Steel Group under the Existing Framework Agreement; and (ii) independent third party customers of the Group (the “**Independent Customers**”). Such invoices covered the recent two financial years and were on a sample basis, where we have reviewed a total of 20 sets (each set containing documents covering the transaction with connected party and the relevant independent parties comparison, which involved a total of 20 invoices with the Maanshan Steel Group and 40 invoices with independent parties). Based on our independent review of the aforesaid transaction documents, we noted that the unit prices of coke sold by the Group to the Maanshan Steel Group were no less favourable than those to the Independent Customers.

In respect of payment terms, we have reviewed the 2021 Annual Report and noted that the normal credit term of the Group to its customers ranged between 30 to 60 days. Hence, we understand the settlement by the Maanshan Steel Group on a monthly basis pursuant to the New Framework Agreement is in line with the normal business practice of the Group.

Furthermore, we note from the two latest annual reports of the Company that, in accordance with the Listing Rules, (i) the Company had engaged its independent auditors to report on the continuing connected transactions of the Group for each of the years ended 31 December 2020 and 2021 and the independent auditors of the Company issued their unqualified letters in respect of such transactions; and (ii) the independent non-executive Directors had also reviewed the continuing connected transactions of the Group for each of the years ended 31 December 2020 and 2021 and confirmed that such transactions were, among other things, on normal commercial terms or on terms no less favourable than those entered into by independent third parties with the Group. For further details of the internal control measures of the Group, please refer to the Board Letter.

Having considered, in particular, (i) our aforementioned review of the principal terms of the New Framework Agreement, which remain substantially the same as those in the Existing Framework Agreement; and (ii) our understanding of the positive track record of compliance where the independent auditors of the Company and the independent non-executive Directors had reviewed and will continue to review the Continuing Connected Transactions, we are of the view that the internal control measures of the Group are effective and the terms of the New Framework Agreement and the Continuing Connected Transactions are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

## 5. The Proposed Annual Caps

In relation to the sales of coke to the Maanshan Steel Group pursuant to the Existing Framework Agreement and the New Framework Agreement, the following table sets out the relevant historical actual amounts for each of the years ended 31 December 2020 and 2021 and the nine months ended 30 September 2022 as well as the Proposed Annual Caps for each of the years ending 31 December 2023, 2024 and 2025:

	Historical actual amounts			Proposed Annual Caps		
	For the year ended 31 December 2020	For the year ended 31 December 2021	For the nine months ended 30 September 2022	For the year ending 31 December		
	2020	2021	2022	2023	2024	2025
Transaction amount (RMB million)	900	767	851	1,170	1,170	1,170
Sales volume (‘000 ton)	532	309	271	390 <sup>(2)</sup>	390 <sup>(2)</sup>	390 <sup>(2)</sup>
Unit price <sup>(1)</sup> (RMB per ton)	1,692	2,479	3,136	3,000 <sup>(2)</sup>	3,000 <sup>(2)</sup>	3,000 <sup>(2)</sup>

*Note:*

1. This is the unit price derived from dividing transaction amount by sales volume.
2. These are assumptions for deriving the Proposed Annual Caps (being the transaction amounts).

For each of the years ending 31 December 2023, 2024 and 2025, the Proposed Annual Cap is RMB1,170 million, which is calculated based on (i) the assumed annual sales volume of 390,000 tons (the “Assumed Sales Volume”); and (ii) the assumed unit price of RMB3,000 per ton (the “Assumed Unit Price”).

We note that the sales volume for the nine months ended 30 September 2022 is approximately 271,000 tons and it implies an annualised sales volume of approximately 361,000 tons for the year ending 31 December 2022 (the “2022 Sales Volume”), which represents an annual increase of approximately 17% as compared with the actual sales volume for the year ended 31 December 2021. We also note that the Assumed Sales Volume of 390,000 tons (i) represents a buffer of approximately 8% to the 2022 Sales Volume; and (ii) is in line with the average of the sales volume for each of the years ended 31 December 2020 and 2021 and the 2022 Sales Volume of approximately 401,000 tons. Hence, we consider the Assumed Volume to be achievable and therefore acceptable for the determination of the Proposed Annual Caps.

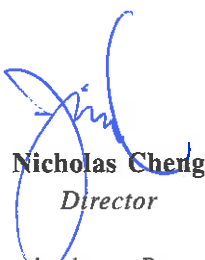
We note that the Assumed Unit Price of RMB3,000 per ton is in line with the actual unit price for the nine months ended 30 September 2022 of approximately RMB3,136 per ton, hence we also consider the Assumed Unit Price to be acceptable for the determination of the Proposed Annual Caps.

Taking into account, in particular, (i) the Proposed Annual Caps provide flexibility to the Group to conduct sales to the Maanshan Steel Group, which are revenue in nature to the Group; (ii) the Assumed Sales Volume is in line with the average of the sales volume for each of the years ended 31 December 2020 and 2021 and the 2022 Sales Volume; and (iii) the Assumed Unit Price is in line with the actual unit price for the nine months ended 30 September 2022, we consider the Proposed Annual Caps to be fair and reasonable so far as the Independent Shareholders are concerned.

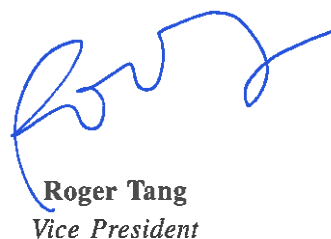
## RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that the entering into of the New Framework Agreement and the Continuing Connected Transactions are in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole. We are also of the opinion that the terms of the New Framework Agreement and the Continuing Connected Transactions are on normal commercial terms and, together with the Proposed Annual Caps, are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves advise, the Independent Shareholders to vote in favour of the resolutions to approve the New Framework Agreement, the Continuing Connected Transactions and the Proposed Annual Caps at the EGM.

Yours faithfully,  
For and on behalf of  
**First Shanghai Capital Limited**



**Nicholas Cheng**  
*Director*



**Roger Tang**  
*Vice President*

*Note:* Mr. Nicholas Cheng has been a Responsible Officer and Mr. Roger Tang has been a Representative of Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). Both of them have extensive experience in the corporate finance industry and have participated in the provision of independent financial advisory services for numerous connected transactions involving listed companies in Hong Kong.