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首鋼福山資源集團有限公司
SHOUGANG FUSHAN RESOURCES GROUP LIMITED
(Incorporated in Hong Kong with limited liability)
(Stock Code: 639)

CONTINUING CONNECTED TRANSACTION -
NEW MASTER SALE AGREEMENT

In anticipation of the expiration of the Existing Master Sale Agreement on 31 December 2021, the Company and Hongguang Power have on 31 December 2021 entered into the New Master Sale Agreement, which sets out the basis upon which the Seller would carry out a continuing connected transaction with the Purchaser and the annual caps for the three financial years ending 31 December 2022, 31 December 2023 and 31 December 2024 respectively.

As at the date of this announcement, Hongguang Power is owned as to 49% equity interest by a substantial shareholder of the Company's subsidiaries, being a connected person of the Company. Accordingly, Hongguang Power is an associate of a connected person of the Company under Rule 14A.13(3) of the Listing Rules and thus also a connected person of the Company. The Sale Transactions entered into between the Seller and the Purchaser under the New Master Sale Agreement constitute continuing connected transactions of the Company under the Listing Rules.

As one or more of the applicable percentage ratios calculated with reference to the annual caps under the New Master Sale Agreement exceed 1% threshold under Rule 14A.76(1)(b) but are less than 5% threshold under Rule 14A.76(2)(a) of the Listing Rules, such transactions are subject to the reporting, announcement and annual review requirements, but are exempt from the circular (including independent financial advice) and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

THE NEW MASTER SALE AGREEMENT

In the ordinary course of business, the Seller entered, and may from time to time continues to enter, into the Sale Transactions with the Purchaser.

In anticipation of the expiration of the Existing Master Sale Agreement on 31 December 2021, the Company and Hongguang Power have on 31 December 2021 entered into the New Master Sale Agreement to set out the framework terms governing the Sale Transactions for the three financial years ending 31 December 2022, 31 December 2023 and 31 December 2024 respectively, the principal terms of which are set out below:

Date

31 December 2021

Parties

The Company as the Seller and Hongguang Power as the Purchaser.

Nature of the Sale Transactions

The Seller will supply the coal products (including the coal by-product produced in the coking coal washing process) to the Purchaser. During the term of the New Master Sale Agreement, the Seller and the Purchaser will enter into individual sale agreements from time to time in respect of the Sale Transactions upon and subject to the terms and conditions in compliance with the New Master Sale Agreement.

Term

From 1 January 2022 to 31 December 2024 (both days inclusive).

Principal terms

- (1) The consideration for the Sale Transactions and the relevant terms shall be stated in individual sale agreements to be entered into by the relevant parties;
- (2) The Sale Transactions shall be made on terms and conditions no less favorable to the Group than those available from independent third parties;
- (3) The pricing terms under the New Master Sale Agreement will be determined based on an arm's length basis, on normal commercial terms and in accordance with the following principles:
 - (i) by reference to the prevailing market prices of the same or substantially similar products (which may be with reference to the well-known website www.sxcoal.com), taking into account of the price of the same or substantially similar products with comparable order quantities and quality being offered on the market;
 - (ii) if there are not sufficient comparable transactions in (i) above, on normal commercial terms comparable to those offered to/received from independent third parties in respect of the same or substantially similar products with comparable quantities;
 - (iii) if both (i) and (ii) above are not applicable, by reference to the average price of similar products previously supply by a party, and on normal commercial terms comparable to those offered by the relevant party to independent third parties; and
- (4) Consideration payable under the New Master Sale Agreement will be billed in a timely and appropriate manner according to terms of the individual sale agreements to be agreed by the relevant parties.

HISTORICAL AMOUNTS AND ANNUAL CAPS

Historical amounts

The total amounts (exclusive of VAT) of the historical transactions for the Sale Transactions for the financial years ended 31 December 2019 and 2020 and the 11 months ended 30 November 2021 respectively are as follows:

	Financial year ended 31 December 2019 RMB	Financial year ended 31 December 2020 RMB	11 months ended 30 November 2021 RMB
Sale Transactions Amount (excluding VAT) <i>(rounded to the nearest thousand)</i>	57,098,000	46,660,000	64,927,000

Annual caps

The annual caps (exclusive of VAT) of the Sale Transactions are set out below:

	Financial year ending 31 December 2022 RMB	Financial year ending 31 December 2023 RMB	Financial year ending 31 December 2024 RMB
Annual Caps (excluding VAT)	100,000,000	110,000,000	120,000,000

Basis of the annual caps

The annual caps are determined based on the following factors, including: (i) historical transaction amounts between the Seller and the Purchaser; (ii) the expected production volume of the relevant coal products by the Seller; (iii) the current and expected future coal prices (including assumed a reasonable growth rate of 5% per annum on the recent market selling prices for the three years ending 31 December 2024); and (iv) the expected demand of the relevant coal products by the Purchaser.

REASONS FOR AND BENEFITS OF ENTERING INTO THE NEW MASTER SALE AGREEMENT

The Group had been supplying coal products to Hongguang Power in its ordinary and usual course of business since first quarter of 2019. Both parties have been satisfied all completed orders including the prices, quality, delivery and payment terms, and have intention to continue the Sale Transactions in the long run. Thus, the Company and Hongguang Power had on 3 July 2019 entered into the Existing Master Sale Agreement for the term for the period from 3 July 2019 to 31 December 2021 (both days inclusive). In anticipation of the expiration of the Existing Master Sale Agreement on 31 December 2021, the Company and Hongguang Power have on 31 December 2021 entered into the New Master Sale Agreement to set the annual caps for the three financial years ending 31 December 2024 and to continue to regulate the continuing connected transactions between the Seller and the Purchaser in compliance with the Listing Rules.

The Directors (including independent non-executive Directors) are of the view that the New Master Sale Agreement and the annual caps are carried out and determined in the ordinary and usual course of business, the terms are on normal commercial terms or better, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INTERNAL CONTROL POLICY OF THE GROUP

To ensure that the transactions contemplated under the New Master Sale Agreement will be conducted in accordance with its terms and conditions, the internal audit department of the Company will review the Sale Transactions on a periodic basis to ensure that (i) the transactions are conducted in accordance with the terms of the New Master Sale Agreement; (ii) the pricing terms are in accordance with the pricing policy of the New Master Sale Agreement; and (iii) the annual caps have not been exceeded.

The Sale Transactions contemplated under the New Master Sale Agreement are subject to the review by the independent non-executive Directors on an annual basis, who will confirm in the annual report whether the transactions have been entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) according to the New Master Sale Agreement on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

In addition, the Sale Transactions will also be subject to the review on an annual basis by the auditors of the Company, who will confirm to the Directors as to whether there is anything which has come to their attention that causes them to believe that such continuing connected transactions: (i) have not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the Group; (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iv) have exceeded the annual caps.

INFORMATION REGARDING THE PARTIES

The Group is principally engaged in coking coal mining, production and sales of coking coal products in the PRC. The Group is also engaged in sales of coal by-product produced in the coking coal washing process.

Hongguang Power is principally engaged in construction and operation of power plants in the PRC.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Hongguang Power is owned as to 49% equity interest by a substantial shareholder of the Company's subsidiaries, being a connected person of the Company. Accordingly, Hongguang Power is an associate of a connected person of the Company under Rule 14A.13(3) of the Listing Rules and thus also a connected person of the Company. The Sale Transactions entered into between the Seller and the Purchaser under the New Master Sale Agreement constitute continuing connected transactions of the Company under the Listing Rules.

As one or more of the applicable percentage ratios calculated with reference to the annual caps under the New Master Sale Agreement exceed 1% threshold under Rule 14A.76(1)(b) but are less than 5% threshold under Rule 14A.76(2)(a) of the Listing Rules, such transactions are subject to the reporting, announcement and annual review requirements, but is exempt from the circular (including independent financial advice) and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL

None of the Directors has any material interest in the above-mentioned transactions or is required to abstain from voting on the relevant resolutions of the Board.

DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules;
“Board”	the board of directors of the Company;
“Company”	Shougang Fushan Resources Group Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code : 639);
“connected person(s)”	has the meaning ascribed to it under the Listing Rules;
“Directors”	directors of the Company;
“Existing Master Sale Agreement”	the master sale agreement dated 3 July 2019 entered into between the Company and Hongguang Power setting out the framework terms governing the Sale Transactions for the period from 3 July 2019 to 31 December 2021 (both days inclusive);
“Group”	the Company and its subsidiaries from time to time;
“Hongguang Power”	Shanxi International Energy Group Hongguang Power Generation Co., Ltd. (山西國際能源集團宏光發電有限公司), a company established in China with limited liability owned as to (i) 49% by a substantial shareholder of the Company' subsidiaries which, per the information available to the public, has a diverse shareholder base with no single shareholder controlling one-third or more voting rights therein and the largest shareholder is a state-owned enterprise ; and (ii) 51% by an independent third party Shanxi International Energy Group Co., Ltd. (山西國際能源集團有限公司) which is a state-owned enterprise, respectively;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock

	Exchange;
“New Master Sale Agreement”	the master sale agreement dated 31 December 2021 entered into between the Company and Hongguang Power setting out the framework terms governing the Sale Transactions for the period from 1 January 2022 to 31 December 2024 (both days inclusive);
“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;
“Purchaser”	Hongguang Power and/or its subsidiaries from time to time;
“RMB”	Renminbi, the lawful Chinese currency;
“Sale Transactions”	sale transactions entering into the individual sale agreement in respect of coal products (including the coal by-product produced in the coking coal washing process) supplied to the Purchaser by the Seller under the Existing Master Sale Agreement and the New Master Sale Agreement;
“Seller”	the Company and/or its subsidiaries from time to time;
“Shareholder(s)”	the holder(s) of the ordinary share(s) of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules;
“VAT”	Value added tax; and
“%”	per cent.

By Order of the Board
Shougang Fushan Resources Group Limited
Ding Rucai
Chairman

Hong Kong, 31 December 2021

As at the date of this announcement, the Board comprises Mr. Ding Rucai (Chairman), Mr. Fan Wenli (Managing Director), Mr. Chen Zhaoqiang (Deputy Managing Director), Mr. Liu Qingshan (Deputy Managing Director), Mr. Wang Dongming (Deputy Managing Director), Ms. Chang Cun (Non-executive Director), Mr. Shi Yubao (Non-executive Director), Mr. Choi Wai Yin (Independent Non-executive Director), Mr. Japhet Sebastian Law (Independent Non-executive Director), Mr. Chen Jianxiong (Independent Non-executive Director) and Mr. Shen Zongbin (Independent Non-executive Director).