

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



Hebei Yichen Industrial Group Corporation Limited*

河北翼辰實業集團股份有限公司

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

(Stock code: 1596)

CONTINUING CONNECTED TRANSACTIONS

ELECTRICITY PURCHASE AGREEMENT

ELECTRICITY PURCHASE AGREEMENT

On 1 November 2023, Hebei Chenteng as supplier and the Company as consumer entered into the Electricity Purchase Agreement, pursuant to which Hebei Chenteng shall supply electricity to the Company for a term of three years from 1 November 2023 to 31 October 2026. The Directors expect that the aggregate amount of the consideration payable by the Company to Hebei Chenteng in connection with the purchase of electricity under the Electricity Purchase Agreement will not exceed RMB5 million for the year ending 31 December 2023 (applicable to the period from 1 November 2023 to 31 December 2023), RMB30 million for the year ending 31 December 2024, RMB30 million for the year ending 31 December 2025, and RMB25 million for the year ending 31 December 2026 (applicable to the period from 1 January 2026 to 31 October 2026).

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Hebei Chenteng is owned as to 80% by Hebei Chenxiang, which is in turn owned as to an aggregate of approximately 78.19% by the Controlling Shareholders. As a 30%-controlled company and hence an associate of the Controlling Shareholders, Hebei Chenteng is a connected person of the Company. The transactions contemplated under the Electricity Purchase Agreement constitute continuing connected transactions under Chapter 14A of the Listing Rules.

* For identification purpose only

As one or more of the applicable percentage ratios in respect of the continuing connected transactions contemplated under the Electricity Purchase Agreement exceed(s) 0.1% but all such ratios fall below 5%, and the relevant consideration exceeds HK\$3 million (based on the largest annual cap in respect of the continuing connected transactions contemplated under the Electricity Purchase Agreement), such continuing connected transactions are subject to the announcement, annual review and annual reporting requirements but exempt from the circular (including independent financial advice) and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

ELECTRICITY PURCHASE AGREEMENT

On 1 November 2023, Hebei Chenteng as supplier and the Company as consumer entered into the Electricity Purchase Agreement, pursuant to which Hebei Chenteng shall supply electricity to the Company for a term of three years from 1 November 2023 to 31 October 2026.

Set forth below are further details of the Electricity Purchase Agreement:

Date:	1 November 2023
Parties:	(1) Hebei Chenteng, as supplier (2) the Company, as consumer
Term:	three years from 1 November 2023 to 31 October 2026 (both dates inclusive)
Electricity consumption site:	the Company's place of business at No. 268, Lianzhou East Road, Gaocheng District, Shijiazhuang, Hebei, the PRC
Electricity charges:	Hebei Chenteng shall charge for the supply of electricity based on the records of the electricity meters, and the electricity charges approved by the price administration department and/or other governmental authority(ies) or the electricity charges formed in accordance with the price for purchase of electricity by Hebei Chenteng from the market. The electricity charges shall include relevant fees to be charged alongside charges for electricity supply as prescribed by the state. During the term of the Electricity Purchase Agreement, the electricity charges and the rate of other applicable fees shall be subject to adjustment in accordance with the policies that may be issued by the relevant governmental authorities from time to time (if any).

As at the date of the Electricity Purchase Agreement, the electricity charges are determined with reference to the amount charged by State Grid Hebei, a state-owned enterprise servicing regions within Hebei province, for supply of electricity. According to the Notice of the National Development and Reform Commission on Further Deepening the Market-oriented Reform of the On-grid Price of Coal-fired Power Generation (Fa Gai Jia Ge [2021] No. 1439) 《國家發展改革委關於進一步深化燃煤發電上網電價市場化改革的通知》(發改價格[2021] 1439號), the on-grid price of coal-fired power generation has been liberalised and shall fall within a range with reference to market transactions. Barring any adjustment that may be prescribed by the relevant governmental authority(ies) or other unforeseeable circumstance, the Directors expect that such a pricing mechanism will apply to the supply of electricity by Hebei Chenteng to the Company throughout the term of the Electricity Purchase Agreement.

The above pricing mechanism is determined and agreed on by Hebei Chenteng and the Company after arm's length negotiations. In determining the pricing mechanism, the Company had taken into account, among other things, the market practice under which and the prevailing market rates at which electricity supplied is charged in the surrounding areas, the pricing requirements prescribed under relevant local laws and regulations and the pricing approved by the relevant governmental authorities. The Directors had considered all of the above factors to ensure that the pricing mechanism established in the Electricity Purchase Agreement is fair and reasonable, on normal commercial terms and not less favourable to the Company than the pricing mechanism and/or rates that may be proposed or offered by Independent Third Party suppliers.

Payment: Based on the amount of electricity consumed as recorded by the electricity meters and the electricity charges per unit determined based on the mechanism as described above, payment shall be made by the Company to Hebei Chenteng on a monthly basis.

Annual cap

Historical figures

Prior to the Electricity Purchase Agreement, Hebei Chenteng and the Company had not entered into any transaction in relation to supply and purchase of electricity.

Annual caps for the transactions under the Electricity Purchase Agreement

The Directors expect that the aggregate amount of the consideration payable by the Company to Hebei Chenteng in connection with the supply of electricity under the Electricity Purchase Agreement will not exceed the following amounts, being the annual caps in respect of the continuing connected transactions contemplated under the Electricity Purchase Agreement:

Period	Annual cap RMB
Year ending 31 December 2023 (applicable to the period from 1 November 2023 to 31 December 2023)	5,000,000
Year ending 31 December 2024	30,000,000
Year ending 31 December 2025	30,000,000
Year ending 31 December 2026 (applicable to the period from 1 January 2026 to 31 October 2026)	25,000,000

The annual caps for the Electricity Purchase Agreement as set out above are determined with reference to (i) the historical electricity consumption of and electricity charge per unit paid by the Company for the year ended 31 December 2022 and the ten months ended 31 October 2023; (ii) the maximum amount of electricity expected to be consumed by the Company during the term of the Electricity Purchase Agreement, taking into account the anticipated scale of production and other operating activities of the Company; and (iii) the amount State Grid Hebei had charged for electricity supply in recent financial periods ranging from approximately RMB0.6 to 0.8 per kilowatt-hour (kWh), which is assumed to form the basis for determination of the electricity charges in relation to the supply of electricity by Hebei Chenteng to the Company throughout the term of the Electricity Purchase Agreement barring any adjustment that may be prescribed by the relevant governmental authority(ies) or other unforeseeable circumstance.

INTERNAL CONTROL MEASURES

The Company will implement the following internal control measures to monitor the pricing and other terms of the transactions contemplated under the Electricity Purchase Agreement and ensure that such transactions will be conducted on normal commercial terms that are fair and reasonable:

- (1) the supplies department and the finance department of the Company will oversee the operation of the pricing mechanism established in the Electricity Purchase Agreement. In particular,
 - (a) the designated staff shall watch out for updates on or revisions to electricity charges approved by the price administration department and/or other relevant governmental authority(ies), and the relevant government policies, orders or decisions relating to electricity charges and/or the rate of other applicable fees. In the event such updates or revisions necessitate adjustments to the electricity charges in accordance with the pricing mechanism established in the Electricity Purchase Agreement, the designated staff shall liaise with Hebei Chenteng to effect the adjustments; and
 - (b) if the electricity charges approved by the price administration department and/or other relevant governmental authority(ies) are not applicable or there otherwise no longer exist any such approved charge, the electricity charges will be determined by the prices paid by Hebei Chenteng for purchase of electricity from the market in accordance with the pricing mechanism established in the Electricity Purchase Agreement. In such an event, the designated staff will assess the reasonableness of the electricity charge rate by comparing it with (i) the amount State Grid Hebei would charge for each unit of electricity supplied (which should form the basis for determination of the unit price for purchase of electricity by Hebei Chenteng from the market); and (ii) the electricity charge rates offered by at least two Independent Third Party suppliers for supply of electricity of comparable nature, quantity and specifications;
- (2) the supplies department and the finance department of the Company will also conduct regular checks on the prevailing market rate of electricity for industrial use in the surrounding areas. The prevailing market rate will be determined by obtaining quotations from at least two Independent Third Party suppliers for supply of electricity of comparable nature, quantity and specifications. The results of the regular checks will be reported to the management. If the electricity charges determined based on the pricing mechanism established in the Electricity Purchase Agreement significantly exceeds the prevailing market rate, the Company may negotiate with Hebei Chenteng for adjustments to the pricing mechanism and/or the electricity charge rates to ensure that the terms and conditions on which electricity is supplied will be no less favourable to the Company than those offered by Independent Third Party suppliers. If no such adjustment can be agreed on between the Company and Hebei Chenteng, the Company may consider suspending or terminating the operation of the Electricity Agreement and procuring electricity supply from other suppliers;

- (3) throughout the term of the Electricity Purchase Agreement, the supplies department and the finance department of the Company will be responsible for continuous monitoring of the implementation of the Electricity Purchase Agreement. In particular, the designated staff will
 - (a) collect detailed information of the continuing connected transactions (including but not limited to the actual electricity charges charged by Hebei Chenteng, the payment arrangements and the total transaction amounts) on a regular basis;
 - (b) monitor adherence to the terms and conditions set forth in the Electricity Purchase Agreement by the parties thereto;
 - (c) conduct continuous evaluation of the fairness of the terms and conditions of the Electricity Purchase Agreement; and
 - (d) report relevant information, including but not limited to any deviation in performance from the terms and conditions set forth in the Electricity Purchase Agreement, to the management of the Company and the Board for further actions in a timely manner;
- (4) the finance department of the Company will be responsible for regular monitoring of the aggregate transaction amounts in each financial year to ensure that the continuing connected transactions conducted under the Electricity Purchase Agreement will not exceed the corresponding annual cap;
- (5) the Company will engage its auditor to undertake an annual review of the continuing connected transactions conducted under the Electricity Purchase Agreement for each financial year during the term of the Electricity Purchase Agreement and confirm whether such continuing connected transactions are entered into in all material respects in accordance with the Electricity Purchase Agreement and within the corresponding annual cap; and
- (6) the independent non-executive Directors will review the continuing connected transactions conducted under the Electricity Purchase Agreement for each financial year during the term of the Electricity Purchase Agreement and confirm in the annual reports of the Company for the years ending 31 December 2023, 2024, 2025 and 2026 whether such continuing connected transactions have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better and according to the Electricity Purchase Agreement on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The Directors consider that the pricing mechanism, together with the above internal control procedures to be performed by the Group, suffice to ensure that the transactions contemplated under the Electricity Purchase Agreement will be conducted on normal commercial terms that are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

The Company, together with its subsidiaries, is principally engaged in, among other things, manufacturing and sales of rail fastening system products, welding wire products and railway sleeper products. As a manufacturing business of an established operating scale, the Company considers a stable supply of electricity to be of the utmost importance given that it is instrumental in securing the uninterrupted operation of the Company's production lines and other business functions. By entering into the Electricity Purchase Agreement, the Company will be assured of a reliable electricity supply over a three-year term at rates determined through a standard pricing mechanism that accords with the relevant local laws and regulations and the market practice.

Hebei Chenteng has received approval for its incremental distribution network and has been authorised to carry out distribution and electricity sales businesses within its approved operating area, which covers the site of operations of the Company. Hebei Chenteng is therefore the authorised electricity supplier of the Company. Hebei Chenteng will also be in a position to provide the Company with prompt replies and assistance and, where necessary, onsite troubleshooting and support in connection with matters concerning electricity supply and consumption. From an operational perspective, it will be advantageous to the Company to procure the supply of electricity from Hebei Chenteng.

The terms and conditions of the Electricity Purchase Agreement were negotiated between Hebei Chenteng and the Company on an arm's length basis. The Directors (including the independent non-executive Directors) are of the view that the terms of the Electricity Purchase Agreement and the relevant annual caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and the continuing connected transactions contemplated thereunder are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

As at the date of this announcement, the executive Directors Mr. Zhang Haijun (張海軍), Mr. Wu Jinyu (吳金玉), Mr. Zhang Lihuan (張力歡), Mr. Zhang Chao (張超) are each a member of the Controlling Shareholders Group, who directly own Hebei Chenxiang as to an aggregate of approximately 78.19%, and the executive Director Ms. Ma Xuehui (馬學輝) holds approximately 2% of the interest in Hebei Chenxiang; Hebei Chenxiang in turn directly owns 80% of the interest in Hebei Chenteng. Other than the above Directors, none of the Directors is associated with Hebei Chenteng, the counterparty under the Electricity Purchase Agreement, or otherwise has a material interest in the transactions contemplated under the Electricity Purchase Agreement. Mr. Zhang Haijun, Mr. Wu Jinyu, Mr. Zhang Lihuan, Mr. Zhang Chao and Ms. Ma Xuehui have abstained from voting on the resolutions pertaining to the Electricity Purchase Agreement or the transactions contemplated thereunder at the relevant board meeting in accordance with the requirements under the articles of association of the Company.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Hebei Chenteng is owned as to 80% by Hebei Chenxiang, which is in turn owned as to an aggregate of approximately 78.19% by the Controlling Shareholders. As a 30%-controlled company and hence an associate of the Controlling Shareholders, Hebei Chenteng is a connected person of the Company. The transactions contemplated under the Electricity Purchase Agreement constitute continuing connected transactions under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the continuing connected transactions contemplated under the Electricity Purchase Agreement exceed(s) 0.1% but all such ratios fall below 5%, and the relevant consideration exceeds HK\$3 million (based on the largest annual cap in respect of the continuing connected transactions contemplated under the Electricity Purchase Agreement), such continuing connected transactions are subject to the announcement, annual review and annual reporting requirements but exempt from the circular (including independent financial advice) and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

INFORMATION OF THE PARTIES

The Company, together with its subsidiaries, is principally engaged in research and development, manufacturing and sales of rail fastening system products, welding wire products and railway sleeper products.

As at the date of this announcement, Hebei Chenteng is owned as to (i) 80% by Hebei Chenxiang, which is in turn owned as to an aggregate of approximately 78.19% by the Controlling Shareholders; and (ii) 20% by Shijiazhuang Balong Electrical Engineering Co., Ltd.* (石家莊市八龍電力工程有限公司), which is in turn owned by Geng Pengcheng (耿鵬城), a natural person who is an Independent Third Party. Hebei Chenteng is principally engaged in electricity supply business.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the meanings set forth below:

“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Hebei Yichen Industrial Group Corporation Limited* (河北翼辰實業集團股份有限公司), a joint stock limited liability company incorporated in the PRC and whose issued H Shares are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules

* For identification purpose only

“continuing connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholders”	have the meaning ascribed to it under the Listing Rules, and in the context of this announcement, refer to the controlling shareholders of the Company, namely Mr. Zhang Haijun (張海軍), Ms. Zhang Junxia (張軍霞), Mr. Zhang Xiaogeng (張小更), Mr. Zhang Xiaosuo (張小鎖), Mr. Zhang Ligang (張立剛), Mr. Wu Jinyu (吳金玉), Mr. Zhang Chao (張超), Mr. Zhang Lijie (張力杰), Mr. Zhang Lifeng (張力峰), Ms. Zhang Yanfeng (張艷峰), Mr. Zhang Libin (張力斌), Mr. Zhang Lihuan (張力歡), Mr. Zhang Ning (張寧), Ms. Zhang Hong (張宏) and Mr. Zhang Ruiqiu (張瑞秋), who are acting in concert in terms of their exercise of voting rights at general meetings of the Company and had entered into a written agreement on 17 December 2020 to confirm their acting-in-concert agreement and, as at the date of this announcement, beneficially own an aggregate of approximately 63.80% of the total issued share capital of the Company; the Controlling Shareholders are collectively referred to as the “ Controlling Shareholders Group ”
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	domestic invested ordinary share(s) in the capital of the Company with a nominal value of RMB0.5 each, which are subscribed for and paid up in RMB and currently not listed or traded on any stock exchange
“Electricity Purchase Agreement”	the high voltage electricity supply contract dated 1 November 2023 entered into between Hebei Chenteng as supplier and the Company as consumer in relation to the supply of high voltage electricity by Hebei Chenteng to the Company for the term from 1 November 2023 to 31 October 2026
“Group”	collectively, the Company and its subsidiaries from time to time
“H Share(s)”	overseas listed foreign invested ordinary share(s) in the ordinary share capital of the Company with a nominal value of RMB0.5 each, which are listed on the Stock Exchange and traded in Hong Kong dollars
“Hebei Chenteng”	Hebei Chenteng Power Sales Co., Ltd.* (河北辰騰售電有限公司), a limited liability company established under the laws of the PRC on 13 August 2021 which is owned as to 80% by Hebei Chenxiang as at the date of this announcement

“Hebei Chenxiang”	Hebei Chenxiang Power Sales Co., Ltd.* (河北辰翔售電有限公司), a limited liability company established under the laws of the PRC on 6 April 2017 which is directly owned as to an aggregate of approximately 78.19% by the Controlling Shareholders as at the date of this announcement
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	person(s) or company(ies) which is(are) not connected person(s) of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, which, for the purpose of this announcement, excludes Hong Kong, the Macao Special Administrative Region of the People’s Republic of China and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary shares of RMB0.5 each in the capital of the Company, comprising Domestic Shares and H Shares
“Shareholder(s)”	holder(s) of the Shares
“State Grid Hebei”	State Grid Hebei Electric Power Co., Ltd.* (國網河北省電力有限公司)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.

By order of the Board
Hebei Yichen Industrial Group Corporation Limited*
ZHANG Haijun
Chairman

Shijiazhuang, The PRC, 1 November 2023

As at the date of this announcement, the Board comprises Mr. Zhang Haijun, Mr. Wu Jinyu, Mr. Zhang Lihuan, Mr. Zhang Chao and Ms. Ma Xuehui as executive Directors; Ms. Zheng Zhixing as a non-executive Director; and Mr. Jip Ki Chi, Mr. Wang Fujun and Mr. Zhang Ligu as independent non-executive Directors.

* For identification purpose only