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HUSCOKE HOLDINGS LIMITED

和嘉控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 704)

VERY SUBSTANTIAL TRANSACTION IN RELATION TO ENTERING INTO COOPERATION AGREEMENT

ENTERING INTO THE COOPERATION AGREEMENT

The Board is pleased to announce that on 26 March 2021, after trading hour, JV Subsidiary entered into a Cooperation Agreement with Energy Technology and Jinyan Electricity, pursuant to which JV Subsidiary entrusts Energy Technology for the construction of a new coking furnace which has a height of 7.1 meters with annual production capacity of 600,000 tons of coke. The total investment amount is approximately RMB 600,000,000.

IMPLICATIONS UNDER THE LISTING RULES

As of the date of this announcement, as certain applicable percentage ratio (as defined under the Listing Rules) in respect of the transactions contemplated under the Cooperation Agreement are more than 100%, such transactions also constitute a very substantial transaction of the Company under Chapter 14 of the Listing Rules and therefore are subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

SPECIAL GENERAL MEETING

The SGM will be convened to consider and, if thought fit, among other things, approve the Cooperation Agreement and the transactions contemplated thereunder. A circular containing, among other things, (i) further details of the Cooperation Agreement and the transactions contemplated thereunder; (ii) the notice of the SGM; and (iii) other information as required under the Listing Rules, will be despatched to the Shareholders on or before 13 May 2021.

To the best knowledge, information and belief of the Directors after having made all reasonable enquiries, no Shareholders have a material interest in the Cooperation Agreement and the transactions contemplated thereunder, and no Shareholders would have to abstain from voting

at the SGM in respect of the Cooperation Agreement and the transactions contemplated thereunder.

INTRODUCTION

References have been made to the announcements of the Company dated 25 June 2018, 24 December 2018, 3 January 2019, 18 March 2019, 5 November 2019 and 17 September 2020. The Company have negotiated with Energy Technology about the acquisition of its equity interest and business cooperation since 2018 and have entered into a series of non-legally binding framework agreements with Energy Technology for this purpose. As at the date of this announcement, the Merger and Acquisition Framework agreement dated 16 September 2020 is still valid and supersedes the rest of the abovementioned framework agreement.

JV Subsidiary owns an annual production capacity of 600,000 tons of coke and intends to construct an advanced coking furnace to continue its productions. Energy Technology has experience and technology in building large-scale coke production projects. A long-term business relationship has been established between JV Subsidiary and Energy Technology through obtaining coke supply from Energy Technology for coke trading business and supplying electricity to Energy Technology, and after friendly negotiation between the parties, a unanimous consensus on the construction of the new coking furnace project was reached and entered into the Cooperation Agreement on 26 March 2021.

ENTERING INTO THE COOPERATION AGREEMENT

The Board is pleased to announce that on 26 March 2021, after trading hour, JV Subsidiary entered into a cooperation agreement with Energy Technology and Jinyan Electricity, pursuant to which JV Subsidiary entrusts Energy Technology for the construction of a new coking furnace which has a height of 7.1 meters (the “**New Coking Furnace**”) with annual production capacity of at least 600,000 tons of coke (the “**Cooperation Agreement**”). The total investment amount is approximately RMB 600,000,000.

The key terms of the Cooperation Agreement are set out below:

THE COOPERATION AGREEMENT

Date: 26 March 2021

Parties:

- (i) JV Subsidiary
- (ii) Energy Technology
- (iii) Jinyan Electricity

Information of the Parties

JV Subsidiary

JV Subsidiary is a company established in the PRC with limited liability and is an indirect 90% owned subsidiary of the Company and is principally engaged in coal-related ancillary business, coke production and coke trading business.

As at the date of this announcement, JV Subsidiary is held as to (i) 90% by the Company indirectly; (ii) 9% by Jinyan Electricity ; and (iii) 1% by 孝義市嘉能煤化科技開發有限公司 Xiaoyi Jianeng Coal Chemical Technology Development Company Limited* (“**Jianeng Coal Chemical**”). The Jianeng Coal Chemical was held as to 51.03% by Mr. Zhang Wenjun (張文俊), a director of the JV Subsidiary (“**Mr. Zhang**”) and 48.97% by Ms. He Xiao Ying (賀小英), whom are the ultimate beneficial owners respectively.

Energy Technology

Energy Technology is a company established in the PRC with limited liability and is principally engaged in coke production and coke trading business. It is committed to establish a coke production project located in Xiaoyi City, Shanxi Province of the PRC. The total coke production capacity of the project is 5 million tons per year. The project is constructed in two phases: phase one includes coking furnaces with coke production capacity of 2.54 million tons per year; and phase two includes coking furnaces with coke production capacity of 2.53 million tons per year. Phase one with coke production capacity of 2.54 million tons per year have been finished construction and began production in 2020.

As at the date of this announcement, Energy Technology is held as to (i) 96.0% by the Xiaoyi ILNG Natural Gas Production Company Limited* (孝義市愛路恩濟天然氣製造有限公司) (“**ILNG**”); (ii) 2.0% by Mr. Yang Linhai* (楊林海); (iii) 1.8% by Mr. Wu Tangjun* (武堂俊), who are all PRC citizens; and (iv) 0.2% by Shenzhen Jinyang Equity Investment Management Company Limited*(深圳晉陽股權投資管理有限公司) (“**Shenzhen Jinyang**”), which is a company incorporated in the PRC. Shenzhen Jinyang is held as to 100% by Jinyang Asset Management Company Limited*(晉陽資產管理股份有限公司) which is a state-owned enterprise under the State-owned Assets Supervision and Administration Commission of Shanxi Provincial Government*(山西省國有資產監督管理委員會). ILNG is held as to (i) 25.0% by Mr. Liu Huilin* (劉惠林); (ii) 25.0% by Mr. Guo Rui* (郭銳); (iii) 25.0% by Mr. Cheng Liming* (成黎明); and (iv) 25.0% by Mr. Ma Haifeng* (馬海峰), whom are the ultimate beneficial owners of ILNG respectively. As at the date of this announcement, Mr. Zhang is the supervisor of Energy Technology and also a director of JV Subsidiary . Although Mr. Zhang holds voting power in the board of directors of JV Subsidiary in his capacity as a director of JV Subsidiary, Mr. Zhang neither holds any voting power in Energy Technology nor controls the board of directors of Energy Technology. Furthermore, Mr. Zhang neither holds any executive function in Energy Technology nor participates in the daily management and operation of Energy Technology. To the best of the knowledge, information and belief of the Directors, Mr. Zhang is an Independent Third Party not connected with the shareholders of Energy Technology and each of their ultimate beneficial owners. Therefore, Energy Technology is not a connected person of the Company in light of Mr. Zhang’s capacity as a supervisor of Energy Technology.

Jinyan Electricity

Jinyan Electricity is a company established in the PRC with limited liability and is a minority shareholder which beneficially owns 9% of equity interests of JV Subsidiary. Jinyan electricity was held as to 60% by Mr. Wen Kezhong* (溫克忠), 30% by Mr. Wen KeXiao (溫克效) and 10% by Ms. Wen Kehong (溫克紅).

Save as disclosed above, to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, Energy Technology, Jinyan Electricity and the ultimate beneficial owner(s) of each of them and their respective associates and their ultimate beneficial owners are Independent Third Parties not connected with the Company and its connected persons.

Major terms of the Cooperation Agreement

The parties entered into the formal agreement pursuant to the major business terms as set out under the Cooperation Agreement, the major terms of the Cooperation Agreement are as follows (among others):

1. Project overview

- (a) Name of project: 7.1-meters top-loading coking furnace with annual production capacity of 600,000 tons of coke, construction project (the “**Project**”)
- (b) Location of the construction: Xiaoyi City, Shanxi Province, China
- (c) Scale of production: annual production capacity of 600,000 tons of coke
- (d) Details of construction: Model 56-hole HT50-710 7.1-meter regenerative top-loading coking furnace, civil construction and related coking ancillary construction

2. Method of Construction

- (a) The parties agree to invest in the construction project pursuant to the funding arrangements as set out in the Cooperation Agreement by "Build-Transfer" approach, and JV Subsidiary will entrust Energy Technology for the construction of the New Coking Furnace, including all the work and services required for civil construction, equipment procurement, installation, commissioning, performance acceptance test and construction completion acceptance. Energy Technology may subcontract the project to professional engineering subcontractors with corresponding qualifications according to practical situation. All relevant cost and subcontracting fee would be borne by Energy Technology.
- (b) After the completion of the construction, Energy Technology will conduct quality assessment and arrange acceptance check in accordance with relevant national laws and regulations to ensure meeting the standards of design. It will be transferred to JV Subsidiary for operation and production after passing the acceptance check and accepted by the quality inspection station. JV Subsidiary will issue an acceptance

report within 14 days from its operation. After the construction completion is accepted by the JV Subsidiary, the final accounts of the consideration will be confirmed and JV Subsidiary shall settle the payment in accordance with the terms and conditions set out in the Cooperation Agreement.

- (c) The parties agree and understand that the arrangement of the relevant Project will depend on the Company obtaining the necessary approvals, including but not limited to obtaining the approval of all regulatory authorities (including but not limited to the Stock Exchange) and approval of the Shareholders at the SGM.

3. Settlement

- (a) Energy Technology agrees to undertake the current accounts and interests payable owed by Jinyan Electricity and its related parties to JV Subsidiary, amounting to the sums of RMB584,476,402 as at 30 June 2020. (the “**Receivables**”). The Receivables are Jinyan Electricity’s payable to JV Subsidiary and will be completely transferred from Jinyan Electricity to Energy Technology upon the Cooperation Agreement to be approved by the Shareholders at the SGM. Energy Technology will undertake all of the Receivables without recourse and account as payable to JV Subsidiary thereafter.
- (b) JV Subsidiary agrees that Energy Technology shall settle the construction project by the Receivables.
- (c) Upon the Cooperation Agreement being approved by the Shareholders at the SGM, Energy Technology will commence the construction and JV Subsidiary agrees that invoices of 10% of the total estimated investment will be issued by JV Subsidiary to Energy Technology and the amount shall be deducted as the advance payment for the project from the Receivables in the account of JV Subsidiary as well as from the payable in the account of Energy Technology.
- (d) Before the 28th day of each month, Energy Technology shall provide (i) the details of current month’s cost and expenditure and progress schedule to JV Subsidiary and (ii) a plan on fund usage for next month which shall be approved by JV Subsidiary in writing.
- (e) Upon acceptance of the construction and an acceptance report issued by JV Subsidiary, Energy Technology shall submit a letter of quality assurance to JV Subsidiary regarding the New Coking Furnace which amounts to 5% of the final account of the consideration. The letter of quality assurance will return to Energy Technology after one year of the Project is put into operation.
- (f) Upon construction completion is accepted, Energy Technology and JV Subsidiary shall complete the transfer procedures and provide relevant documents of the Project. Upon the transfer of the Project, the assets ownership of the project shall belong to JV Subsidiary.

- (g) In the event that the final account of consideration is less than the amount of the Receivables, the remaining amount of the Receivables shall still be undertaken by Energy Technology and will be subject to the original terms of the Receivables which is interest-bearing with an annual interest rate of 5%.

4. Construction period

- (a) The construction of the Project shall commence on or before 30 April 2021.
- (b) The Project shall be completed and started trial production on or before 31 December 2021.
- (c) Within one month upon the completion and the commencement of the operation of the project, after all the assurance valuation tests reached the agreed standards and the acceptance of the construction is completed, the New Coking Furnace shall be transferred to JV Subsidiary.

5. Miscellaneous

JV Subsidiary may ask to enter a supplemental agreement when it find necessary for events such as over-budget and delayed completion. As at the date of this announcement, no supplemental agreements have been signed. Further announcement(s) may be made by the Company as and when appropriate in compliance with the Listing Rules.

BASIS FOR DETERMINATION OF THE CONSIDERATION

The total Consideration payable to Energy Technology is estimated to be RMB 600,000,000 maximum.

According to the feasibility study of the construction of the New Coking Furnace, the breakdown of the construction is set out below:

<u>The Construction</u>	Estimated investment amount (RMB '000)
Coal preparation facility	9,440
Coking Furnace	244,080
Dry quenching facility	97,740
Coke oven Gas purification facility	80,200
Production ancillary facility	73,290
Survey and design	22,010
Other related expense	44,880
Total	<u>571,640</u>

In arriving the fairness and reasonableness of the consideration of the construction, the Company has also made references with some similar coke production projects in the PRC in the last year as set out below:

<u>Projects</u>	Estimated investment amount (RMB '000)
1.8 million tons coke production project in Henan Province	2,360,000
1.08 million tons coke production project in Shaanxi Province	1,268,000
3.60 million tons coke production project in Jiangxi Province	5,000,000
2.53 million tons coke production project in Shanxi Province	2,040,000
1.7 million tons coke production project in Shanxi Province	2,240,000

Note: the coke production projects are not entirely the same in terms of the heights of the coking furnaces, and other supplemental production facilities.

The consideration of the construction was determined after arm's length negotiations between parties to the Cooperation Agreement with reference to the feasibility study of the construction and the relevant terms and conditions adopted in market relating to the construction of coking furnace. Given the consideration of this construction falling within the market range and the detailed breakdown of the construction provided in the feasibility study, the Board considers that the consideration of the construction is fair and reasonable and on normal commercial terms.

The Receivables arise from JV Subsidiary's on-going business relationship with Jinyan Electricity and its related companies, including trade receivables for coke supply from JV Subsidiary, trade deposit for coal supply to JV subsidiary and short-term prepayments from JV Subsidiary. The original payment terms of the trade receivables had a 120-day credit period while the other receivables are repayable on demand. The respective amount of the Receivables is set out below as at 30 June 2020:

<u>As at 30 June 2020</u>	RMB,000
Trade receivables	265,871
Trade deposit	92,911
Short-Term prepayments	<u>225,694</u>
Total	<u><u>584,476</u></u>

ILNG as the controlling shareholder of Energy Technology is a debtor of Jinyan Electricity, while Jinyan Electricity owes JV Subsidiary the Receivables. On 16 September 2020, JV Subsidiary, Energy Technology and Jinyan Electricity entered into a guarantee agreement, pursuant to which Energy Technology provides guarantee in favour of JV Subsidiary irrevocably to secure Receivables. The Receivables are interest-bearing and accounted at an annual interest rate of 5%. The relevant breakdown of the Receivables is set out below as at 30 June 2020:

As at 30 June 2020

RMB

Jinyan Electricity	452,175,169
Two subsidiaries belonged to the same group of Jinyan Electricity	34,132,865
Four related companies of Jinyan Electricity	98,168,368
Total	<u>584,476,402</u>

As at 31 December 2020, the unaudited balance of the Receivables was RMB587,285,434. The Receivables amount was changing continually due to the on-going business relationship with Jinyan Electricity and its related companies.

Pursuant to the Cooperation Agreement, Energy Technology undertakes the Receivables owed by Jinyan Electricity. The consideration of the construction payable to Energy Technology shall be settled by the Receivables and the accrued interest at the date of the completion of the construction. Thus, the Board is of the view that the Company would have sufficient resources to satisfy the consideration of the construction of the New Coking Furnace.

REASONS FOR AND BENEFITS OF THE ENTERING INTO THE COOPERATION AGREEMENT

As set out in the announcements dated 16 November 2020, 9 December 2020 and 28 December 2020, Xiaoyi Municipal Government had decided to shut down all coking furnaces with height of less than 4.3 metres inside the city before the end of 2020 (the “**Shut-Down**”). On 9 December 2020, JV Subsidiary received a formal notification from the government authority of Xiaoyi City that the 4.3-metres coking furnace of JV Subsidiary would be shut down with effect from 28 December 2020. As JV Subsidiary is responsible for supplying part of electricity and heat to certain regions of Xiaoyi City, one of the coking furnaces, representing 50% of the production capacity of JV Subsidiary, would continue to operate until further notice. On 15 April 2021, JV Subsidiary received a notification from the government authority of Xiaoyi City that the remaining 50% of the production capacity of JV Subsidiary must initiate the safety Shut-down procedure in accordance with government requirements. The Company will keep assessing and monitoring the impact after the Shut-down and the Company will further disclose and provide further updates to the shareholders of the Company and the market as and when appropriate.

According to the notification from Xiaoyi government authority, the 4.3 metres coking furnace owned by JV Subsidiary cannot be revamped but the quota of 600,000 tons coke annual production capacity can be retained through constructing a new coking furnace that complies with the applicable requirement in the PRC. By direct investing and constructing the New Coking Furnace, the Board considers that the Company is able to monitor and oversee the whole process to ensure quality and efficiency of the construction and proceed the process of construction in a timely manner. Moreover, the Company is able to efficiently control and construct to minimize the total investment cost of the construction of the New Coking Furnace.

The New Coking Furnace is an advanced furnace with a height of 7.1 metres which surpasses the current national standard of at least 6.0 metres and complies with the industrial and

environmental requirement in the PRC. The expected annual production capacity of the New Coking Furnace is at least 600,000 tons of coke which is similar to the current production scale of the old coking furnace. Upon the completion of the New Coking Furnace, the Company can replace the old coking furnace with height of 4.3 metres and upgrade to an advanced coking furnaces with height of 7.1 metres directly. JV Subsidiary has solid experience and expertise plus comparative advantage of coke production, so it is capable to manage and operate the New Coking Furnace efficiently and keep the original business relationship with the current customer bases of JV Subsidiary.

Due to the bidding or soliciting process on the contractors will take a long period of time, and in particular, considering JV Subsidiary can settle the consideration by the Receivables, JV Subsidiary selected the general contractor of the construction by direct negotiation with business partner instead of bidding or soliciting potential contractors in the market.

As mentioned above in this announcement, Energy Technology is principally engaged in a coke production project with an aggregate production capacity of 5 million tons of coke per annum of which 2.54 million tons coke production facilities have finished construction and began production in 2020. Thus, JV Subsidiary is confident with Energy Technology's experience and expertise in the construction of coking furnaces. In addition, the Company noted the 4.3-metres coking furnace will be shut-down due to the environmental policy in Shanxi, the Company as a shareholder of JV Subsidiary requests JV Subsidiary to resume the coke production as soon as practicable. By considering the factors of the technical requirements of the advanced coking furnace, experience in relation to similar constructions, location advantage in Shanxi and long-term business relationship with Energy Technology, the Company selected Energy Technology as the general contractor of the construction, and expected Energy Technology to meet overall requirements in terms of the quality and timeliness of the construction to ensure the production of the New Coking Furnace can begin in time. Therefore, the JV Subsidiary considers that engaging Energy Technology for the construction is the most efficient and favourable option compared to other potential contractors and in the interest of the Company and its shareholders as a whole.

During the transition period, JV Subsidiary plans to sell the remaining coke inventories and undergo certain level of local coke trading to fulfill the demand of the existing customer base.

Pursuant to the Cooperation Agreement, the construction cost of the New Coking Furnace is to be settled by the existing Receivables that allows the Company to utilize part of the assets of the Company efficiently and require no extra cash to construct the New Coking Furnace. As mentioned above, the total investment amount of the New Coking Furnace is estimated at RMB 600 million maximum which can be fully covered by the Receivables. As such, the Board is of the view that the Company would have sufficient resources to fulfil the obligation of the Cooperation Agreement.

Based on the above, the Board considers that entering into the Cooperation Agreement is the quickest and the most efficient solution to resume the coke production of the Company by the construction of the New Coking Furnace so as to mitigate the impact of the Shut-Down. The Board considers that the Cooperation Agreement is determined between the parties after arm's length negotiations and on normal commercial terms which are fair and reasonable. That such transaction is for the interests of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

As of the date of this announcement, as certain applicable percentage ratio (as defined under the Listing Rules) in respect of the transactions contemplated under the Cooperation Agreement are more than 100%, such transactions also constitute a very substantial transaction of the Company under Chapter 14 of the Listing Rules and therefore are subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Saved for disclosed above, to the best knowledge, information and belief of the Directors after having made all reasonable enquiries, no Shareholders have a material interest in the Cooperation Agreement and the transactions contemplated thereunder, and no Shareholders would have to abstain from voting at the SGM in respect of the Cooperation Agreement and the transactions contemplated thereunder.

The above resolution will be required to be voted by way of poll at the SGM.

CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been suspended from 9:00 a.m. on 29 March 2021, and will remain suspended pending release of this announcement. Pursuant to the Rule 13.50 of the Listing Rules, the Company will remain suspended of trading in the shares pending release of audited annual results for the year ended 31 December 2020.

Shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company. Further announcement(s) will be made by the Company as and when appropriate in compliance with the Listing Rules.

DEFINITIONS

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

“associates”	has the meaning ascribed to this term under the Listing Rules
“Board”	the board of Directors
“Circular”	the circular of the Company to be dispatched to the Shareholders to provide, among other things, (i) further details of entering into the Cooperation Agreement; (ii) the notice of SGM; and (iii) other information as required under the Listing Rules

“Company”	Huscoke Holdings Limited, a company incorporated in Bermuda with limited liability and the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 704)
“connected person(s)”	has the meaning ascribed to this term under the Listing Rules
“Cooperation Agreement”	the cooperation agreement entered into between JV Subsidiary, Energy Technology and Jinyan Electricity on 26 March 2021
“Directors”	director(s) of the Company
“Energy Technology”	山西金岩能源科技有限公司 Shanxi Jinyan Energy Technology Company Limited*, a company established in the PRC with limited liability and is principally engaged in coke production and coke trading business
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	third party(ies) independent of the Company and its connected persons (as defined under the Listing Rules)
“JV Subsidiary”	山西金岩和嘉能源有限公司 GRG Huscoke (Shanxi) Limited (formerly known as Shanxi Jinyan Huscoke Energy Company Limited*), a company established in the PRC with limited liability and is an indirect 90% owned subsidiary of the Company
“Jinyan Electricity”	孝義市金岩電力煤化工有限公司 Xiaoyi Jinyan Electricity Coke Chemical Company Limited*, a company established in the PRC with limited liability and is a 9% minority shareholder of JV Subsidiary
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Percentage Ratios”	has the meaning ascribed to it in Chapter 14 of the Listing Rules
“PRC”	the People’s Republic of China, but for the purposes of this announcement only, excludes Hong Kong, Macau Special Administrative Region and Taiwan

“RMB”	Renminbi, the lawful currency of the PRC
“SGM”	the special general meeting of the Company to be convened for the purpose of, among other things, considering and, if thought fit, approving the Cooperation Agreement
“Shareholder(s)”	holder(s) of the issued Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

By order of the Board of
Husoke Holdings Limited
Au Wing Sze
Company Secretary

Hong Kong, 22 April 2021

As at the date of this announcement, the Board comprises Mr. Zhao Xu Guang (Chairman), and Mr. Wang Yijun as executive Directors; Mr. Wong Siu Hung, Patrick, Mr. Huang Man Yem and Mr. Jiang Jiansheng as non-executive Directors; Mr. Lam Hoy Lee, Laurie, Mr. To Wing Tim, Paddy and Dr. Wang Wei Hsin as independent non-executive Directors.

** For identification purposes only*