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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

REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS UNDER ELECTRICITY PURCHASE AGREEMENT

REVISION OF ANNUAL CAPS

Reference is made to the announcement of the Company dated 1 November 2023 in connection with the continuing connected transactions contemplated under the Electricity Purchase Agreement entered into between Hebei Chenteng as supplier and the Company as consumer. Pursuant to the Electricity Purchase Agreement, Hebei Chenteng shall supply electricity to the Company for a term of three years from 1 November 2023 to 31 October 2026.

As it is expected 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 exceed the Existing Annual Cap as previously set by the Board and announced by the Company, the Board has resolved to revise the Existing Annual Caps for the remaining term of the Electricity Purchase Agreement and adopt the Revised Annual Caps.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Hebei Chenteng is owned as to 100% by Hebei Chenxiang, which is in turn owned as to an aggregate of approximately 78.2% 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.

Under Rule 14A.54 of the Listing Rules, where the Company expects that the continuing connected transactions contemplated under the Electricity Purchase Agreement will exceed the annual caps previously set and announced, the Company must re-comply with the applicable requirements in relation to such transactions before the annual caps are exceeded.

Based on the largest of the Revised Annual Caps, as one or more of the applicable percentage ratios exceed(s) 0.1% but all such ratios fall below 5%, and the relevant consideration exceeds HK\$3 million, the continuing connected transactions contemplated under the Electricity Purchase Agreement 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.

REVISION OF ANNUAL CAPS

Reference is made to the announcement of the Company dated 1 November 2023 in connection with the continuing connected transactions contemplated under the Electricity Purchase Agreement entered into between Hebei Chenteng as supplier and the Company as consumer. Pursuant to the Electricity Purchase Agreement, Hebei Chenteng shall supply electricity to the Company for a term of three years from 1 November 2023 to 31 October 2026.

As it is expected 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 exceed the Existing Annual Cap as previously set by the Board and announced by the Company, the Board has resolved to revise the Existing Annual Caps for the remaining term of the Electricity Purchase Agreement and adopt the Revised Annual Caps.

Save for the revision of the annual caps, the transaction arrangements shall remain unchanged. Please refer to the sections headed "Electricity Purchase Agreement" and "Internal Control Measures" in the announcement of the Company dated 1 November 2023 for details of the transaction terms as set forth in the Electricity Purchase Agreement and the internal control measures implemented by the Company to monitor the conduct of the continuing connected transactions contemplated under the Electricity Purchase Agreement.

Annual Caps and Historical Transaction Amounts

Set forth below are the Existing Annual Caps, the actual transaction amounts under the Electricity Purchase Agreement and the Revised Annual Caps:

Total consideration (tax inclusive) for purchase of electricity under the Electricity Purchase Agreement

	For the year ended 31 December			
	2023	2024	2025	2026
	(Note 1)			(Note 2)
	RMB	RMB	RMB	RMB
Existing Annual Caps	5,000,000	30,000,000	30,000,000	25,000,000
Actual transaction amount	4,143,453	20,343,839	–	–
		(Note 3)		
Revised Annual Caps	–	56,000,000	56,000,000	47,000,000

Notes:

- (1) Covering the period from 1 November 2023 to 31 December 2023 only
- (2) Covering the period from 1 January 2026 to 31 October 2026 only
- (3) Covering the period from 1 January 2024 up to 30 June 2024

The Directors expect that the aggregate amount of consideration payable by the Company to Hebei Chenteng in connection with the purchase of electricity under the Electricity Purchase Agreement for the period from 1 January 2024 up to the date of this announcement has not exceeded the Existing Annual Cap for the year ending 31 December 2024.

Basis of Determination of Revised Annual Caps and Reasons for the Revision

The Revised Annual Caps are determined with reference to

- (i) the historical electricity consumption of and electricity charge per unit paid by the Company for the two months ended 31 December 2023 and the six months ended 30 June 2024;
- (ii) the maximum amount of electricity currently expected to be consumed by the Company during the remaining term of the Electricity Purchase Agreement (covering the remaining six months in the year ending 31 December 2024, the year ending 31 December 2025 and the 10 months ending 31 October 2026), taking into account the anticipated scale of production and other operating activities of the Company. In particular, based on the normal pattern of the production and other operating activities of the Company, the Company generally has higher electricity demand during the summer months of July and August in each year, resulting in higher electricity consumption during the second half of the financial year than the first half of the financial year; and

- (iii) the amount State Grid Hebei had charged for electricity supply in recent financial periods approximating RMB0.8 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 during the remaining term of the Electricity Purchase Agreement barring any adjustment that may be prescribed by the relevant governmental authority(ies) or other unforeseeable circumstance.

The “Notice of Hebei Development and Reform Commission on Transmission and Distribution Tariff of the Provincial Grid of Hebei Province and Related Matters for the Third Regulatory Period” (Ji Fa Gai Neng Jia (2023) No. 646) (《河北省發展和改革委員會關於第三監管周期河北省級電網輸配電價及有關事項的通知》(冀發改能價(2023)646號)) clarifies that the tariff for industrial and commercial users shall comprise on-grid tariff, on-grid line loss charge, transmission and distribution tariff, system operation charge, government funds and surcharges; the actual electricity charge shall be determined based on the announcements made by State Grid Hebei of the electricity charges for electricity purchased through agents. Following implementation of the foregoing provision, the applicable electricity charge has been on the rise month by month and has increased by approximately RMB0.07 to 0.08 per kWh as compared with the applicable electricity charge at the time the Electricity Purchase Agreement was negotiated for and the Existing Annual Caps were determined. On top of that, there has been an increase in the scale of production and other operating activities of the Company, as reflected in the recent increase recorded in the Group’s initial contract value of agreements on supply of fastening systems, which has translated into higher electricity demand of the Group for the current and coming financial years. Given that Hebei Chenteng is authorised to carry out distribution and electricity sales businesses within the area covering the site of operations of the Company, and that Hebei Chenteng is capable of providing the Company with prompt replies and assistance and, where necessary, onsite troubleshooting and support in connection with matters concerning electricity supply and consumption, the management of the Company considers it preferable from an operational perspective to continue to satisfy the Company’s increased electricity demand through purchase of electricity from Hebei Chenteng.

The Directors noted 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 for the period from 1 January 2024 up to 30 June 2024 already reached approximately RMB20.3 million, representing 67.8% of the Existing Annual Cap for the year ending 31 December 2024 of RMB30 million and indicating that full utilisation is forthcoming. The Directors believe that the increase in applicable electricity charges under the regulatory requirements and the anticipated scale of production and other operating activities of the Company during the remaining term of the Electricity Purchase Agreement entail and justify upward adjustment of the cap for the continuing connected transactions contemplated under the Electricity Purchase Agreement to RMB56 million (or its corresponding pro rata amount for non-full-year financial period) for the year ending 31 December 2024 and each subsequent financial year/period within the term of the Electricity Purchase Agreement. From a practical point of view, the revision of the annual caps will provide the Group with greater flexibility and latitude in accommodating its electricity consumption.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Electricity Purchase Agreement and the Revised 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 78.2%, and the executive Director Ms. Ma Xuehui (馬學輝) holds approximately 2.0% of the interest in Hebei Chenxiang; Hebei Chenxiang in turn directly owns the entire equity 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 approving the revision of the Existing Annual Caps and the adoption of the Revised Annual Caps 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 100% by Hebei Chenxiang, which is in turn owned as to an aggregate of approximately 78.2% 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.

Under Rule 14A.54 of the Listing Rules, where the Company expects that the continuing connected transactions contemplated under the Electricity Purchase Agreement will exceed the annual caps previously set and announced, the Company must re-comply with the applicable requirements in relation to such transactions before the annual caps are exceeded.

Based on the largest of the Revised Annual Caps, as one or more of the applicable percentage ratios exceed(s) 0.1% but all such ratios fall below 5%, and the relevant consideration exceeds HK\$3 million, the continuing connected transactions contemplated under the Electricity Purchase Agreement 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 100% by Hebei Chenxiang, which is in turn owned as to an aggregate of approximately 78.2% by the Controlling Shareholders. 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
“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 for the time being 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 63.8% 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
“Existing Annual Caps”	the annual caps for the continuing connected transactions contemplated under the Electricity Purchase Agreement as previously set by the Board and disclosed in the announcement of the Company dated 1 November 2023, being the maximum aggregate amount of consideration payable by the Company to Hebei Chenteng in connection with the purchase of electricity under the Electricity Purchase Agreement of RMB5 million for the year ended 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)
“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 100% 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 78.2% 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) and/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
“Revised Annual Caps”	the revised annual caps for the remaining term for the continuing connected transactions contemplated under the Electricity Purchase Agreement set by the Board, being the maximum aggregate amount of consideration payable by the Company to Hebei Chenteng in connection with the purchase of electricity under the Electricity Purchase Agreement of RMB56 million for the year ending 31 December 2024, RMB56 million for the year ending 31 December 2025, and RMB47 million for the year ending 31 December 2026 (applicable to the period from 1 January 2026 to 31 October 2026)
“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, 29 August 2024

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